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Hainan Free Trade Port: “Customs Closure” and Implications for Foreign Investors’ Strategic Decision-Making

DSA South China

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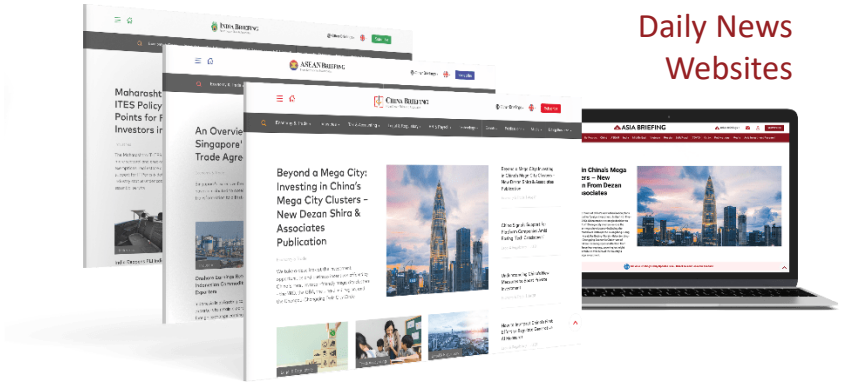


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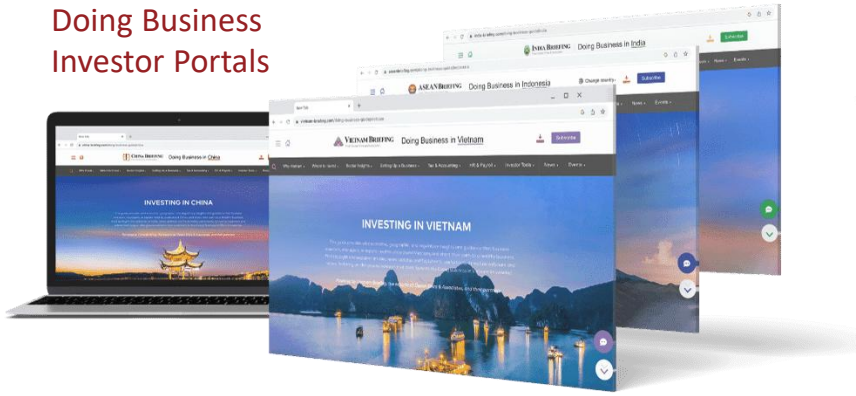
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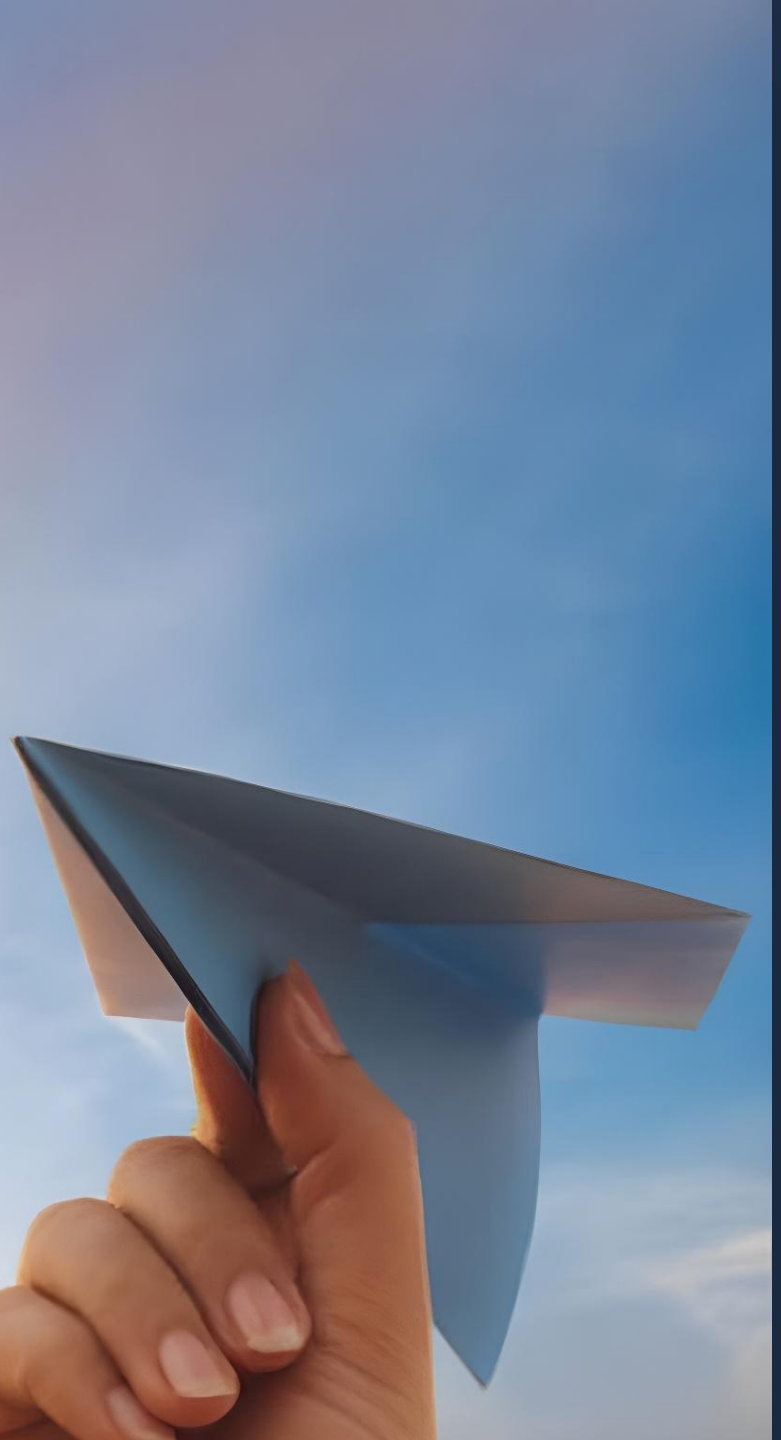
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Agenda

