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Revision to the Chinese VAT Export Refund

In China, companies are required to pay Value Added Tax ("VAT") on goods purchased locally in China. If those goods are subsequently exported, the exporter could apply for a refund of the VAT paid. The export VAT refund rates are varied depending on the types of goods exported, in which VAT could be refunded fully, partially or even with no refund at all.

On 14 September 2006, the Ministry of Finance, the National Development and Reform Commission, the Ministry of Commerce, the General Administration of Customs and State Administration of Taxation jointly announced that China has further reduced the export VAT refund rates for certain items, which would lead to further increases in the absolute costs for exporters in China. These newly announced revision of VAT export refund rates have come into effect on 15 September 2006.

The revision

The revision in the export VAT export refund rates could be categorized into the following three categories (by product groups): (a) products where export VAT refunds have been abolished; (b) products where export VAT refund rates have been reduced; and (c) products where export VAT refund rates have been revised upwards.

Abolishment of VAT export refund

1. All non-metallic products (except salt and cement) listed in Article 25 of import and export Tariff Regulation, coal, natural gas, olefin, bitumen, silicon, arsenic, stone materials, non-ferrous metals as well as certain scrap materials.
2. Metallic ceramic, 25 types of pesticide and their intermediary products, certain finished products of leather, lead-acid battery and mercuric oxide battery.
3. Thin fleece of goat, charcoal, crosstie, cork products, certain processed primary wood products.

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Decrease in VAT export refund rates

1. Refund rate for steel products under 142-tariff heading has been reduced from 11% to 8%.
2. Refund rate for ceramic products, certain finished products of leather and glass products has been reduced from 13% to either 11% or 8%.
3. Refund rate for certain non-ferrous metallic materials has been reduced from 13% to either 5%, 8% or 11%.
4. Refund rate for textile, furnishings, plastic, lighter, and specific wood products has been reduced from 13% to 11%.
5. Refund rate for non-mechanically propelled vehicles and certain component parts has been reduced from 17% to 13%.

Increase of VAT export refund rates

1. The refund rate for significant technical equipments, certain IT products, and bio-medical products as well as certain "encouraged" high-tech products has been increased from 13% to 17%.
2. The refund rate for selected processed products made from agricultural products has been increased from 5% or 11% to 13%.

Rationale

Apart from attempting to address the issues of high consumption and high pollution in China, Chinese high favorable balance of trade also contributed to the revision of VAT export refund rate. The General Administration of Customs has announced that based on the trading data of August 2006, another record high trade surplus of US\$18.8 billion was recorded in August 2006. This is the 28th consecutive month where favorable balance of trade was recorded.

Facing with the continuing high favorable balance of trade that attracted critics from various parties, Mr. Bo Xilai, the Minister of the Ministry of Commerce, has indicated that China has been considering various ways to reduce the high favorable balance of trade. The recently announced revision of VAT export refund rates may be considered as one of China's efforts in addressing this issue.

Conclusion

In conclusion, this revision represents another structural change to the VAT export refund policy of China. The Chinese government will be using it to direct and monitor economic activities.

The revision has raised the VAT cost for businesses exporting “high energy consumption and high polluting” products while eliminating or reducing the VAT cost on the exportation of goods that fall under the “high technology and other encouraged industries”. At the same time, it is also hope that the revision could reduce the pressure on an upward revision of the Renminbi.

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