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4.5 Tax Rebate (Exemption) on Exports

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China adopts a preferential zero tax rate on exports. There is no export-related VAT or consumption tax, and consumption tax payment and part or whole of payments for VAT made in respect of the stages preceding export will be refunded subject to the types of goods.

4.5.1 Export VAT Rebate Rate

a. The export VAT rebate rates in China range from 0% to 17%

b. Export VAT Rebate Policy

Exemption and rebate: this mainly applies to the exportation of goods produced by production enterprises with export rights; or such goods exported by foreign trade enterprises as commissioned by foreign enterprises; the exportation of goods purchased by foreign trade enterprises; or the exportation of goods by agents commissioned by production enterprises or foreign trade enterprises.

Exemption but no rebate: this mainly applies to the re-export of goods processed with supplied materials; and other items exempted from VAT during the importation.

No exemption and no rebate: this applies to goods which are restricted or prohibited by China for export, labour services and cross-border taxable activities.

c. Requirements for Export VAT Rebate

The goods must be within the scope of VAT and consumption tax collection. The collection scope of VAT and consumption tax includes all VAT taxable goods other than tax-free agricultural products directly acquired from agricultural producers, as well as 11 categories of consumer goods such as tobacco, alcoholic drinks and cosmetics which are subject to consumption tax.

The goods must be declared as exports. There are two forms of exports: self-operated exports and commissioned agency exports. Where the goods are to be sold domestically and have not been declared as exports, unless otherwise specified, they are not regarded as export goods for tax rebate purposes regardless of whether the export enterprise concerned uses foreign exchange or renminbi for settlement, or regardless of how the export enterprise handles its finances.

Goods sold within China for foreign exchange, such as those in hotels and restaurants, do not meet the conditions for export from the country, so no rebate (exemption) of taxes will be granted.

The goods must be regarded as exports for sale for accounting purposes. Non-trade oriented exported goods such as donated gifts, goods purchased by an individual and brought out of the country (unless otherwise specified), samples, exhibits, mailings, etc are generally not treated as sale for accounting purposes and hence no rebate (exemption) will be granted.

The goods must be those for which foreign exchange has been collected and has been duly verified and written-off. Export tax exemption and tax rebate: applicable mainly to self-operated exports or commissioned agency exports of self-manufactured goods from manufacturing enterprises with export rights, or exports of goods acquired by foreign-trade enterprises or exports of goods commissioned by manufacturing enterprises or foreign-trade enterprises for agency exports.

d. Computation of Export VAT Rebate

The policy of “VAT exemption, deduction and rebate” applies to the exports of FIEs.

“Exemption” refers to the exemption of VAT on the production and sale stages of goods produced by production enterprises and exported by themselves or through foreign trade enterprises acting as their agents.

“Deduction” refers to VAT that have been paid on the raw materials, parts and components consumed in the production of the goods concerned, to be deducted from the VAT payable on goods for domestic sale.

“Rebate” refers to the refund of any balance of the offsetting input VAT of the current month exceeding the VAT payable of the export of self-

produced goods of a production enterprise.

e. Computation of VAT Exemption, Deduction and Rebate for Manufacturing Enterprises

The computation of VAT exemption, deduction and rebate on the exports of production enterprises is based on the FOB price and rebate rate of the exports. The FOB price specified in the export invoice should be the FOB price of the exports (if the goods are exported through an agent, the export invoice may be issued by the principal or the agent). For transaction prices with other terms and conditions, the freight, insurance premium and commission deductible under the accounting system can be deducted from the export sales. For any difference between the declared amount and the actual payment, adjustment will be made in the next rebate declaration or in the year-end settlement. If the export invoice cannot truly reflect the FOB price, the enterprise should declare the actual FOB price when applying for tax exemption, deduction and rebate. The tax authorities will ratify the application pursuant to the *Law of the People's Republic of China on the Administration of Tax Collection* and the *Provisional Regulations of the People's Republic of China on Value-Added Tax*.

**Tax payable for the current period (tax to be offset at the end of the current period) =
output tax of domestic sale goods for the current period – (current input tax – current amount of tax exemption, deduction and rebate not eligible for exemption and deduction)**

Computation of Tax Exemption, Deduction and Rebate

- **Amount of tax exemption, deduction and rebate =
FOB price of exports x applicable RMB exchange rate x export rebate rate – amount of tax exemption, deduction or rebate to be offset**
- **Amount of tax exemption, deduction and rebate to be offset = price of raw materials purchased duty-free x export rebate rate**
- Raw materials purchased duty-free include duty-free raw materials purchased domestically and materials imported duty-free for outward processing, and the composite assessable value of the latter should be their price.
- **Composite assessable value of materials imported duty-free for outward processing =
CIF price of goods + actual customs duty levied by Customs + actual consumption tax levied by Customs**