1. Decoding the New Regulatory Architecture
2. Capturing Value Under the Zero-Tariff Regime
3. Optimizing Structures and Capital Flows
4. Unlocking Sector-Specific Market Access
5. Future-Proofing Compliance and Global Alignment



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Decoding the New Regulatory Architecture

Custom Closure

*The **Master Plan for the Construction of Hainan Free Trade Port** has been executed since June 2020. On December 18, 2025, the island has officially transformed into an independent custom supervision zone, aka "custom closure".*

04

Trade in Goods: More tariff free items in addition to *raw materials, auxiliary materials, transportation vehicles, yachts, and self-use production equipment.* **Trade in Services**: First negative list for cross-border trade in services.
Investment: Shortest Foreign Investment Negative List nationwide.

03

People: visa-free policy for nationals from 85 countries

Goods: Yangpu Port ranks second nationwide in tonnage.

Capital: FT account and EF account to facilitate capital flows for international trade

Data: Negative list management system for data export. Direct access to overseas websites in special zone.

02

Dual 15% Policy: expanded to island wide

Duty-free shopping quota: 100,000 RMB per person per year for outbound travelers.

01

Developing legislature: Continuously Improving Rule of Law Foundation Based on the Specialized Legislation – the Hainan Free Trade Port Law

Zero-Tariff Regime Shift

Significant Expansion of Zero-Tariff Commodity Coverage

Pre-Closure

- Three positive lists for imported zero-tariff commodities (raw & auxiliary materials, means of transport & yachts, self-use production equipment)
- Duty-free coverage: 1,900 tariff lines

Post-Closure

- Imported zero-tariff commodities are managed under a negative list (i.e., Catalogue of Dutiable Import Commodities)
- Duty-free coverage expanded to ~6,600 tariff lines, accounting for 74% of total commodity tariff lines, an increase of nearly 53 percentage points from pre-closure

Further Relaxation of Policy Restrictions

Pre-Closure

- Imported zero-tariff commodities and their processed finished products are restricted to enterprise self-use only

Post-Closure

- Imported zero-tariff commodities and their processed finished products are no longer limited to self-use
- They can circulate freely among eligible beneficiaries, with no retroactive payment of import taxes

Significant Expansion of Eligible Beneficiary Scope

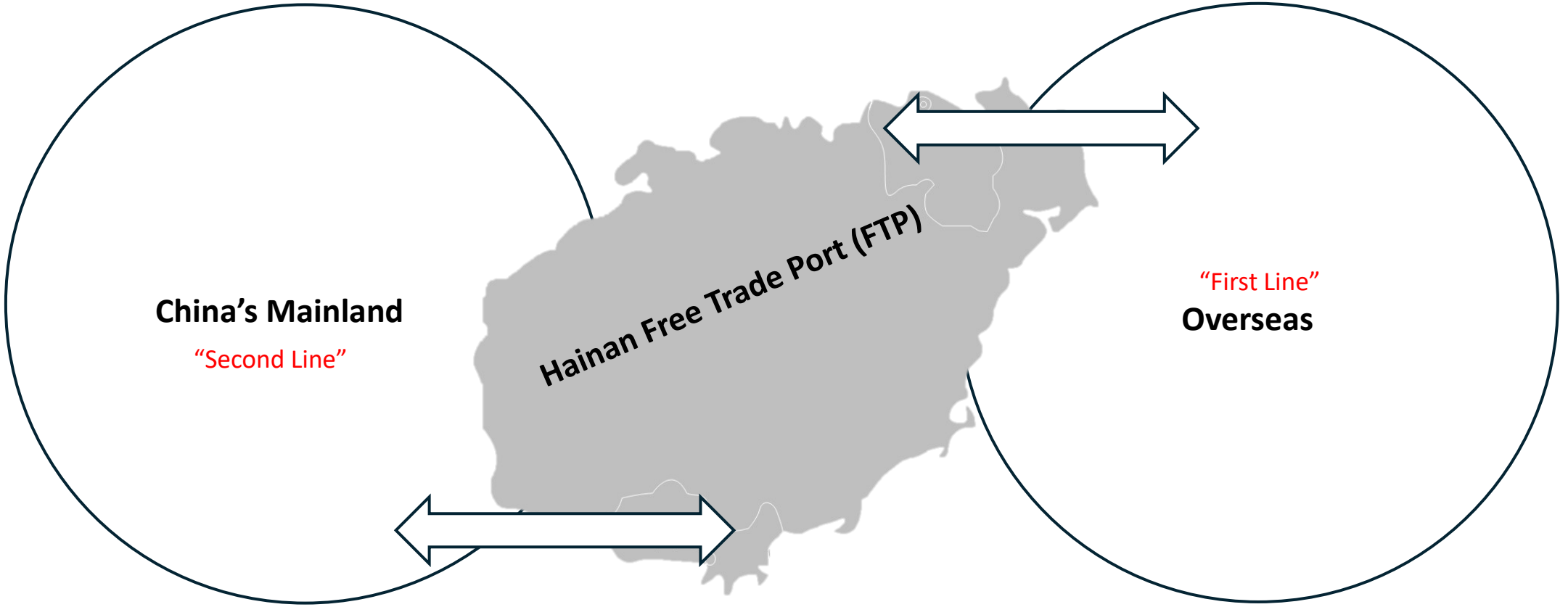
Pre-Closure

- Only independent legal-person enterprises and public institutions registered in Hainan Free Trade Port are eligible for the zero-tariff import policy

