

Reform Approaches on Tax Preferential Policies of Chinese Free Trade Zones

Based on the Comparative Study on Tax Preferential Policies of the Global Free Trade Zones

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Abstract—Chinese free trade zone was established to achieve further opening up and internal reforms. The practice of free trade zones, which is spread all over the world, has become an important policy reference for the adjustment and upgrade of the free trade zones in China. The paper summarizes the establishment and effects of the preferential tax policies in the free trade zone. Based on the investigation of the current situation and existing problems of Chinese free trade zone, this paper attempts to make a reasonable analysis and design for the preferential tax policies. It is necessary to provide the operative recommendations for the full use of the preferential tax policies and development of the free trade zone, by exploring ways to establish the effective preferential tax policies.

Keywords—*Chinese Free Trade Zone; tax preferential policies; comparative study; the global free trade zone*

I. INTRODUCTION

Free trade zones are increasingly becoming a tool for economic gaming between countries. Since the establishment of the China (Shanghai) Pilot Free Trade Zone (hereinafter referred to as the Free Trade Zone, FTZ) in 2013, in the past four years, China has established 10 free trade zones including Tianjin, Fujian, Guangdong, Zhejiang, Liaoning, Hubei, Henan, Chongqing, Shanxi and Sichuan, and presented the trend to extend to the inland areas to form a new strategic pattern — “the Pattern of Wild Geese Array”.

As an important platform for institutional innovation and opening up, the core objective of FTZ is to demonstrate and lead the role of international integration, reform and innovation, ultimately promote and achieve regional and overall economic development, which is also the original intention of countries to set up free trade zones in their territory. Tax preferential policies are indispensable support for the construction of free trade zones. Reasonable tax incentives can bring positive effects of investment promotion, trade creation and market expansion. Therefore, the tax preferential policy should be the key content of the innovation of the free trade zone system.

From the perspective of the participation of different countries and regions, the global free trade zone can be divided into two categories: the Free Trade Area (FTA) and the Free Trade Zone (FTZ). In 2008, China standardized the expression of “Free Trade Zone” (Commerce International Letter [2008] No. 15), in the document, the free trade zone within the country is defined as a “Free Trade Zone”, which is distinguished from the free trade zone established between countries. The free trade zone mentioned in the article refers to a multi-functional economic zone set up outside China's territory, with preferential taxation and special customs supervision policies as the main means, and trade liberalization and facilitation as the main purposes. When learning from the international practices, it can be found that in order to make Chinese free trade zone internationally competitive, tax incentives should be part of the free trade zone system support system.

II. LITERATURE REVIEW

A. Foreign Literature Review

Rhee and Belot (1990) argued that the free trade zone tax incentives are a catalyst to attract multinational companies and promote the export of the host country; [1] Ibrahim (1994): Through a survey of foreign investment companies in the Jebel Ali Free Trade Zone, it was discovered that 78.7% of enterprises believed that the preferential tax-free facilities are the main factors for their choice to invest in the free trade zone.[2] Tatsuyuki Ota (2003) analyzed the impact of the taxation policy on investment companies of the Shanghai Free Trade Zone. The analysis showed that the practice of the free trade zone was relatively successful, mainly because the government has given certain freedom to the region.[3] Yi-Chih Yang (2009) analyzed and compared the laws of the Taiwan Free Trade Zone and the Busan Port Free Trade Zone, suggested that Taiwan should learn from Korea in many ways. [4] Seyoum & Ramirez (2012) concluded through the empirical study of the US free Trade Zone that the various policies issued by the Free Trade Zone can reduce the operating cost of the enterprises and enhance the competitiveness of the products of the low-tech-intensive

enterprises.[5] Seyoum & Ramirez (2012) There are two very different views on the tax concessions in the free trade zone: one emphasizes its positive role in the host country, and the other emphasizes its negative effect, that is, the tax reduction of the free trade zone reduces the host country's welfare and return on capital. [6] Andrew Feltenstein (2013) introduced the basic situation and related tax policies of the Jebel Ali Free Trade Zone in Dubai. [7]

