

# China alert

## Tax and regulatory developments

TAX

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## Adjustments to China's VAT Export Refund Rate

### In brief

- China's VAT export refund rates for selected products have been adjusted.
- This issue of *China alert* sets out the key products that will be affected.

### Relevant regulations discussed in this issue:

*Notice on Reduction of VAT Export Refund Rates for Certain Products*, Caishui [2007] No. 90, issued on 19 June 2007 by the Ministry of Finance and the State Administration of Taxation jointly, effective from 1 July 2007 (Circular 90)

### Key adjustments

A total of 2,831 categories of commodity, accounting for 37 percent of all the items subject to PRC Customs Import and Export Tariff (exports portfolio), will be affected by VAT export refund rate adjustments. The main details are as follows:

- **VAT export refunds will be abolished for 553 commodities**, most of which are produced by energy-inefficient methods, are highly polluting, or make use of scarce natural resources.

**Table I: Products for which VAT Export Refunds will be abolished**

Key items	Previous refund rate (%)
Animal and plant species that are susceptible to extinction and products thereof	13, 11, 5
Salt, solvent oil, cement, liquefied propane, liquefied butanes, LPG and other certain mineral products	13, 11
Fertiliser	13, 11, 5
Chlorine and dyes and other certain chemicals (not incl. refined chemical products)	13, 11, 5
Metal carbides and activated carbon	13
Leather	13, 8
Certain wood panels and disposable wood products	13, 11
Carbon-welded tubes (not incl. casing and pipes for oil pipelines)	13
Non-alloy aluminium bars and rods and other simple non-ferrous metal products	11, 8
Certain vessels and non-motor vessels	17, 11

- **VAT export refund rates will be reduced for 2,268 commodities**, most of which are considered to derive from labour-intensive or potentially over-heated industries, or relate to sectors affected by international trade friction.

<b>Table II: Products with reduced export VAT refund rates</b>		
<b>Key items</b>	<b>Previous refund rate (%)</b>	<b>New refund rate (%)</b>
Vegetable oils	13,11	5
Certain chemical products	17, 13, 11	9, 5
Plastics, rubber and products thereof	13, 11	5
Handbags; other leather and fur skin products	13	11; 5
Paper products	13	5
Garments	13	11
Footwear and headgear, umbrella, feather products	13	11
Certain stones, ceramics, glass, precious stones, pearls, precious metals and products thereof	13, 11, 8	5
Certain steel and iron products (not incl. casing and pipes for oil pipelines)	13	5
Other base metals and products thereof	13, 11	5
Machine tools for planing, shaping, slotting, broaching and gear-cutting; Diesel engines, pumps, fans, pressure-reducing valves and parts, rotary furnace, coking furnace, sewing machines, stapling machines, golf scooters, snow scooter, motor cycles, bicycles, trailers, windowpane raiser and the parts, taps, brazing machines	17, 11, 13	11; 9
Furniture	13,11	11, 9
Clocks and watches, toys and other miscellaneous products	13	11
Certain wood products	13, 11	5
Viscose fibre	11	5

- **VAT exemption will be applied to 10 commodities**, which previously received VAT export refunds.

<b>Table III: Export VAT exempt products</b>	
<b>Key items</b>	<b>Previous refund rate (%)</b>
Peanuts	5
Oil paintings	13
Engravings	13
Postage stamps	13
Stamps for stamp duty	13

## Contact us

For more information on these new regulations and how they may affect your company, please contact:

### Beijing/Qingdao

Khoonming Ho  
Tel. +86 (10) 8508 7082  
khoonming.ho@kpmg.com.cn

### Shanghai/Chengdu

John Lee  
Tel. +86 (21) 2212 3402  
john.lee@kpmg.com.cn

### Hangzhou

Martin Ng  
Tel. +86 (571) 2803 8081  
martin.ng@kpmg.com.cn

### Guangzhou

Bolivia Cheung  
Tel. +86 (20) 3758 9283  
bolivia.cheung@kpmg.com.cn

### Hong Kong/Shenzhen/Fuzhou

Peter Kung  
Tel. +852 2826 8080  
peter.kung@kpmg.com.hk

## Transitional relief

Circular 90 is effective from 1 July 2007. Based on the export date indicated on the "Customs Declaration Form for Export Goods (for export VAT refund purpose only)", products declared to customs on or after 1 July 2007 shall be subject to the new refund policy.

Circular 90 also provides a grandfathering provision by phasing in the new export VAT refund rates for certain exports, including:

- In case of contracts for the export of ships that are affected by Circular 90, the export enterprises may enjoy the old VAT export refund rates, provided that the following conditions are all met:
  - The contracts were signed before 1 July 2007
  - The contracts (both the original and a photocopy) are filed with tax authority administering VAT export refunds before 20 July 2007.
- Export enterprises which are qualified to undertake engineering projects overseas may continue to enjoy the old export VAT refund rates until their contracted projects are completed, provided that:
  - The bid for their existing long-term overseas contracted projects was awarded before 1 July 2007; and
  - Valid Bid Award Notifications (both the original and a photocopy) and project budgets are filed with the tax authority administering VAT export refunds before 20 July 2007; or
  - Long-term contracts for overseas project were signed before 1 July 2007 and the contract price cannot be altered; and
  - Long-term contracts (both the original and a photocopy) and the project budgets are filed with the tax authority administering VAT refunds before 20 July 2007.

**By Khoonming Ho, Partner and Charles Gong, Manager**

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