

Original Research Article

Lagging dividends: The realistic dilemma and reform suggestions for the tax-free car policy for overseas returnees

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Abstract: With the widespread adoption of new energy vehicles (NEVs) and the significant increase in the localization rate of the automotive industry, the tax-free car policy for overseas returnees is currently facing severe "functional failure." This paper analyzes the disconnection between the regulatory logic of "imported parts" and the current industrial reality, which hinders the inclusion of domestic brands. Furthermore, it examines how universal green tax incentives and market price wars have triggered a crowding-out effect and price inversion regarding the exclusive benefits of the policy. To restore the incentive efficacy of the policy, this paper suggests abolishing the restriction on imported parts, shifting the approval focus to tax authorities, and extending the policy's validity period to align with the development of New Quality Productive Forces.

Keywords: tax-free car for returnees; institutional mismatch; reform suggestions

1. From scarcity to surplus: Policy origins and macro-environmental upheaval

In October 1992, as China's reform and opening up entered a critical deepening phase, seven national ministries jointly established a preferential system for "returning overseas personnel purchasing cars for personal use." This initiative aimed to bridge the gap in living standards for high-level overseas talent and incentivize their return. In an era when a Volkswagen Santana cost over 100,000 RMB and was scarce, and the domestic automotive industry was in a nascent stage of "trading market for technology" with an extremely low localization rate (the initial localization rate of the Santana was only 2.7%), the core logic of the policy was "double tax exemption": exemption from customs duties on imported parts and exemption from the vehicle purchase surcharge. This policy not only provided returnees with significant material dividends but also constructed a state-recognized identity signal, greatly enhancing the nation's appeal to overseas talent.

However, more than thirty years later, the macro environment on which the policy relied has fundamentally reversed. First is the surge on the demand side; the returnee demographic has transformed from an early "scarce elite" to a massive "new middle class." According to the latest statistics from the Ministry of Education, the number of Chinese students returning from abroad reached 495,000 in 2024, a year-on-year increase of 19.1%. From 1978 to 2024, the cumulative number of returnees reached 6.44 million, with 87% returning since the 18th National Congress. Second is the disruption on the supply side; China's automotive industry has ushered in explosive growth centered on New Energy Vehicles (NEVs). Local brands such as BYD, Li Auto, and NIO have risen comprehensively in technology and sales volume, while the market share of joint venture brands, once the primary subject of the tax-free car policy, continues to shrink. Against this backdrop, the current policy remains constrained by a framework from thirty years ago. Not only has its coverage narrowed, but its incentive efficacy has also rapidly declined under the dual pressure of universal tax policies and market price wars, reducing what was once a "privilege" to a benefit of negligible value.

2. Institutional mismatch: Lagging regulatory logic and the absence of domestic brands

The most significant institutional obstacle facing the current tax-free car policy is the severe lag in its regulatory logic. The policy stipulates that only domestic cars containing imported parts are eligible for the

tax-free catalog, a rule originally intended to exempt tariffs on those specific components. However, in today's highly localized supply chain, this regulation has evolved into a barrier preventing "New Quality Productive Forces" from entering the policy pool. Compared to the single-digit localization rates of the early 1990s, the supply chains for mainstream Chinese models in 2025 are highly autonomous and controllable. For instance, the localization rate of Tesla's Shanghai Gigafactory has exceeded 95%. This creates a paradox: the more advanced the technology and the higher the degree of autonomy a domestic car possesses, the less likely it is to meet the preconditions for customs supervision due to the near absence of imported powertrains.

A review of the 2025 Tax-Free Model Catalog released by CNSC reveals that brands are primarily concentrated in traditional joint ventures such as FAW-Audi, BMW Brilliance, and Volvo Asia Pacific. Conversely, global sales leaders like BYD (Dynasty/Ocean series), as well as brands with fully independent intellectual property rights like Li Auto and XPeng, are almost entirely absent. This phenomenon of "being penalized by policy due to technological progress" means that advanced enterprises with higher localization rates find it harder to enjoy national talent policy dividends, constituting institutional discrimination against independent innovation. This not only restricts the vehicle choices available to returnees—forcing a binary choice between "enjoying the policy to buy old joint-venture technology" and "forgoing the policy to buy new domestic technology"—but also creates a macro-level divergence between policy orientation and the national strategy of "supporting independent brands."