B. Domestic Literature Review

1) *Research on how policy promotes the development of the free trade zones:* Ziji Deng and Tengxiang Tang (1987) believed that the general rise of the free trade zone is the result of the implementation of regional foreign tax preferential policies, and has been adopted by many countries, especially for the free trade zones of developing countries as an important means of attracting foreign investment. [8] Tingting Wang, (2014) pointed out that tax incentives are a double-edged sword. [9] Ruochen Jiang and Hao Lu (2014): Tax incentives have become the main advantage of attracting foreign investment and promoting international trade, and have also enhanced the international trade competitiveness of the enterprises in the region. [10] Xueshen Yu (2015) believed that diversified tax incentives can help promote the economy of the free trade zones to quickly boost the domestic economy. [11]

2) *Comparative Study on tax preferential policies of the free trade zones:* Langnan Chen, Hanfei Tong, Mianzhen Xie (2005): Through a comparative analysis of the development models of the major free trade parks in the world, it is believed that the developed countries with strong overall economic strength will implement fewer tax incentives for free trade parks, while developing countries with weaker economic strength will generally adopt more competitive tax incentives. [12] Ran Yan (2014) analyzed the tax policies of Dubai, Singapore and Chile. [13] Hongshu Guo (2015) introduced and compared the tax policies of the major free trade zones in Europe, Asia and America. [14] Qingqiang Ma (2016) compared the Singapore Freeport, the Jebel Ali FTZ in Dubai and the Iquique FTZ in Chile, it is proposed that the Tianjin Free Trade Zone should increase tax reduction and exemption, and use tax incentives to attract enterprises to settle in. [15]

3) *How to innovate the tax policy of the free trade zone:* Weishi Chen and Xiaoyun Wang (2014): There are problems such as insufficient advantages, difficulties in policy implementation and the absence of tax policies for the existing tax policy of the free trade zone in China. It is proposed that the service trade and the goods trade should apply the same tax policy, it should be made to explore the tax policies which meet the needs of modern financial service innovation. [16] Tingting Wang (2014) believed that the existing tax incentive system in Chinese free trade zone has no legal provisions and operability for implementation, and should be improved. [17] Yijian Hu (2014) believed the preferential policy of the Shanghai FTZ is far from the

policy of the tax areas with domestic and international competitiveness. It is necessary to further explore the tax policy of free trade zone from the perspective of the orientation of the free trade zone, the function of the free trade zone and the innovation of the free trade zone. [18] Han Hu (2015) proposed that the development of Chinese free trade zone mainly relies on the existing tax policy, without intrinsic innovation, and suggested the design of diversified and innovative tax incentives. [19] Pengcheng Lin and Yufeng Luo (2016) believed that the current preferential policies of FTZ are mostly policy documents, lack of legislation and the advantages are not obvious, so firstly the legislative problem must be solved, and secondly, the tax policy should be set in a targeted manner. [20]

III. COMPARATIVE STUDY ON TAX PREFERENTIAL POLICIES IN INTERNATIONAL FREE TRADE ZONES

Since the end of the 1960s, the free trade zone has entered a booming period after more than half a century of development, driven by the wave of globalization.

Those countries, which have established free trade zones, usually formulated tax preferential policies in accordance with the development characteristics of the free trade zone, which is an important incentive for promoting the development of the free trade zone.

In this paper, the representative free trade zones in the world are selected to compare their preferential tax policy system from the perspective of the establishment and implementation and the similarities and differences of tax preferential policies and the specialization policies are deeply analyzed, in order to explore the way to establish an effective system of the tax preferential policy in Chinese free trade zones.

A. The US Free Trade Zone

The US Free Trade Zone has a long history and began in 1934. It has been operated for more than 80 years and has been a model of success. On the whole, the preferential policies of the US Free Trade Zone are mainly focused on tariffs. They not only maintain the development of the free trade zone, but also make full use of these favorable conditions to provide enterprises with cheaper production factors. In addition, other tax incentives offered by governments at all levels to the free trade zone are very limited.

1) *Exemption from tariff policy for import and export:* In order to encourage the development of the processing industry in the free trade zone, the goods that are transported into the free trade zone do not need to pay the import tariff immediately. Only when the goods are transported to the United States through the customs, the customs duty is required; the enterprise can set up the factory in the free trade zone without paying any Export tariffs, which is another way to bring tax savings to US exporters.

Secondly, the transfer of goods in different free trade zones is duty-free.

