

China Increases the Export Value-Added Tax Refund Rates for Textile Products, Certain Electronic Products and Other Commodities

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In order to alleviate the financial difficulties faced by enterprises under the current global economic crisis, the PRC Ministry of Finance and State Administration of Taxation jointly issued a notice, Caishui [2009] No.43 (hereafter referred to as "Circular 43") on 27 March 2009. Circular 43 sets out the type of commodities such as textile products, certain electronic products and other commodities, which can enjoy a higher export VAT refund rates since 1 April 2009.

For enterprises, which export commodities listed in Circular 43 and with an export date stipulated in the Export Commodity Customs Declaration Form (solely used for export VAT refund purpose) of 1 April 2009 or thereafter, they can enjoy the higher export VAT refund rates.

This is the sixth time the Chinese government has increased export VAT refund rates since the second half of 2008. Under Circular 43, the adjustment affects a number of commodities amongst 3,802 HS codes. The further raising of export VAT refund rates demonstrates the Chinese government's determination to make economic growth a top priority.

Commodities affected by Circular 43

Under Circular 43, the following commodities can enjoy higher export VAT refund rates:

- Export refund rates for CRT colour televisions, certain television spare parts and components, optical fiber cables, and uninterrupted power suppliers would be raised to 17%;
- Export refund rates for textile products and garments would be raised to 16%;
- Export refund rates for certain chemical products such as sodium hexafluoroaluminate, perfume, certain rubber products, certain leather products, paper products such as envelopes, articles made with porcelain or china, certain glass products such as glass moulds for CRT display, steel products such as precise welded steel, non-ferrous metal products such as aluminum profiles, certain rock drilling tools and metal furniture would be raised to 13%;
- Export refund rates for methanol (methyl alcohol), certain plastic products and products made from plastic, wooden products such as wooden frames for photos, glass products such as rear-view mirrors for vehicles would be raised to 11%;
- Export refund rates for certain chemical products, ceramics used for construction, sanitary ceramics, finished hardware such as padlocks and locks, copper plates and imitation jewelry would be raised to 9%;

- Export refund rates for calcium hydrochloride, hypochlorites and sulphates of zinc would be raised to 5%.

The detailed list of commodities, which can enjoy higher export VAT refund rates, is annexed to Circular 43.

Our Observation and Suggestion

The increase of VAT export refund rates would reduce the production costs of exported-oriented enterprises and strengthen their competitive capability. 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.

Enterprises should be diligent in presenting 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 wish to evaluate the mix of their domestic sales and export sales, the location of their operations, the flow of their supply chain, and other factors in order to make maximum use of preferential tax treatments.

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