Post-Closure

- Eligible beneficiaries now cover almost all enterprises, public institutions, and private non-enterprise units on the island with actual import demand

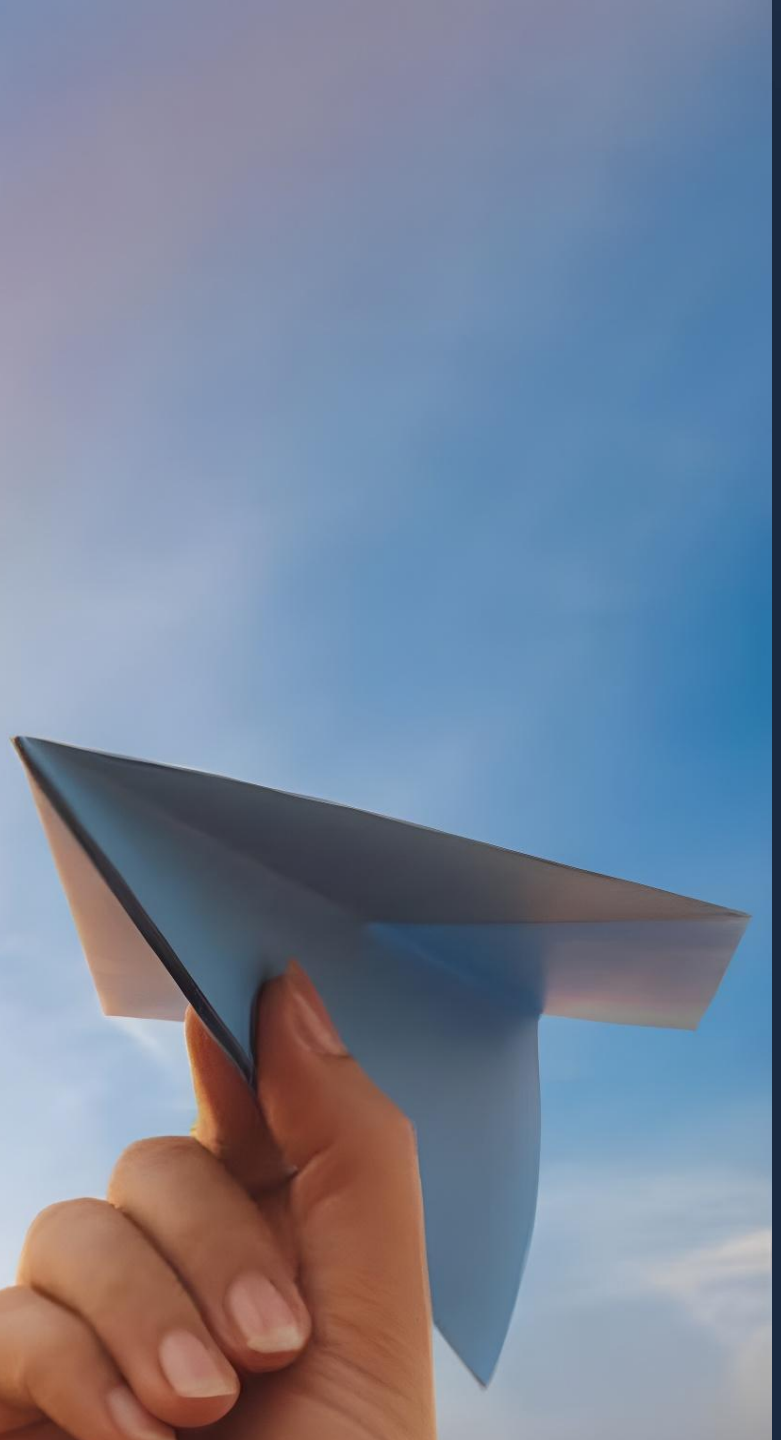
Dual-Line System



Shortest Foreign Investment Negative List

The Hainan Free Trade Port Foreign Investment Regulations which was passed on July 30, 2025 created the **shortest** foreign investment negative list nationwide. In sectors not included in the list, management follows the principle of equal treatment for domestic and foreign investment.

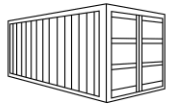
Regulated Sector	National Version	Hainan Version	Hainan's Advantages
Telecommunications	Foreign equity ratio in value-added telecommunications services **shall not exceed 50%**	**No** foreign equity ratio restriction	Implemented Islandwide. Not just pilot zone.
Education	Preschool education, general high school education and higher education are **limited to Sino-foreign cooperative education, which must be led by the Chinese side**	Exclude overseas high-level universities of science, engineering, agriculture and medicine, vocational colleges and non-diploma vocational training institutions	Foreign institutions are allowed to run schools independently
Culture, Sports and Entertainment	Investment in theatrical performance troupes is prohibited	Investment in theatrical performance troupes is allowed provided it's Chinese-majority-owned	Change from "prohibition" to "permission + Chinese control"
Leasing and Business Services	Investment in social surveys is prohibited	In social surveys, the Chinese equity ratio shall be no less than 67%, and the legal representative must be a Chinese national	Change from "prohibition" to "permission + Chinese control"
Length of Negative List	29 items	27 items	Higher degree of openness



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Capturing Value Under the Zero-Tariff Regime

Tax Benefits Blueprint



Zero Tariff Regime

Production Equipment: Zero import duties/VAT for self-use machinery (Reduces CAPEX).