It is only necessary to pay customs duties when entering the United States through customs. This transfer between intervals not only saves taxes but also saves cash flow. At the same time, tariffs on productive equipment are postponed until the company is able to operate normally and put into production to encourage capital consumption in the United States and increase flexibility of management.

2) *Inverted tariff*: Inverted tariffs are the policy which saved the most money and benefited the most in the US Free Trade Zone, it is a selective tariff system. When the production process is completed in the region, the enterprises in the free trade zone are free to choose whether to pay the tariff according to the raw materials or components (higher) or to the finished products (lower). At the same time, re-export products are tax-free. It is designed to encourage companies to assemble spare parts into finished products in the region, and then import the finished products from the region into the US domestic market, which is mostly used in the manufacturing sector. Since the tariff on the final product is lower than the individual components, the company saves cost and therefore maintains its competitiveness. In addition, goods imported into the free trade zone and ultimately consumed, scrapped and destroyed in the zone are exempt from customs duties; if the goods imported by the enterprises in the zone are regular, they can be changed from each batch of declarations to weekly declarations.

3) *Other Tax preferential policies*: The goods in the area are exempt from local taxes, and the value-added part of the processed products in the area is not taxed. Another example is in the US McCarran Free Trade Zone, the tax incentives such as deferred tax payment, tax reduction, and exemption from inventory tax which saves the company cost, provides working capital, and expands the actual scale of operations. In addition, the McAllen Free Trade Zone also paid great attention to environmental protection and actively cooperates with the local government to improve the environment. The city was rated as “the least polluted city in the United States” in 2011.

B. The Shannon Free Trade Zone in Ireland

The Shannon Free Trade Zone in Ireland is an international business park originated from the duty-free trade of Shannon Airport. It is also the world's first special economic zone to use foreign capital to develop and process export industries. It has now developed into the most densely-owned business park in Ireland and one of the most densely concentrated gatherings of companies in North America. At the beginning of its establishment, the Shannon Free Trade Zone mainly attracted foreign investors through tax-free concessions. This is one of the important differences between it and the early Freeport. In terms of taxation and land use, Ireland has introduced a series of preferential policies to encourage and promote enterprise development. Shannon has become a famous low-tax port, attracting a large number of foreign companies. The actual tax burden of multinational companies in Shannon is much lower than that

of the United States and other EU countries. Such as the UK and the United States, corporate income tax is 20% and 21%, respectively, it is only 12.5% in Shannon. Moreover, the Shannon Free Trade Zone also provides lower tax rates and even tax exemptions for specific income from specific countries and regions.

Its tax incentives are mainly tariff and VAT reductions, mainly include:

- Goods imported from companies in the Free Trade Zone for storage, processing and processing for re-export to non-EU countries, as well as goods imported from the EU, are exempt from customs duties.
- Imported goods of companies registered in the Free Trade Zone are not subject to VAT.
- Products that are patented and developed in the region are exempt from income tax; enterprises that invest in the region enjoy a lower income tax rate of 12.5%, which is the lowest in the EU and even the OECD; Over 25% of the R&D expenses in the Free Trade Zone will receive a 25% tax credit.[21]

C. The Manaus Free Trade Zone in Brazil

As the largest free trade zone in the world, the Manaus Free Trade Zone in Brazil has a history of more than 40 years and has accumulated rich experience. Manaus is known as the “tax-free city”, the tax-free policy is one of its most prominent features. Since the establishment of the Free Trade Zone, a number of preferential tax policies have been promulgated to promote investment, expand the industry, and promote the rapid development of the Brazilian economy. Its tax incentives mainly include:

- All foreign goods entering the zone are exempt from import duties. In order to promote the development of the industry in the region, the products produced in the region are exempt from industrial product tax whether they are sold in Brazil or in the region. However, if the products are sold to other regions, the raw materials and zeros used in the products are required, 12% import tariff is imposed on the raw materials and components used in the product. In addition, business tax is only levied on goods exported in the region, but when foreign goods in the region are sold in Brazil, custom duties are required. At the same time, products which are transported from the territory of Brazil into the zone are exempt from circulation taxes. The import tax on products for automobile production can be reduced by the proportion of labor and domestic raw materials in production cost, plus 5%.
- The income tax rate in Brazil is relatively high, but the income tax is free of charge within ten years from the beginning of the profit year for enterprises in the Free Trade Zone. And the government has amended the constitution in 2004 to extend the preferential policy period to 2073.

