

# China Tax & Investment News

## China adjusts Value-Added Tax refund policy to bolster ailing export amid the global economic downturn

Export Value-Added Tax refund rates of certain commodities to be raised on 1 November 2008

### Executive summary

The current global financial instability that has emerged a little more than a year ago would no doubt pose a threat to the world's economic well being. Although Mainland China is not at the epicenter of the crisis, it appears inevitable that the Chinese economic growth would also be tainted by the credit crunch happening around the world. As indicated by both the Ministry of Finance (MOF) and the State Administration of Taxation (SAT) on 21 October 2008, the percentage growth in export declined in the first nine months of 2008 when compared with the same period in 2007<sup>1</sup>.

The central government has already reacted by cutting the interest rates twice in three weeks in order to reduce borrowing costs for companies in the Mainland, and easing the commercial banks' reserve requirement ratio to increase market liquidity, as well as exempting Individual Income Tax on interest. Meanwhile, a number of local governments have also announced policies to stabilize the real property market.

To ease the current economic pressure on Chinese companies in labor intensive and highly competitive industries, the MOF and the SAT jointly issued a circular, Caishui [2008] No. 138 ("Circular 138"), on 21 October 2008 to increase export Value-Added Tax (VAT) refund rates for certain textile, apparel, toy, ceramic, plastic, furniture and other products. The lift in the export VAT refund rates will come into force on 1 November 2008.

You can have access to a copy of Circular 138 and a catalogue of products subject to the revised export VAT refund rates (in Chinese) via the following URLs:

Circular 138:

<http://www.chinatax.gov.cn/n480462/n480513/n480902/8165504.html>

Product catalogue:

<http://www.chinatax.gov.cn/n480462/n480513/n480902/n8165504.files/n8165493.xls>

The catalogue issued is in Chinese. In the interest of time, we do not provide an English translation of the catalogue as it covers a lot of specific names of products.

This issue of China Tax & Investment News (the "News") reports on the adjustment of export VAT refund rates brought about by Circular 138 and what may come next.

### **Increase in export VAT refund rates**

Circular 138 adjusts the export VAT refund rates on 3,486 commodities which constitute approximately 25.8% of total commodities listed in the Directory of Customs Import and Export Tariff of the People's Republic of China.

Circular 138 basically increases export VAT refund rates on two categories of products: firstly, labor-intensive commodities; and secondly, high-tech and high value added goods.

The increased export VAT refund rates of the following items effective on 1 November 2008 will be:

1. Certain textiles, apparels and toys: 14%
2. Ceramic products (including consumer products and works of art): 11%
3. Certain plastic products: 9%
4. Certain furniture: 11% or 13%
5. Medicines for Human Immunodeficiency Virus, recombinant human insulin powder, xanthan gum, toughened safety glass, tantalum wires of capacitors, anchor chains for ships, sewing machines, electric fans, certain cutting blades of metal carbides, certain printed books, notebooks, etc: 9%, 11% or 13%

### **What to expect next**

As the global financial market may continue to affect the economic growth of Mainland China, it is almost certain that the Chinese policy makers will closely monitor the healthiness of the country's economy and may announce further regulatory measures to safeguard the country's economic well being. Company executives should stay tuned for further changes in Chinese taxation and business regulations.



[1] The website of the MOF: Joint press release issued by the MOF and the SAT regarding the increase in export VAT refund rates for certain commodities, 21 October 2008.

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