Operational Vehicles: Zero tariffs for aircraft, ships, and yachts.

Raw Materials: Zero tariffs for materials used in production or high-end manufacturing.

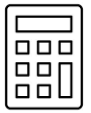


30% Added-Value Rule

The Mechanism: Import Raw Materials (Zero Tariff) → Process in Hainan → Value-Added ≥ 30%.

The Result: Goods enter Mainland China exempt from import tariffs.

Strategic Value: Ideal for high-tariff sectors (Pharma, Luxury, High-tech) looking to penetrate the 1.4-billion-consumer market with a massive cost advantage.

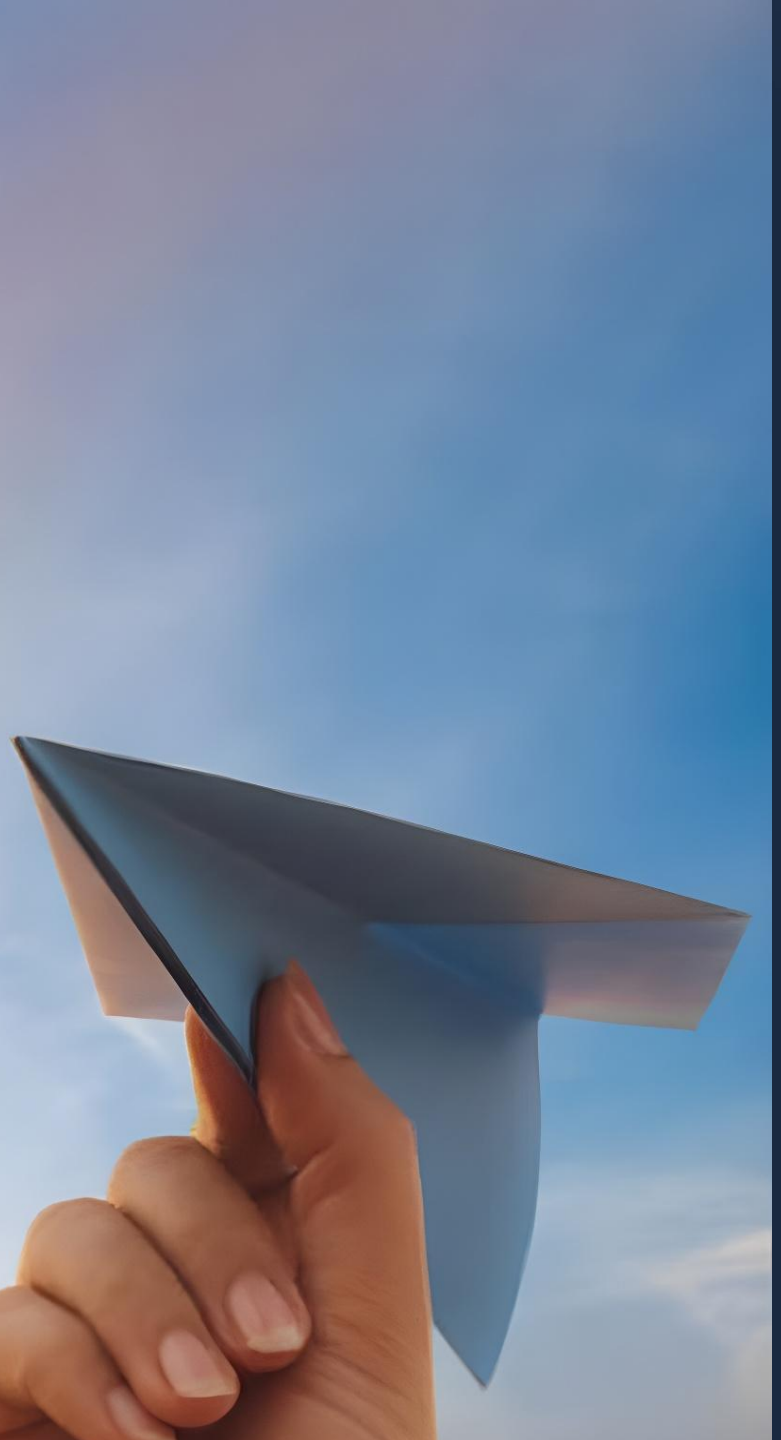


"Double 15%" Tax Policy

Corporate Income Tax (CIT): Capped at 15% for encouraged industries (vs. 25% national rate).

Individual Income Tax (IIT): Capped at 15% for high-end and urgently needed talent (vs. up up to 45% national rate).

Strategic Value: Attracts global C-suite executives and R&D specialists while significantly boosting ROI.



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Optimizing Structures and Capital Flows

Overview of Hainan Free Trade Port Tax Incentive Policies Till 2027

Corporate Income Tax Incentive

For encouraged industrial enterprises registered and actually operating in Hainan FTP, the corporate income tax is reduced to **15%**.

Individual Income Tax Incentive

For high-end and urgently needed talents working in Hainan, the portion of their individual income tax burden exceeding **15%** will be exempted.

Overseas Dividend Incentive

For Qualified enterprises, **0%** corporate income tax on dividends/profits derived from newly added overseas direct investments.

Core Incentive Comparison

Corporate Tax Rate	Individual Tax Cap	Overseas Dividend
15% (vs 25%)	**15%** (3%-45%)	**0%**

Key Premise: Substantial Operations

The enterprise's actual management body is located in Hainan FTP, exercising substantial overall control over production, personnel, accounts, and property.