- The private enterprises that invest and set up factories in the free trade zone are exempted from income tax, industrial product tax and commodity circulation tax for 30 years; the business tax of the financial industry is reduced. In order to reward reinvestment in the free trade zone, the corporate tax on the use of profit or provident fund for reinvestment is exempted. At the same time, enterprises in the free trade zone are required to undertake certain social responsibilities, such as environmental protection.

D. The Busan Free Trade Zone in South Korea

Established in 2003, the South Korea Busan Free Trade Zone has been aware of competitive pressure since its inception. Busan has always played an important role in Korea's economic development, occupying 21% of the country's exports. Although it has a deep sea port with the highest throughput in the world, the scarcity of available land leads to high land prices that constrain its economic development.

After research, the Korean government accurately positioned the development of the Busan FTZ and determined the development strategy of combining ports, large-scale advanced manufacturing and tourism and leisure, in order to achieve the sustainable development while promoting the economic development of the nearby regions. The construction plan of the Busan Free Trade Zone has the shortest development time from 2003 to 2020.

Although it is too early to judge whether its success is only based on the development of about ten years, the construction of the free trade zone is indeed constantly advancing, and achievements have been made in the manufacturing, port construction and logistics industries. Its main tax incentives can be summarized as:

- Raw materials, parts and equipment used for production in the Free Trade Zone are exempt from import duties, and export goods are exempt from export taxes.
- Foreign enterprises can enjoy tax credits for investment in free trade zones, and all imported fixed assets are reduced or exempted within five years. Eligible business income tax and corporate tax are free for three years from the date of registration, and only 50% of income tax in the next two years. .
- Tax incentives are placed in specific industries to implement preferential policies at different stages. For example, investment in logistics, tourism, IT or biotechnology industries can enjoy corporate tax "seven exemptions and three reductions" and rent reduction. Companies that invest more than \$50 million will be taxed free of income tax and corporate tax within seven years, and will be halved for the next three years. The purchase tax, registration tax and property tax in the district are free in the first three years, and will be halved in the next two years.

- Enterprises adopting advanced technology which can expand the competitiveness of domestic production in the free trade zone can enjoy investment promotion tax concessions; exemption of corporate income tax within five years, and halving tax in the next two years; import of foreign equipment or capital goods exempt from import tariffs, imports Link value-added tax and consumption tax.
- For taxpayers who meet different conditions, the comprehensive income reduction and preferential tax rate policies are implemented:

The income from the provision of services by foreign technicians in the region, the provision of high-tech income to foreign-funded enterprises enjoying corporate tax reduction and the income of senior managers of foreign-funded enterprises may be 70% of the total wages. Ordinary employees of foreign-funded enterprises who have obtained corporate tax reductions can choose to pay at the fixed rate of 17% or the applicable income tax rate at the end of the year.

E. Singapore Free Trade Zone

Depending on its port advantage, Singapore has built seven free trade zones, including the Jurong Port FTZ, the Changi FTZ and the Airport Logistics Park, and has positioned itself in the international free port since the 1970s. According to the 2017-2018 Global Competitiveness Index Report, Singapore's overall tax burden index is 19.1%, ranked second in the world (after the UAE). As one of the countries with the lowest tax burden and simple tax system in the world, the corporate income tax rate, the highest personal income tax rate, and the VAT rate on imported products in Singapore are all low, 17%, 20%, and 7% (respectively they are 25 %, 45%, 16% in China). Singapore companies only need to apply for an average of 5 taxes per year, and it takes only 49 hours to process tax. Its main tax incentives can be summarized as:

- The Singapore Free Trade Zone allows more than 90% of the world's goods to import and export with free duty. The taxable goods include only four categories of goods such as alcohol, tobacco products, petroleum products and vehicles. Manufacturing and service industries at the founding stage, their profit tax can be exempted; interest income tax for non-residents can be eliminated. For industries with new technology development properties, a tax exemption period of 5 to 15 years is granted, and for industries with high added value, income tax concessions of 10% are reduced within 20 years. At the same time, subsidies are provided to the manufacturing and service industries, research and development, construction and water conservation projects.
- The tax burden of the free trade zone is generally low: the tax rate of business profit is 5%-10%, and capital gains are not taxed. The marking point of personal income tax is 20,000 SGD, the tax rate is at least 3.5%, and the highest is 20%. Residents and non-

residents earning overseas but receiving income in Singapore are exempt from personal income tax.

