

The Urgent Need to Abolish of Tariffs and VAT on imported works of art : Thoughts on the Tax Audit Scandal

Zhang Lin

Chairman of the Board, CEO of Shanghai Museum of Glass

The tax scandal of late April 2012 has triggered debate within the art industry about the taxation of imported works of art. For years, people have been calling for tax rates on artworks imported into mainland China to be lowered. In my opinion, the Chinese government should abolish tariffs and VAT on them altogether.

Firstly, a 6% tariff and a 17% VAT on imported works of art are unreasonable. As I understand it, most countries and regions in the world, including the U.S., Canada, New Zealand, South Korea, Belarus, Hong Kong and Taiwan, don't impose tariffs on imported works of art. The Kingdom of Morocco imposes a mere 1.25% tariff, while the U.K. doesn't impose one at all and only charges 5% import VAT. China now ranks among countries whose GDP per capita is 5000 USD. Now that basic standards of living have been maintained, people have increasing expectations when it comes to their spiritual lives - yet any enjoyment in this regard has been severely limited by such high tax rates on art.

Museums, galleries and other non-profit organizations serve as a link between Eastern and Western culture and art, and import works of art for the purposes of collection and exhibition rather than for profit. And yet, they are not exempt from the 6% tariff and 17% VAT, which is an obstacle to the promotion of art. Let's say a museum plans to import a collection of artworks worth 1 million RMB and they have to pay a tariff of 60,000 RMB and VAT of 170,000 RMB. This extra 230,000 RMB in tax significantly increases the cost of collecting works of art. Wouldn't this money be better spent on buying other works to be exhibited?

Secondly, imposing tariffs and VAT on works of art will inhibit their circulation. As the traditional Chinese saying goes, people collect antiques in times of peace but they gather gold in times of turmoil. Since the price art is influenced by economic and social factors and constantly fluctuates, the galleries- the operators of works of art - have been taking big risks in doing business. That's why they have no choice but to get involved in tax fraud, tax avoidance and illegal tax evasion. Driven by huge profit margins, those people try to avoid high tax rates and end up in jail.

Finally, the development of art in China will fall behind international levels due to the barriers of high tax rates in the circulation of works of art. According to the Notice of the Customs Tariff Commission of the State Council on the Tariff Execution Plan 2012 issued by the Customs Tariff Commission of the State Council of China, starting from 2012 tariffs on three types of artwork will be temporarily cut to 6% for one year. Even though tariffs on artworks were relatively high compared to other countries, according to The Annual Report for Chinese Art Market 2010 published by the Department of culture markets under the Ministry of Culture, China's art market grew rapidly in 2010, with trade volume reaching 169.4 billion RMB. This is an increase of 41% from 2009, and trade volume of China's art market accounted for 23% globally - the second only to the U.S. As industry experts have pointed out, the trade volume of the cultural market in 2011 saw further growth, reaching 200 billion RMB. If the tariffs and VAT can be abolished, the development of cultural market will accelerate, driving the domestic economy and the internationalization of the Chinese cultural market.

In addition, this suggestion is in line with the orientation of China's cultural industry. The Chinese government has been self-contradictory in both giving subsidies to encourage the development of culture and art, and then imposing such high tax rates. This has prevented world-class works of art from entering the Chinese market, much hindering the cultural exchange between China and Western countries. During the 12th Five-Year Plan (2012-2015), a great number of museums have been built with the government's financial support. Though well-equipped, these museums fail to perform their role as exhibitors art. For example, one museum that has recently gained fame because the architect who designed it won the 2012 Pritzker Architecture Prize, exhibits nothing novel and inspiring inside its simple but creative architecture. It failed to live up to international standards and attract tourists. And it's not alone: most museums and art museums in China fail to perform their function in exhibiting art because the government ignores the "software" while attaching great importance to the "hardware".

In today's world of globalization and international trade, China should catch up and abolish tariffs and VAT on works of art to stimulate their circulation. This would also encourage the introduction of outstanding overseas works of art into China, which would provide unparalleled enjoyment in people's spiritual lives.