Corporate Income Tax Incentive Policy (Effective 2025-2027)

Eligible Entities

- Resident enterprises registered in Hainan
- Branches of resident enterprises in Hainan
- Institutions/places of non-resident enterprises

Implementation Rules

- HQ in Hainan: HQ & branches enjoy incentive
- HQ outside Hainan: Only Hainan branch enjoys

Core Conditions (All three must be met)

Encouraged Industry

Main business belongs to the "Encouraged Industry Catalogue", and main business income accounts for **≥ 60%** of total income.

Substantial Operations

Actual management is in Hainan, exercising **substantial and overall management and control** over production, personnel, accounts, and property.

Collection Method

Corporate income tax is collected on **verified basis instead of deemed** .

Corporate Income Tax Incentive Process

Core Model: Self-judgment - Declaration & Enjoyment - Retention (No prior approval)



1. Self-Inspection

Confirm encouraged industry income ratio (≥60%)
Meet substantial operations requirements



2. Quarterly Payment

Fill in electronic tax declaration form
Select relevant option to enjoy incentive



3. Annual Settlement

Submit annual tax return
Submit "Self-declaration for Substantial Ops"



4. Retention for Inspection

Retain supporting docs for 10 years

Key Documents to Retain

- **Industry & Income Proof:** Catalogue matching, income ratio calculation sheet, contracts, invoices, etc.
- **Substantial Operations Proof:** Business premises certificate, social insurance records, bank statements, asset lists, etc.
- **Basic Qualification Proof:** Business license, tax registration certificate, articles of association, etc.

Individual Income Tax Incentive Policy (Effective 2025-2027)

Incentive: The portion of individual income tax burden exceeding **15%** is exempted.

Eligible Individuals

High-end and urgently needed talents working in Hainan Free Trade Port.

Applicable Income

Only income derived from Hainan sources, including comprehensive income, business income, and talent subsidies.

Conditions for Enjoyment (Must be met)

- **Residency:** Cumulative residence ≥ 183 days (actual ≥90 days).
- **Threshold:** Recognized talent or annual income ≥300,000 RMB.
- **Enterprise:** Employer is actually operating in Hainan.

Specific Industry Exemption: Employees in aerospace, aviation, offshore oil exploration can enjoy the incentive even if they do not meet the 183-day residence requirement

Individual Income Tax Incentive Application Process

01 Eligibility Verification

- **Automatic Verification:** Most personnel are verified automatically by the system; no application is needed.
- **Special Application:** For individuals in specific industries with less than 183 days of residence, the employer applies through the E tax bureau.
- **Supplementary Application:** For individuals with 90-183 days of residence, supplement materials through the tax bureau or APP.

02 Declaration & Enjoyment

- **Application Time:** **March 1 to June 30** each year for the final settlement of the previous year.
- **Application Channel:** Individual Income Tax APP, where the system automatically recognizes eligibility.
- **Calculation Method:** Tax is calculated at a 15% rate, and the system automatically refunds the excess tax without additional application.

03 Information Retention

- **Core Materials:** Labor contract or employment agreement signed with an enterprise actually operating in Hainan.
- **Retention Requirement:** Keep relevant certification materials for 5 years for potential tax authority inspections.

Interpretation of the Dividend Exemption Policy for Overseas Direct Investment

Policy Overview

Qualified enterprises in 3 key industries are exempt from corporate income tax on dividends/profits derived from newly added overseas direct investments

Conditions for Hainan Entities & Investment

- **Hainan Entity:** Registered in Hainan FTP, substantial operation, belongs to 3 key industries (Tourism/Modern Service/High-tech), main business income ≥60%.
- **Overseas Investment:** New direct investment during 2020-2027, shareholding ≥20%, invested country tax burden ≥5%.

Income Type & Overseas Entity

- **Income Type:** Only business profits of overseas branches or dividends from new investments.
- **Entity Type:** New branch/enterprise, capital increase, acquisition; must be legal and compliant.
- **Overseas Entity Business Scope:** no explicit mandatory requirement, but could verify relevance and reasonableness

Case study

Background: Company A with total income 2 million, among which modern service income 1 million , overseas dividend 1 million
Conclusion: Main business income (modern service) takes up 50% (<60%) . Not Applicable enjoy the tax exemption

Key Premise: Substantial Operations Criteria

"Substantial Operations" is the core prerequisite for enjoying Hainan FTP tax incentives. Enterprises must meet the following four elements simultaneously:

Production & Operation in Hainan

Possess fixed business premises; main business activities and core business links are carried out in Hainan; sign contracts in the enterprise's name.

- *Property right certificates, lease contracts*
- *Key business contracts, utility bills*
- *Photos of business premises*

Personnel in Hainan

Have employees matching the business scale working in Hainan, with wages paid via Hainan accounts and meeting residency requirements.

- *Labor contracts, social insurance records*
- *Payroll records, attendance logs*

Accounts in Hainan

Open basic/settlement accounts in Hainan; maintain independent financial accounting system; files kept and decisions made in Hainan.

- *Bank account opening permits, account ledgers*
- *Accounting vouchers, financial statements*
- *Financial decision-making records*

Property in Hainan

Own fixed assets/intangibles matching business scale; purchase/use/disposal managed and controlled by Hainan institutions.

- *Fixed asset ledgers, purchase invoices*
- *Property rights certificates, asset photos*
- *Asset management records*

Introduction to Hainan FTP EF Account (Multi-functional Free Trade Account)

Definition: A dedicated integrated domestic and foreign currency settlement account for the Hainan Free Trade Port, following the principle of "One Line Open, Two Lines Managed, and Limited Penetration for Same-name Cross-border Accounts." It is a "highway" for cross-border capital flows.

Four-Tier Account System

EFE Account: Newly established enterprises/institutions in Hainan FTP.