IV. CHARACTERISTICS OF TAX INCENTIVES IN INTERNATIONAL FREE TRADE ZONES AND THEIR ENLIGHTENMENT TO CHINA

Throughout the tax policy provisions in the world's major free trade zones, we can find that the tax policy preferences have the following characteristics, which have valuable reference for us:

A. *The Design of Tax Incentives Depends on the Functional Orientation of the Free Trade Zones*

The effective supply of the preferential tax policy system for the free trade zone should be based on the clear positioning of the free trade zone and the clear relevant policy requirements, in order to finally achieve the goal of the development of the free trade zone and play a driving role. [22] Due to the differences in basic national conditions and industrial structure, the countries and regions have different emphasis on function. Therefore, free trade zones in many countries have carried out clear development function positioning based on their own actual conditions. The tax preferential policies are mostly consistent with the national conditions.

For example, the New York Harbor FTZ focuses on processing and manufacturing. In order to promote the production of enterprises in the region, the value-added part of the processing is not taxed. For another example, the Korea free trade zone emphasizes the development of the industry and drives the employment of the residents.

Policies are placed in specific industries, and indirect tax benefits and conditional government grants are used. The Singapore FTZ has positioned its own development in the industry-trade combined free trade zone by virtue of the large number of large manufacturing companies in the region and the advantages of radiating the Middle East and North Africa and connecting the East and West.

B. *Promulgating Tax Incentives in the Free Trade Zones in Legal Form*

The United States and Ireland have carried out the top-level design of the free trade zone in the form of legislation. The Brazilian government has enacted regional policies in the form of enacting laws and regulations. Since the policies are all from the laws and regulations of various countries, their effectiveness, stability and standardization are guaranteed.

In addition, according to the local economic development, the local government would introduce some local tax incentives to help the development of free trade zones, such as the Texas-based McAllen Free Trade Zone. The local governments exempted companies in the region from property taxes, ad valorem taxes, and implemented policies to encourage investment. They also emphasized that federal regulations take precedence over local regulations to avoid differences in policy implementation. The local governments

also actively explore and solve new issues that contradict laws or policies in the development of the free trade zone, and the policies and regulations in the region are revised and supplemented to adapt to the development of the free trade zone. For example, with the continuous development of the Free Trade Zone, the Brazilian government has continuously adjusted the tax incentive period, and has successively issued a number of laws and regulations to amend and supplement the policies in the region. The US Foreign Trade Zone Act also applies. Through continuous improvement of various policies and regulations of the FTZ, the free trade zone can be developed in an orderly and efficient manner.

C. *Various Tax Preferential Policies*

1) *Discount of tax rate:* In order to attract investors to settle in the free trade zone, the tax rate of the tax related to the company in the FTZ is not higher than the tax rate of the same tax of the company outside the zone, and the total tax burden faced by the companies in the zone is not higher than that of the neighboring countries and regions. The level of tax burden is the basic principle that is followed when countries set up tax rates in the free trade zone. In order to play a comparative advantage of host aggregation, it is usually adopted to have internationally competitive tax incentives. The general tax incentives mainly include:

- The tariff exemption policy: mainly includes tariff delay, tariff elimination, and reverse tariff reduction. Goods or production equipment entering the free trade zones are generally not subject to customs duties. Only when the goods or assembled equipment produced in the zone enter the domestic market, the relevant taxes and fees are paid. In the free trade zone of the coastal countries, in order to increase import and export trade, tariffs basically have a tendency to zero, or even implement a "zero tariffs" policy.
- Lower corporate income tax. Free trade zones usually adopt lower income tax rates to encourage the development of enterprises. At present, the corporate income tax rates of the free trade zones in Singapore, Hong Kong, South Korea and Germany are all around 15%.
- Adopt corresponding tax support policies for key and strategic high-tech industries supported by the state, with more tax incentives in the short-term of domestic economic construction, and more tax incentives for high-tech industries and independent research and development.

