



Export Tax Rebates in China: Recent Changes and Risk Management

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Export tax rebates refer to refunds of the value-added tax (VAT) and consumption tax (CT) actually paid by the exporting enterprises on exported goods during the production and circulation process. While it is an important trade policy widely adopted by various countries to promote exports, enterprises might be exposed to certain risks and disadvantages when applying the policy. In this article, we will guide you through the recent changes in China's export tax rebates regime and provide suggestions on how to prevent and manage the risks in a practical way.

China's export tax rebates system: An overview

China began to implement the export tax rebates policy in April 1985 to enhance the country's competitiveness in foreign markets by eliminating double taxation on exported goods. In the past 30 years, the export tax rebates policy has gone through a lot of major reforms and changes, some of the most significant ones are discussed below.

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As to the export tax rebates rates, a graded export tax rebates system has been established. According to the *Circular about Adjusting Export Tax Rebate Rates for Some Products* (Caishui[2018]No.123), starting from November 1, 2018, the export tax rebates rate was raised by one percent to 16 percent, 10 percent, and six percent respectively. Beyond that, the grade of export tax rebates rates has been decreased from seven levels to five levels, making it easier for tax collection and management.

Export Rebate Rates Adjustment

Before November 1, 2018

16%, 15%, 13%, 10%, 9%, 6%, 0

After November 1, 2018

16%, 13%, 10%, 6%, 0

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In 2020, with many foreign trade enterprises exposed to severe challenges under the COVID-19 pandemic, China raised export tax rebates rates for certain products.

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According to the [Announcement about Raising Export Tax Rebate Rates for Some Products](#) (State Taxation Administration Announcement 2020 No.15), starting from November 1, 2020, the export tax rebates rate was raised by one percent to 16 percent, 10 percent, and six percent respectively.

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Previously, companies had to declare the export tax refund on time, or else they neither be able to enjoy export tax rebates, or alternatively enjoy the VAT exemption. As a contrast according to the Announcement about Issues Concerning Export Tax Rebate (Exemption) (State Taxation Administration [2018] No.16), starting from 2018, although companies cannot enjoy export tax rebates for the overdue declared goods, they still can enjoy the VAT exemption.

Moreover, the pre-declarations on export tax rebate and VAT exemption has been scrapped, and the requirement that export companies must submit VAT tax declarations, import declarations, export tax rebate declarations, as well as other relevant documents and records has been removed. It also canceled the Nil filing for manufacturing enterprises, which was to be submitted if there is no business.

The simplified declaration procedures of export tax rebates have improved the efficiency of the examination and approval process, making China's export tax process simpler and more convenient.

Shortened time on receiving the fund of export tax rebate

According to the revised **Announcement on Issuing the Revised Measures for Administration of Export Tax Refund (Exemption) Enterprises** (State Taxation Administration Announcement [2016] No.46), which became effective as of September 1, 2016, the maximum reviewing time for export rebates for Grade B and Grade C companies (categories recognized based on their size, credit, tax record, etc.) has been shortened to 10 days and 15 days, respectively, from the original 20 days.

In addition, in a State Council executive meeting, Premier Li Keqiang stated that "the government should further improve the efficiency of the export tax refund process, and shorten the review time for export tax rebates from 20 days to 10 days for Grade B companies and 15 days for Grade C companies."

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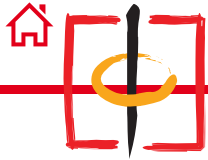
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policy changes, and the actual production of enterprises have been negatively affected as a result.

For example, the deadline of export tax rebates declaration has been extended, and the declaration frequency has been reduced. Since 2013, the declaration frequency has been reduced to one batch per month from the previous two batches per month. Due to this development, if the enterprise misses the declaration in one month, the review will be delayed to the next month, which may affect the tax and financial management of the enterprise.

Risk caused by the incapability of the staff who is in-charge of export tax rebates

In practice, if the staff who is in charge of managing the export tax rebates lacks a thorough understanding of China's tax system, does not possess the basic tax management skills, and does not have the basic sense of risk control, they may be unable to retain and prepare sufficient documents that are required in processing export tax rebates, or they may submit flawed receipts to the bureaus in charge without double checks, which may consequently lead to delayed export tax rebates or the failure of the application. The company will suffer losses as a result.