EFN Account: Overseas institutions (including HK, Macao, Taiwan).

EFO Account: Overseas individuals (foreigners, HK/Macao/Taiwan residents).

EFF Account: Domestic and foreign financial institutions.

One-Line Flow Rules (EF ↔ Overseas/OSA/NRA)

- **Free Transfer:** Can be processed with just a payment/receipt instruction
- **Current Account:** Direct receipt and payment for goods trade, service trade, income, etc.
- **Capital Account:** No quota restrictions on financing, direct investment (except securities transaction).

Two-Line Flow Rules (EFE ↔ Onshore Same-name Account)

- **Strict Restrictions:** Limited to same-name accounts and RMB only, within quota
- **Usage Control:** Cannot be used for securities investment, non-self-use housing, etc.

Analysis of Advantages and Operations of EF Accounts

Core Advantages of EF Accounts

Flexible Account Opening

Relatively relaxed access criteria for high-quality enterprises.

Flexible Exchange Rate Options

Utilize both offshore/onshore rates; choose optimal rate to save costs.

Simplified Settlement Process

No need for contracts/invoices review or FBI procedures.

Capital Transfer Rules & Cases

Case: Company A (Hainan) ↔ Company B (Overseas)

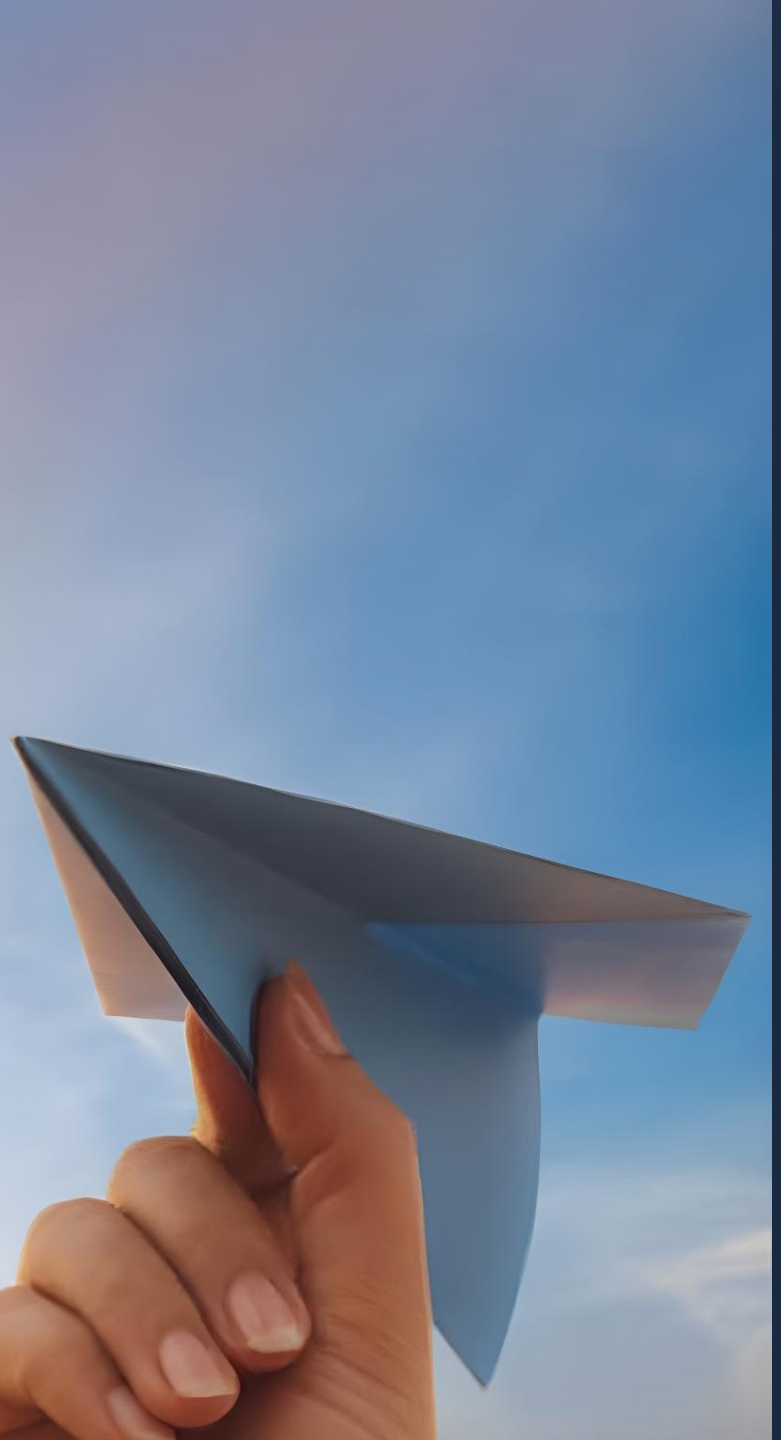
- Onshore → EF: "Negative List + Quota Management"
- EF → Overseas: Payment instruction only, quota controlled

Quota Management Mechanism

Current Quota	Future Outlook
1x Equity	**1.2x - 3x**

Core Value Summary: EF Accounts break barriers in cross-border capital flows through simplified processes and flexible exchange rate mechanisms. They are a key financial tool for Hainan FTP enterprises to reduce costs and improve capital efficiency.

Benefited Entity: Enterprises engaged in outbound investment "going global", foreign-invested enterprises "bringing in", enterprises with external debt needs, enterprises with overseas lending needs, enterprises with cross-border trade, investment and financing needs, and new-type offshore international trade enterprises.