2) *Most of the tax incentives are based on indirect preferential policies:* Indirect tax incentives can reduce the unfairness of the overall tax rules and contribute to the long-term development of enterprises. In addition to the tax rate and the direct reduction of taxes, in order to avoid the risk of tax avoidance and arbitrage due to "taxation and land arbitrage", the extra-territorial free trade zone often use indirect means such as Tax Excuse, Accelerated Depreciation, Tax Deduction, Investment Credit, Loss

Compensation, Tax Exemption, etc. For example, in the free trade zones of European countries such as the United Kingdom, France, Italy, etc., the registered enterprises are subject to the combination of direct preferential income tax rates and depreciation subsidies and other indirect preferential policies. In the European and American FTZ, it is also a common tax incentive to provide financial support for deferred payment of income tax to enterprises or individuals. In Singapore, in order to encourage enterprises to reorganize mergers and acquisitions, it is stipulated that under certain conditions, enterprises within the same group can use loss of each other to offset the profit of the previous year and reduce taxable income, to achieve corporate income tax benefits.

In addition, the diversification of tax incentives in the free trade zone is also reflected in the general emphasis on the optimization of tax services, such as the simplification of the registration process, the facilitation of tax declaration procedures, and the Information of tax treatment methods, etc.

V. INADEQUACIES OF TAX PREFERENTIAL POLICIES IN CHINESE FREE TRADE ZONE AND REFORM APPROACHES

The development characteristics of the emerging free trade zone make the traditional taxation model unable to apply its development. The innovation of the taxation model is particularly important, and the taxation preference is indispensable in the innovation of taxation model. How to make the tax policy of China Free Trade Zone and the characteristics of the free trade zone coordinate, and play a good role in its development?

A. *Insufficient of Tax Incentives in Chinese Free Trade Zone*

1) *The tax system implemented in the FTZ still lacks legality and transparency:* The success of many foreign free trade zones lies in "first legislation, post construction". With the development of the free trade zone, the legal system is constantly updated and adjusted. There are not many special tax policies introduced in Chinese free trade zone, and they are not presented in the form of law. They are scattered in the documents promulgated by the State Council and the State Finance and Taxation Committee, lack of a relatively mature and stable free trade zone taxation system. This has led to the problems such as fragmentation of content, lack of system, and lack of basis for dealing with issues, and reduces the practicability of tax incentives, unable to adapt to the complex economic business environment of the FTZ.

There is only one clause in the Constitution of our country that deals with taxation. Apart from this, there is no basic tax law or general law of tax. There are currently only four laws in the field of tax law. The Tax Administration Law has played a role in some basic tax laws in a certain sense, but it is still far from enough. In particular, the special legislation for the free trade zone is even blank. The existing preferential policies are all in the form of regulations or red-

headed documents, which are suspected of being in violation of international practice.

2) *The intensity, breadth and depth of tax incentives are not enough:* At present, the tax policy of FTZ is mostly the continuation or upgrading of the taxation policy in the historical bonded zone or specific region. For example, in terms of personal income tax, enterprises give high-end talent rewards in the form of equity. This is the taxation pilot policy related to "the Zhongguancun National Independent Innovation Demonstration Zone". In terms of promoting trade, the pilot policy for tax rebates for the port of departure has only expanded to eight pilot ports, which is far from meeting the growing demand for the opening of the destination. At the same time, the means of transport is still only applicable to shipping, which limits the port of departure. In terms of promoting industrial development, the current free trade zone tax policy only involves the financial industry "financial leasing", and the preferential policies related to logistics and offshore finance are lacking. In terms of taxes, the taxation policy of the free trade zone is involved in tariff, value-added tax, consumption tax, and income tax, but there is no relevant tax incentive policy on the property behavior tax. Tax incentives have a small range of payment methods and short time; tax incentives have a small range of tax exemption measures.

3) *The regulatory mechanism for tax collection is not sound:* While tax incentive system of the Free Trade Zone is promoting investment and trade development, industrial agglomeration, and attracting talents, its tax incentives are also in need of improvement. First, tax incentives are not included in the national budget system. Second, tax incentives lack an effective evaluation system. The last, tax incentives lack effective accountability and exit mechanisms.

