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Everything you need to know

 fumani@vetro.co.za  November 27, 2025

Understanding China's VAT Rebate Policy:

Talk To An Expert

- VAT rebates overview:
- Who is eligible for VAT rebates:

Foreign companies and their China subsidiaries that belong to specific categories are now eligible to apply for a full VAT refund. Here's everything you need to know about China's VAT rebate policy and whether or not your organisation is eligible.

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Chinese VAT rates vary from 3 to 13 percent for general taxpayers. However, if the input VAT exceeds the output VAT, at the end of each tax period, there will be an available VAT credit. Previously this was non-refundable and would be carried forward to be deducted in the next taxable period.

However, things are not as they were. In April 2019, China announced that certain eligible taxpayers could apply for a refund of their excess input VAT instead of carrying the total amount forward to the next taxable period.

Since this initial update, China has continued to make significant changes to its VAT reform policy. As it currently stands (October 2022), all qualified companies can apply for (incremental) VAT refunds on a month-to-month basis. Additionally, all companies that have carried forward previous VAT credits can now enjoy a once-off full refund of their total VAT credit due. These VAT refunds are geared towards helping enterprises in specific sectors facilitate cash flow and maintain stable macroeconomic performance. From April to May 2022, the VAT credit refunds totalled 1.34 trillion yuan.

However, eligibility criteria will still need to be applied to benefit from the updated VAT rebate policy.

Who is eligible for VAT rebates:

China's VAT rebate policy now applies to qualified micro and small firms (in all industries) and all qualified enterprises in 13 industries. Below is a list of eligible industries for the VAT rebate policy:

- Manufacturing
- Scientific R&D and technology services
- Electricity, heating, gas, and water production and supply
- Software and information technology services
- Ecological protection and environmental governance
- Transport, logistics, warehousing, and postal
- Wholesale and retail
- Agriculture, forestry, animal husbandry, and fishery
- Hospitality and catering
- Residence, repairs, and other services
- Education
- Healthcare and social work
- Culture, sports, and entertainment,

However, eligible enterprises need to keep in mind that there are additional criteria that need to be met in order to qualify for a VAT rebate. The tax authorities will prioritise micro and small enterprises, followed by medium and large enterprises. In addition, sales that fall into any one of the above industries must account for over 50 percent of a company's total VAT sales for them to qualify for VAT rebates.

Additional requirements include:

- Have an A or B tax credit rating
- No history of fraudulent activity regarding VAT in the 36 months prior to the application.
- Have not been penalised more than twice for tax evasion in the 36 months prior to the application.
- Have not utilised the preferential policy of “refund upon payment and return (refund) after payment” since April 1, 2019.

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