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Unlocking Sector-Specific Market Access

Expanded Market Access in "Prohibited" Sectors

Hainan now operates under a "Shortest Negative List" in China. Key sectors previously restricted to foreign firms are now open:

- **Telecommunications:** Foreign investors can now hold 100% ownership in value-added telecommunications services (VATs) within the port, including data centers and cloud computing services.
- **Education:** Prestigious foreign universities and vocational colleges can now operate **independently** (without a Chinese partner) in specific fields like science, engineering, and agriculture.
- **Healthcare:** Foreign medical institutions have broader leeway to import and use drugs and medical devices that are approved abroad but not yet registered in Mainland China (via the Lecheng Medical Tourism Zone).
- **Biotechnology:** Restrictions on foreign investment in the development and application of human stem cells and gene diagnosis/treatment have been significantly relaxed for the first time.

Financial Services & Capital Flow

The "closure" triggered the implementation of the **Multi-functional Free Trade (EF) Account** system:

Capital Mobility:

- Foreign businesses can move capital between their Hainan EF accounts and overseas accounts with almost no restrictions, behaving like an offshore entity.

Investment

- Qualified foreign institutions can now more easily set up wholly-owned or joint-venture fund management and securities firms to tap into both Hainan and Mainland capital markets.

Talent & Professional Services

Mutual Recognition

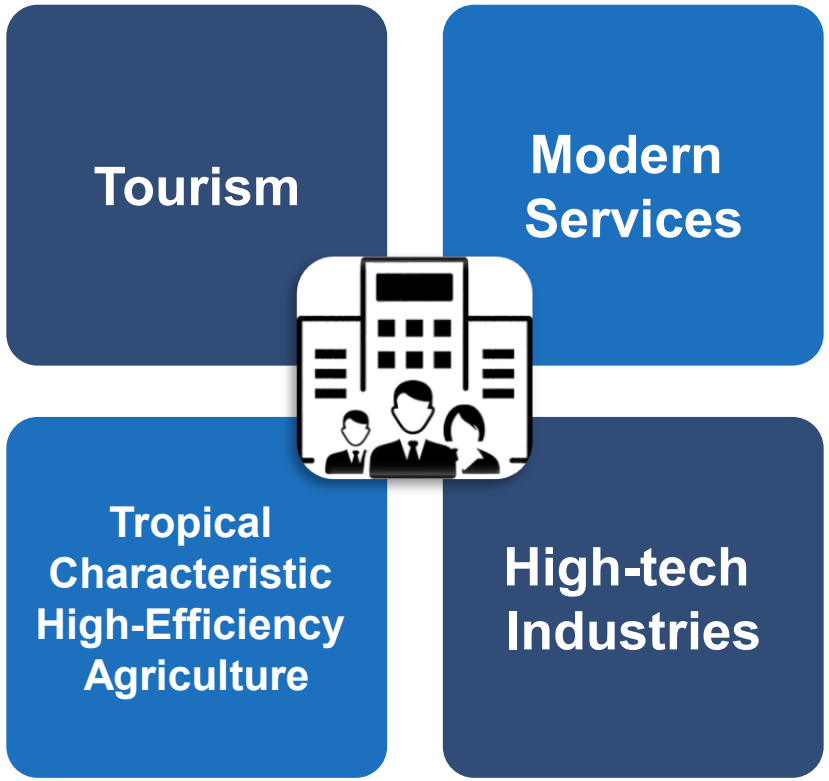
- Over 10 types of professional qualifications (legal, accounting, architectural) from foreign jurisdictions are now recognized in Hainan, allowing foreign professionals to practice without repeating Chinese exams.

Visa-Free Entry

- As of early 2026, the 59-country visa-free policy has been expanded to include more purposes beyond tourism, such as business visits, exhibitions, and medical treatment.

Key Investment Area

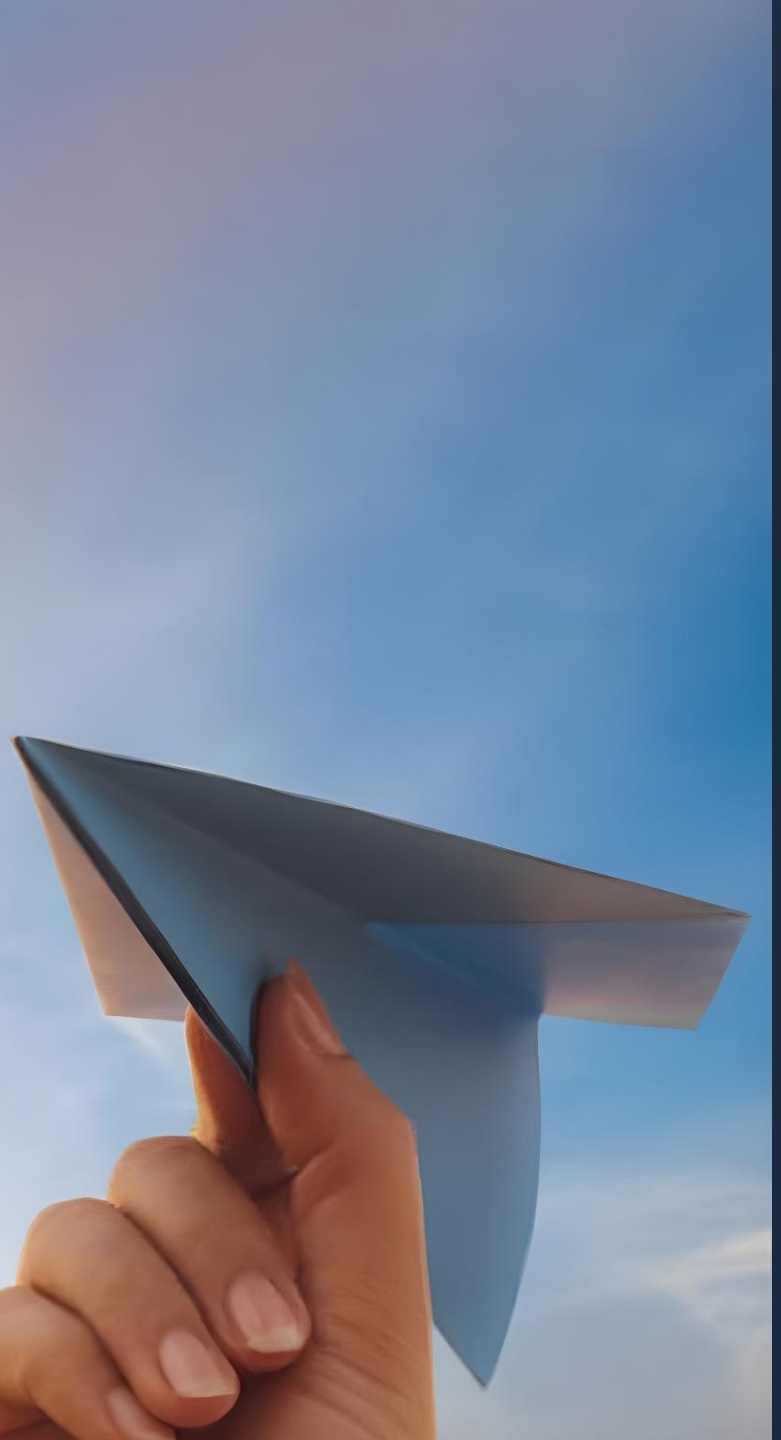
- International tourism
- Duty-free shopping
- All-for-One Tourism
  全域旅游