B. *The General Idea of the Reform of Tax Preferential Policies in Chinese Free Trade Zone*

1) *The reform of the taxation policy of the free trade zone should proceed from the functional orientation of the free trade zone:* The Chinese FTZs in China are all economically developed regions and have their own advantages, providing an economic environment for the innovation of tax incentives. The successful experience of foreign free trade zone in tax concessions should be followed, but Chinese free trade zones are not suitable for taking the tax exemption and significantly reducing corporate income tax. Chinese free trade zone is a test field for economic marketization, not for the development of a tax-free zone or a special economic zone. The low-income corporate income tax rate policy commonly used in the international free trade zone is difficult to operate in Chinese free trade zones. If the free trade zones is exempted from the free trade tax, according to the 15% corporate income tax rate, "Depressions Effect" of the new taxation policy will emerge, triggering a new round of regional unfair competition, Contrary to the goal of Chinese reform

and development under the New Economic Normal. At the beginning of 2015, the State Council of China proposed that “except for the tax administration and administration authority stipulated by law, all regions should not formulate tax preferential policies by themselves”, “the regional development plan should be decoupled from the tax preferential policies, and in principle, no new regional tax preferential policies will be introduced in the future”. Therefore, the focus of the free trade zone tax reform is not to make major changes in the tax system and income tax rate. Regional tax incentives should be used cautiously, and should tend to apply more to the industry's new tax incentives.

In short, the formulation of tax preferential policies for Chinese free trade zones should start from the function orientation of promoting free opening and deepening system reform, combining with the development characteristics of the emerging free trade zones, and trying to maintain tax fairness while seeking internationalization.

2) *Institutional innovation is the core orientation of tax preferential policy for Chinese free trade zones:* The Free Trade Zone exists as a “test field”. Although a number of preferential policies including a number of tax policies have been implemented in the free trade zones, the purpose is not to establish a tax-efficient quarantine, but to explore a system innovation. To promote the economic opening of the free trade zone, thus exploring the way for deepening reforms across the country. Since the establishment of the Shanghai Free Trade (Experiment) Zone in September 2012, many of the innovations in its institutional policies have been replicated and promoted by other free trade zones, including the National Treatment and “Negative Inventory Management System” before admission. Therefore, the use of preferential tax policies in the free trade zones is not only to stimulate the total growth by reducing tariffs, but more to explore industry-oriented taxation policies through institutional innovation and to explore new economic development models. It is the core orientation of the tax preferential policies for Chinese free trade zones.

In the process of institutional innovation, the applicability of the system is the basic condition, and not all experience must be hard-wired. It must be based on the institutional environment and realistic constraints, actively adapt to adaptive adjustments and institutional, according to the institutional environment and realistic constraints, to support Chinese economic transformation.

3) *Unifying and improving the taxation preferential legal system of the free trade zones:* In the experience of foreign free trade zone achievements, the relevant laws of the free trade zone have been unified and improved according to the national laws, so that the construction and development of the free trade zone has a unified law as a guide. The pace of tax legislation must be accelerated as soon as possible, put the free trade zone legislation including tax content on the agenda as soon as possible, to

promote the construction of the free trade zone and the entry of tax administration into the rule of law.

- It is necessary to unify the legislative level of tax incentives. The tax preferential policy legislation for turnover tax must be uniformly formulated by the central government to ensure that each trade zone enjoys the same tax preferential treatment; for the local small tax or additional taxation tax policy, the central government gives certain guidance to the provincial government. In combination with local actual development of preferential policies, and then target to promote the sound development of FTZ.
- It is necessary to unify the content of tax incentives between free trade zones. Whether it is a tax incentive at the central legislative level or at the local legislative level, the identity of tax incentives must be maintained.
- It is needed to improve the integrity of the tax policy in the free trade zone. The international advanced free trade zone attaches great importance to the integrity of tax policy legislation. It is necessary for China to fragment the current tax policy and strive for further breakthroughs in the breadth and depth of tax incentives.