3. Incentive failure: Crowding-out by universal policies and market price inversion

Beyond regulatory barriers, the lack of economic viability is a direct cause of policy failure. To promote green development, the state has implemented universal purchase tax exemptions for new energy vehicles. According to the Ministry of Finance announcement, NEVs purchased from 2024 to 2025 are exempt from purchase tax (capped at 30,000 RMB); those purchased from 2026 to 2027 are taxed at half the rate. This universal policy has effectively filled the "moat" of the returnee policy. For mainstream NEV models priced under 339,000 RMB (such as the Tesla Model Y or Zeekr 001), ordinary consumers already enjoy "zero purchase tax" under the universal policy. Consequently, if a returnee uses their valuable tax-free quota to purchase the same vehicle, the additional tax benefit received is zero. Currently, the policy effectively holds a comparative advantage only when "purchasing traditional fuel vehicles" or "purchasing high-end NEVs priced over 340,000 RMB." This creates an awkward orientation: the policy objectively "rewards" the consumption of higher-emission fuel vehicles while "punishing" or "ignoring" green consumption that aligns with the national "Dual Carbon" strategy.

Even more critical is that violent price fluctuations in the terminal market have rendered the official "tax-free price" uncompetitive in many instances. Returnees must purchase directly from manufacturers, and price adjustments often lag behind the rapidly changing market. In early 2025, influenced by industry destocking, luxury brands initiated a price war. Data from Zhongqi Chengyi shows that although the tax-free price of the Mercedes-Benz GLC was lowered by 53,000 RMB, terminal discounts at 4S dealerships during the same period were often deeper. For example, if a joint venture model has a comprehensive discount of 80,000 RMB at a 4S dealership, while the official tax-free price is only 50,000 RMB lower than the guide price—And the returnee must also pay an agency fee of approximately 2,000–3,000 RMB plus bear the cost of time—Then utilizing the tax-free channel actually becomes "more expensive" than purchasing as an ordinary consumer. This "discount inversion" phenomenon directly leads rational returnees to abandon their applications, resulting in a significant decline in the policy's actual execution rate.

4. Reform paths and conclusion: Building an incentive mechanism for the new era

Faced with the aforementioned "institutional mismatch," mere patching of the tax-free car policy is insufficient; pragmatic reconstruction is required at both the logical and executive levels. The primary task of reform is to break the "import-part-centric theory." With tariff dividends now negligible, the practical

significance of customs supervision has significantly diminished. It is recommended that the Ministry of Industry and Information Technology join forces with the General Administration of Customs to issue guidance unconditionally including the "top 20 domestic NEV brands by annual sales" in the tax-free car catalog. For models without imported parts, the purchase tax should be directly exempted without conducting a fictitious "tariff calculation." This will bring models representing New Quality Productive Forces, such as BYD and Li Auto, into the policy scope, thoroughly solving the dilemma of "no domestic goods available" for returnees.

Simultaneously, there should be a push to transfer approval authority from "Customs Supervision" to "Tax Services," realizing the digitalization and disintermediation of the process. The current mode, which requires handling Customs Seals through intermediaries and picking up cars across regions, adds significant hidden costs. It is suggested to utilize the "Individual Income Tax" APP to develop a "Car Purchase for Returnees" module, integrating degree verification with tax systems. Returnees could claim an online "Electronic Car Purchase Voucher" and deduct the purchase tax directly at any authorized 4S dealership. This would not only break the logistics bottleneck caused by "factory direct sales" and allow returnees to enjoy immediate car availability but also align with the recent market trend of "zero agency fees." Furthermore, considering the immense pressure returnees face regarding employment and settling down in the early stages of returning, and the massive stock of returnees (87% returned since the 18th National Congress), it is recommended to extend the application validity period from "within one year of the first entry after graduation" to 3–5 years after returning, and to remove the "first entry" restriction. This will greatly alleviate the "car purchase anxiety" of returnees and release consumption potential suppressed by the closing of the time window.

In summary, the tax-free car policy for overseas returnees was once a beacon in the early days of reform and opening up. However, facing an army of 495,000 returnees in 2024, this beacon has dimmed due to institutional lag. Data indicates that the coverage of universal tax policies and the rise of independent brands have rendered the original policy completely ineffective in specific areas. Shifting from "regulating imported parts" to "supporting independent brands," and from "privileged approval" to "universal service," is not only the policy's self-redemption but also a powerful response to the "Dual Carbon" goal and the strategy of strengthening the nation through talent. Only through reform can this policy, which embodies national care, truly benefit the vast number of returning students.

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