Computation of Current Rebatable Tax and Current Exemptible and Deductible Tax

- If:
Tax to be offset at the end of the current period \leq amount of current tax exemption, deduction and rebate

Then:

Current tax rebatable = tax to be offset at the end of the current period

Current tax exemptible and deductible = current tax exemptible and deductible – current tax rebatable

- If:
Tax to be offset at the end of the current period $>$ amount of current tax exemption, deduction and rebate

Then:

Current tax rebatable = amount of current tax exemption, deduction and rebate

Amount of current tax exemption and deduction = 0

Tax to be offset at the end of the current period refers to the tax to be offset at the end of the period as stated in the current Value-added Tax Return.

Computation of Amount of Tax Exemption, Deduction and Rebate Not Eligible for Exemption and Deduction

- **Amount of tax exemption, deduction and rebate not eligible for exemption and deduction =
FOB price of exports x applicable RMB exchange rate x (export levy rate – export rebate rate) – offset amount of amount of tax exemption, deduction and rebate not eligible for exemption and deduction**
- **Offset amount of amount of tax exemption, deduction and rebate not eligible for exemption and deduction =
Price of raw materials purchased duty-free x (export tax rate – export rebate rate)**

Unless under special circumstances and with the approval of the tax authorities, no monthly rebate method will be applied for the 12 months as from the date of the first export transaction on enterprises that newly commence export business. Instead the rebate will be carried forward to offset the taxable amount of their domestic sales in the next period. After 12 months, if the enterprises are regarded as small-scale taxpayers, they will be handled under the regulation for the small-scale taxpayers; for those non-small-scale taxpayers, the exemption, deduction and rebate method will be applied on a monthly basis.

For an enterprise that has been established for more than a year and newly commences export business (except small-scale export enterprise), the monthly exemption, deduction and rebate method may be applied upon confirmation by the tax authorities-in-charge that it has the production capacity and has not engaged in any tax evasion, smuggling or illicit foreign exchange activities.

The definition of small-scale export enterprise is subject to the state tax bureau at the provincial level in accordance with the actual situation of the province (autonomous region or municipality) concerned. The state taxation authorities often refer to the sum of the domestic and export sales ranging from RMB2 million to RMB5 million of the enterprise in the preceding tax year.

The monthly rebate method will not apply to the rebatable amount of a small-scale export enterprise during the course of a tax year, instead the rebate will be carried forward to offset the taxable amount of their domestic sales in the next period, any outstanding balance will be rebated at the year end.

4.5.2 Tax Rebate (Exemption) for Exports of Taxable Consumer Goods

Exports of taxable consumer goods involve the rebate (exemption) of both VAT and consumption tax, which are similar in terms of scope and processing, verification and administrative procedures.

a. Rebate Rate

Consumption tax rebate is computed at the consumption tax rate applicable to the taxable consumer goods, while VAT rebate is computed at a prescribed rate.

b. Rebate (Exemption) for Enterprises

Exemption and rebate: this applies to foreign trade enterprises with export rights.

Exemption but no rebate: this applies to production enterprises. Exemption refers to the exemption of consumption tax on the production stage based on the actual amount of export. No rebate is necessary because consumption tax, levied only on the production stage, has already been exempted. As such, when the goods are exported, their prices do not include any consumption tax. This is different to the provisions on VAT.

No exemption and no rebate: this applies to general commercial and trading enterprises.

4.5.3 Record Filing for Export VAT Rebate Eligibility

Export enterprises that have not completed tax registration are not entitled to any tax rebate or exemption for their exports. Export enterprises should, within 30 days of obtaining a foreign trade operator registration certificate and proof of industry and commerce registration issued by an industry and commerce administration department, complete record filing procedures for tax rebate eligibility with the local tax authority in charge of tax rebate by submitting the following documents:

- a. Export Rebate (Exemption) Record-filing Form;
- b. A Foreign Trade Operator Record-filing Form or a Certificate of Approval of the People’s Republic of China on Foreign-funded Enterprise which has been affixed with the registration seal;
- c. A registration certificate for the customs self-declaration entity issued by the Customs;
- d. A manufacturing enterprise engaged in export agency business without submitting a Foreign Trade Operator Record-filing Form should provide an export agency agreement, but is not required to provide the materials as specified in (b) and (c) above;
- e. Other documents as required by the tax authorities, such as export agency agreement.

4.5.4 Documents Required for Export Rebate Application

- a. Customs declaration form for import goods (specially for export VAT rebate);
- b. Invoice for export sales;
- c. Proof of forward foreign exchange settlement;
- d. Special VAT invoice;
- e. Other documents as required by state taxation authorities.

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