C. *Suggestions on Specific Measures for the Reform of Tax Incentives in the Free Trade Zone*

1) *Tax incentives for specific industries and behaviors*

a) *Intensify preferential policies for high-tech enterprises and environmental protection equipment:* As a developing country, China should pay more attention to the development of high-tech enterprises, and the promotion of preferential policies can promote the technological innovation ability of enterprises to continuously improve themselves. China's current tax policy gives high-tech enterprises a preferential tax rate of 15%, but compared with developed countries, there is no advantage in the free trade zone. This approach can be followed and the high-tech enterprises can be given a low tax rate of 10% in the free trade zones.

b) *Tax incentives to promote investment:* To increase the incentives for enterprises to purchase and use energy-saving emission reduction and environmental protection equipment, preferential treatment at a low tax rate of 10% can be considered. Hong Kong's tax incentives for improving environmental protection involve not only business but also life. Such as transportation, etc., this is also worth learning.

c) *Implement partial tariff exemption:* According to the economic development and functional orientation of the free trade zone, low-rate or zero-tax rates are imposed on international transportation services, transportation services related to import and export, and cargo handling, handling and other services that are conducive to import and export. For goods stored, traded, processed and manufactured in a specific area, tariffs and value-added taxes on import links

shall not be levied; machinery, equipment and essentials required for the import of goods by the enterprises in the zone shall be exempt from customs duties.

d) Specific personal income tax policy: In order to attract and retain talents, when the small and medium-sized high-tech enterprises transfer their share capital to individual shareholders, and the new technology enterprises convert the scientific and technological achievements to give the relevant technical personnel of the company the equity rewards, the individual income tax deferral preferential policy allows the taxpayer to determine the stage by itself. Applicable to the personal income tax difference subsidy or tax exemption policy for enterprise employees in the free trade zone, and appropriately subsidize the personal income tax of high-end talents.

e) Increasing tax incentives for property behavior tax: The preferential policies for granting property behavior tax to encouraged industries in specific areas of the Free Trade Zone will reduce the tax burden on fixed assets such as self-sustaining or leased real estate in the region.

2) Reasonable matching with tax incentives, using indirect preferential policies: At present, the tax innovations of various countries in the free trade zone are mainly reflected in the reduction of taxes and tax rates, which is worth learning from. On the one hand, the current tax design in China is too complicated, and the phenomenon of repeated taxation is prominent. It is recommended to stop the collection of some taxes and try first in the free trade zones. On the other hand, it is possible to consider launching special policies for offshore trade and finance, adopting low tax rates, and adopting preferential policies such as income tax on income from overseas investment to support enterprise development. In-depth study and introduction of tax credits and tax aggression policies to attract foreign investment and encourage foreign investment, and research and develop tax incentives for free trade zones that encourage the creation of a comprehensive economic development model.

In combination with the self-departure zone, the company adopts indirect preferential methods, such as to accelerate depreciation of fixed assets of enterprises using designated facilities, increase pre-tax deduction for innovative enterprises, and reduce the investment cost of enterprises. For those which are deducted from the tax deduction due to the loss or profit of the beneficiary enterprise, they may be allowed to carry forward in several years backwards or forwards. Implement indirect procedures to improve the indirect preferential systems, which include: the cost deduction standard, expanding the pre-tax scope, increasing the tax exemption quota, installing or deferring tax payment, increasing the loss carry-over period, and innovating the accelerated depreciation.

3) Strengthening supervision over the tax incentives: The taxation system implemented in Chinese free trade zone still lacks statutory and transparent nature. Therefore, it is necessary to establish a tax incentive budget management

system. Before the implementation of the policy, it is estimated in advance the tax loss and the incentive effect on market players caused by various measures. Through comparative analysis, produce a budget report according to the relevant statistical data. The Ministry of Finance can formulate a tax incentive evaluation system, to evaluate the implementation effect of the preferential policies that have been implemented, and the necessity and feasibility of continuing implementation in the future. Adjustments should also be made to tax incentives that do not meet current economic trends but are likely to achieve good results in the future.

VI. CONCLUSION

In the long run, the advantages of the free trade zone and the international economic environment will be constantly changing, which is a dynamic process. Only by clarifying the development needs of the free trade zone, the formulation of the tax preferential policy system can form an effective supply, and ultimately achieve the goal of the development of the free trade zone and the driving effect. The preferential tax policies implemented in the China Free Trade Zone have certain effects in the short term and should be continued and perfected to make it a model that can be replicated and promoted.

In the future, it is necessary to avoid the road of taxation competition, at the same time, it is needed to improve the foreign-related taxation system, choose the reasonable form of tax incentives, and strengthen the supervision of the tax incentives, and propose operationally strong countermeasures for Chinese use of tax incentives to better realize the development strategy of the free trade zone. It is expected to put forward operational and strong countermeasures and suggestions in the use of tax incentives to better realize the development strategy of the free trade zone.

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