

Further Round of Uplifting VAT Export Refund Rates

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As a measure to help the Chinese export-oriented enterprises withstand the current global economic crisis, support labor-intensive medium-sized and small-sized enterprises as well as upgrade of various industries, the State Administration of Taxation and the Ministry of Finance jointly issued a notice, Caishui [2008] No. 144 ("Circular 144"). This is the third time in 2008 that the Chinese Government has increased the VAT export refund rates. Our last article analyzed the second round of VAT export refund rates increase stipulated in Caishui [2008] No.138 ("Circular 138" was released on 21 October 2008) by setting out its major contents, impact and our suggestions. The adjustment for the third round involves certain labor-intensive products, electrical appliances and other products in the total of 3770 items of commodities. Circular 144 becomes effective on 1 December 2008.

1. Categories of Commodities Being Adjusted

The VAT export refund rates of the following commodities are being adjusted:

- * The VAT refund rate for certain rubber tires and forestry products will increase from 5% to 9%;
- * The VAT refund rate for some metal stamping molds and glassware will increase from 5% to 11%;
- * The VAT refund rate for some types of frozen shrimp and crab will increase from 5% to 13%;
- * The VAT refund rate for certain bags, shoes, maps, umbrellas, furniture, bedding, lights and watches will increase from 11% to 13%;
- * The VAT refund rate for certain toothpaste and related chemical products, stone materials, aluminum boards and the related non-ferrous metal product will increased from 5% and 9% to 11% and 13% respectively;
- * The VAT refund rate for certain agriculture pumps, motorbikes and home appliances will increase from 9% to 11%, 11% to 13% and 13% to 14%.

For the detailed commodity list, please refer to the annex of Circular 144.

2. Our Observation and Suggestion

The uplifting of VAT export refund rates will reduce the production costs of exported-oriented enterprises and strengthen their competitiveness. At the same time, enterprises should pay attention to their VAT compliance for the purposes of complying with the latest PRC tax regulations and fulfilling the requirements of PRC tax authorities. It is not uncommon that enterprises may not present sufficient and valid documentation such as export invoices, customs clearance records, foreign exchange receipts and verification / cancellation forms etc.

to the PRC tax authorities so as to obtain VAT export refund. Besides tax compliance, enterprises may evaluate the mix of their domestic sales and export sales, choice of the location of their operations, flow of supply chain and other factors in order to make use of the preferential tax treatment to the maximum extent.

Enterprises are recommended to consult tax advisors to devise tax efficient operational structure and perform regular tax health checks.