PRC Government Removes Export Refunds on 406 Items

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On 22nd June 2010, China's Ministry of Finance and the State Administration of Taxation announced that export VAT refunds for 406 items are to be removed. Decree 57 (Caishui [2010] No. 57) carries the full details of the revocation, which comes into effect on 15th July 2010. According to Decree 57, the export date listed on the 'Customs Declaration Form (Export Refund Only)' should be used as the date of reference.

The 406 affected items are classified in one of the following six categories:

- Steel products
- Nonferrous metal products
- Silver powder
- Alcohol, cornstarch
- Pesticides, pharmaceutical and chemical products
- Plastic, rubber and glass products

These items tend to be high polluting, consume high levels of energy or use domestically- sourced scarce goods. The purpose of removing the refund is very clear - to discourage the export of these items.

Recent Trends in Export VAT Refunds

In the last five years, export VAT refund rates have undergone several adjustments. In 2007 the Chinese government significantly decreased and in some cases completely revoked export VAT rebates for more than 2800 items.

With the on-set of the financial crisis and global economic slowdown, this policy underwent a stepped-reversal in 2008 and 2009. During this period export refund rates for certain products were increased in the aim of encouraging export and maintaining China's competitiveness.

These latest adjustments indicate a return by the Chinese government to its long-term aims of improving the quality of exports and promoting environmental protection.

Impact on Exporters and LehmanBrown's Observations

Currently most of the 406 affected products receive either a 5% or 9% export VAT refund. The removal of the export VAT refund imposes additional costs on exporters of the affected products, especially for those who have signed fixed-price contracts.

We would suggest that companies whose business involves any of the 406 affected products revisit their financial modeling on the export sales. For those who are able to pass the additional costs arising from the cancellation of VAT rebate onto buyers, revision of pricing methodology can certainly mitigate the adverse effect on the profitability.

As commonly acknowledged, this recent VAT rebate policy change is actually a reflection of the Chinese government's intention to restrict the export of "high pollution, high-energy consumption and resource-dependent" products. It is therefore reckoned that more products related to those discouraged sectors may receive the VAT rebate cut or be revoked gradually in the future. Nevertheless, in general this shall not be viewed as a signal of fundamental changes in China's foreign trade policy.

For Chinese version:

http://www.chinatax.gov.cn/n8136506/n8136593/n8137537/n8138502/9747391.html