- Financial services
- Logistics
- Exhibition industry
- Business services
- Professional services
- International education
- Healthcare

- Modern seed industry
- Breeding and aquaculture
- Processing industry
- Leisure agriculture (fishery) agricultural service
- Coconut trees
- Rubber trees
- Areca nut trees)

- Digital economy
- Petrochemical new materials
- Modern biopharmaceuticals
- Nanfan breeding
- Deep-sea technology
- Aerospace technology
- Clean energy
- Energy conservation and environmental protection
- High-end food processing



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Future-Proofing Compliance and Global Alignment

The "New Arbitration Law" (Effective March 1, 2026)



Focus: Aligning dispute resolution with international standards.

- **Ad Hoc Arbitration:** For the first time in Mainland China, foreign-related disputes between Hainan-registered entities can now use *ad hoc* arbitration (arbitration without a fixed institution), a standard practice in global maritime and trade.
- **Foreign Arbitral Institutions:** Hainan now allows world-class foreign institutions (e.g., SIAC, HKIAC) to establish branches on the island to conduct "foreign-related" arbitration directly.
- **"Kompetenz-Kompetenz" Principle:** Under the 2026 Law, arbitral tribunals in Hainan have expanded power to determine their own jurisdiction, reducing the need for court intervention—a major alignment with the UNCITRAL Model Law.
- **Compliance Action:** Review all "Governing Law" and "Dispute Resolution" clauses in vendor and JV contracts to specify Hainan as the **Seat of Arbitration**.

Data Governance & Cross-Border Flows



Focus: Navigating the "Digital First Line."

- **Tiered Data Security:** Following the January 1, 2026, *Certification Measures*, Hainan has implemented a "Green Channel" for data. Non-sensitive personal information can be exported with simplified "Standard Contractual Arrangements."
- **Data Negative List:** Hainan maintains a specific "Negative List" for data. If your data (e.g., R&D, logistics, or HR) is not on this list, outbound transfer is significantly streamlined compared to the Mainland.
- **Certified Data Processors:** Foreign firms can now apply for **Personal Information Protection Certification** via local Hainan authorities, which acts as a "passport" for seamless data movement between a Hainan HQ and global offices.
- **Compliance Action:** Conduct a "Data Mapping" audit to identify if any datasets fall under "Important Data" (which still requires a Security Assessment).

ESG & "Green Transition" Alignment



Focus: Meeting the 15th Five-Year Plan (2026-2030) sustainability goals.

- **Carbon Neutrality Pilot:** Hainan is the first province to implement a mandatory "Green Supply Chain" disclosure for large foreign trade enterprises.
- **The "Three Sets of Three" Framework:** Alignment with global ESG standards (e.g., ISSB) is now rewarded with faster customs clearance for "Green Label" goods.
- **Yazhou Bay "Silicon Valley":** Specific compliance incentives exist for companies in biological breeding and tropical agriculture that adopt global IP standards for seed varieties.
- **Compliance Action:** Integrate Hainan-specific ESG metrics into your annual CSR report to qualify for "Low-Carbon Enterprise" preferential financing from local EF (Free Trade) accounts.

Institutional Modernization & IP Protection



Focus: Protecting intangible assets in a "Domestic-Offshore" zone.

- **Dedicated IP Court:** The Hainan IP Court now has jurisdiction over specialized technical cases (patents, plant varieties, software) with a mandate to align damages with international benchmarks.
- **WIPO Collaboration:** Since the 2025 closure, Hainan has expanded its cooperation with the **World Intellectual Property Organization (WIPO)** for talent training and mediation services.
- **Market Access Upon Commitment:** For non-sensitive sectors, the "pre-approval" system has been replaced by a "commitment" system. You certify compliance upfront; the government audits later.
- **Compliance Action:** Utilize the "One-Stop" International Commercial Dispute Resolution Center in Sanya, which integrates mediation, arbitration, and litigation into a single filing process.

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