Risk caused by loopholes in company's own management

Company's internal control system is not well rounded

Internal control is important in ensuring the smooth application of export tax rebates and avoid unnecessary risks. To be more specific, internal control regarding export

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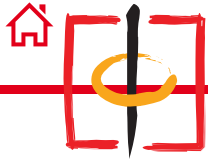
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Pay more attention to the selection of staff

Establish a sound internal control system

Improve the management of export tax rebates

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- > Take the initiative to cooperate with the export tax rebates verification

In practice, a company's internal control system might be deficient either because of cost efficiency considerations or because the significance of the internal control system is underestimated by its management. Loopholes in the company's internal control system could cause unnecessary lapses or losses to the business in terms of whether they are successfully able to utilize the preferential export tax rebates.

For example, a company's internal control system should investigate and verify the normal operation of the supplier and establish a standardized packing and loading vehicle monitoring and inspection system to ensure that the customs declared departure goods conform to the outbound goods and the goods listed in the bill of lading, and ensure the enterprise's receipt and payment of foreign exchange for export transactions. If the company's internal control system fails to do so, the authenticity of the export businesses cannot be ensured, which may impact the company's chances of applying export tax rebates.

Company's basic framework relating to export tax refund is not solid enough

In China, many enterprises tend to allocate most of their resources to production and can increase economic business and underestimate the importance of tax management. This may lead to a situation where the company fails to retain actual supporting data that might be required in export tax rebates, such as product code, source of origin, and the quantity of the product, etc. It will affect the success rates of the export tax rebates application.

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tracking. If the enterprise finds that managing this scanning internally is too they can opt for services from a professional third-party firm, which will save company more time for core business activities.

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After monitoring the updates, relevant staffs of the enterprises are suggested study the changes carefully and form a thorough understanding of the regulat its implications. Only in this way can the enterprise carry out any stipulated c properly in practice.

Moreover, enterprises are suggested to make corresponding modification wit procrastination on the basis of comprehensive consideration of the existing s and the new policy, so to reduce the potential risks in export tax caused by th changes.

Establish a wholesome tax rebate management system

Enterprises are suggested to pay extra attention to the rebates basic tax ref Although the basic tax work is relatively simple, it has strict requirements on which requires the practitioners to scrupulously manage the data filling, the information of goods, the amount of goods, etc. By carefully conducting cont review, delay or constant revision of the export tax rebates declaration can b

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knowledge and an acute understanding of the enterprise's financial business, as have possess cross-industry professional knowledge and sensitivity to the regulations on export tax rebates. Therefore, the training provided to them should be comprehensive, rather than limited to tax only updates. They should also be able to develop a unified risk control standard in export tax rebates and successfully implement it in daily operations.

Summary

Managing export tax rebate is an important topic for, both, foreign trade enterprises and China's national economic system. However, it brings with it potential risks of financial loss to enterprises if their export tax rebates are managed improperly due to the incapability of the staff in charge or due to the deficient company internal institutions.

Only by closely monitoring the regulatory updates in the regime, carefully studying changes, continuously providing due training to its employees in charge, and by improving the company's internal control system, the enterprise can effectively reduce the risk in export tax rebates to the largest extent, safeguard the due financial benefits of the enterprise, and avoid any unnecessary financial losses.

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*China Briefing is written and produced by **Dezan Shira & Associates**. The practice assists foreign investors into China and has done so since 1992 through offices in Beijing, Tianjin, Dalian, Qingdao, Shanghai, Hangzhou, Ningbo, S*

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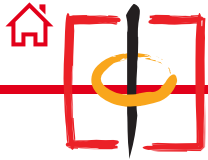
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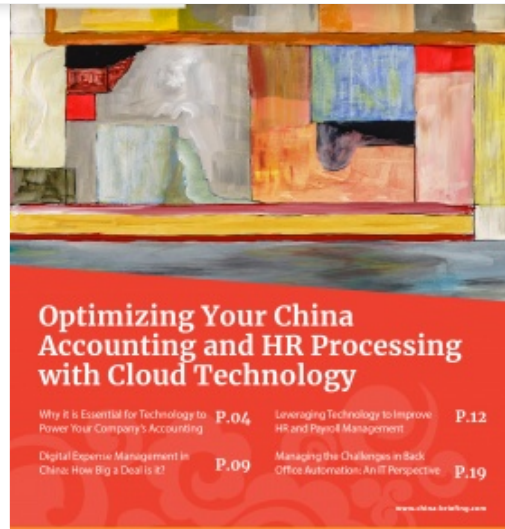
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