New Revision of the Export VAT Refund Rates structure

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The Ministry of Finance and State Administration of Taxation jointly issued Cai Shui [2007] No.90 ("Circular 90") on 18 June 2007, which brings significant changes to China's export VAT refund rates. The underlying reason is that China is facing increasing pressure from trading partners to reduce its trade surplus. Additionally, China is becoming increasingly concerned about resources preservation and environmental protection, which is reflected in the export refund rate adjustments as indicated in Circular 90. Circular 90 involves 2,831 types of commodities, which account for around 37% of the commodities as indicted in the customs tariff code. The commodities involved could be classified into three categories:

A. A Cancellation of export refund mainly for:

- -- Base metals, minerals and their products
- -- Animal and vegetable products
- -- Some chemical products
- -- Leather
- -- Wood and wooden products

B. B Reduction of the export refund rate mainly for:

- -- Vegetable oil
- -- Some chemical products
- -- Plastic, rubber and their products
- -- Suit cases and bags
- -- Some leather products
- -- Paper products
- -- Garment, hats and shoes, umbrellas
- -- Ceramic, glass products, jewelries and precious metal products
- -- Electrical and mechanic appliances
- -- Furniture, watch and clock, toys

C. C Export VAT exemption mainly for:

- -- Peanuts
- -- Paintings
- -- Stamps

The commodities are mainly high-energy consuming and polluting, low value adding, or were frequently involved in the recent anti-dumping cases. The adjusted export VAT refund rates will come into effect on 1 July 2007. Exporters of the commodities specified in Circular 90 should carefully reassess the VAT implications and the costs of the commodities. Generally, for commodities classified under Category A, the exporters will not be able to claim back any input VAT, or the export might be deemed as domestic sales hence output VAT applies; for commodities classified under Category B, the exporters would have to absorb the reduced export refund as their cost; while for commodities classified under Category C, the corresponding input VAT could not be claimed back as well.