



DEZAN SHIRA & ASSOCIATES

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China Export VAT Refund Policy

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Content

- **An Overview of Value-added Tax (“VAT”)**
- **An Overview of VAT Refund Policy**
- **General Process of VAT refund**
- **Record-filing Documents for Export Tax Refund**
- **Foreign Exchange Policy for Export Tax Refund**

★ An Overview of Value-added Tax (“VAT”)

Taxable items

The sales or importation of goods, the provision of services, and the sales of intangible properties and immovable properties are subject to VAT.

Taxpayer

Taxpayers are classified as VAT General taxpayer and VAT Small-scale taxpayer.

VAT rates

VAT rates for VAT Small-scale taxpayer: 3% on revenue;
VAT rates for VAT General taxpayer : 0%, 6%, 9%, 13% depending on taxable items.

★ An Overview of Value-added Tax (“VAT”)

Calculating VAT payable

VAT small-scale taxpayer

$$\text{VAT Payable} = \text{Taxable Income} * \text{VAT Levy Rate}$$

VAT General taxpayers

$$\text{VAT Payable} = \text{Output VAT} - \text{Input VAT}$$

$$\text{Output VAT} = \text{Sales} * \text{VAT Rate}$$

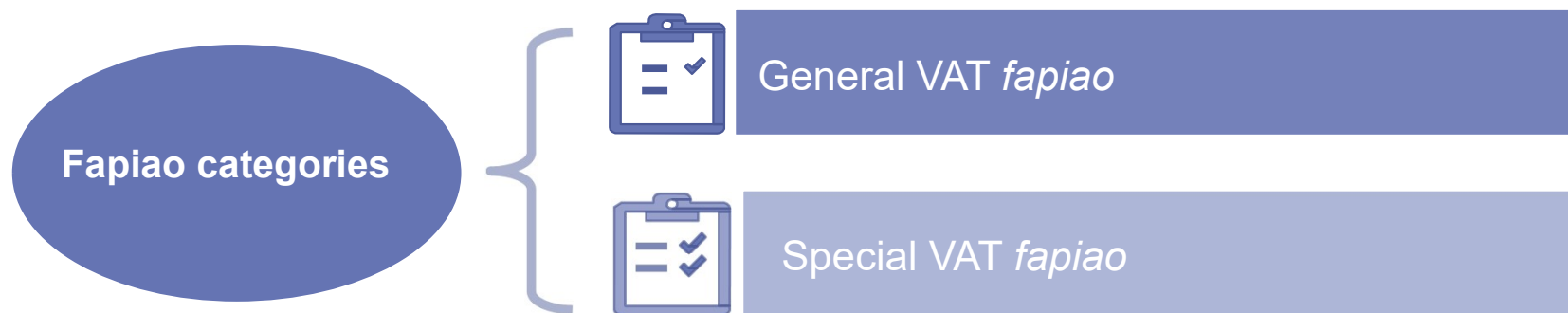
Input VAT is the VAT amount paid or borne by a taxpayer for procurement of goods, labor services, services, intangible assets, and immovables

★ An Overview of Value-added Tax (“VAT”)



VAT invoices (*fapiao*)

- The *fapiao* is the original accounting document for a taxpayer to support the legitimacy of their activities; and
- The *fapiao* is used by the authorities to track transactions for tax purposes and avoid tax evasion.
- The *fapiao* is one of the important documents for applying VAT rebate.



- **An Overview of VAT Refund Policy**



• An Overview of VAT Refund and Exemption



NOTE Except where otherwise stipulated by the State Council



An Overview of VAT Refund for Export Goods - Scope

The following exported goods and services shall be subject to exemption and refund of VAT:

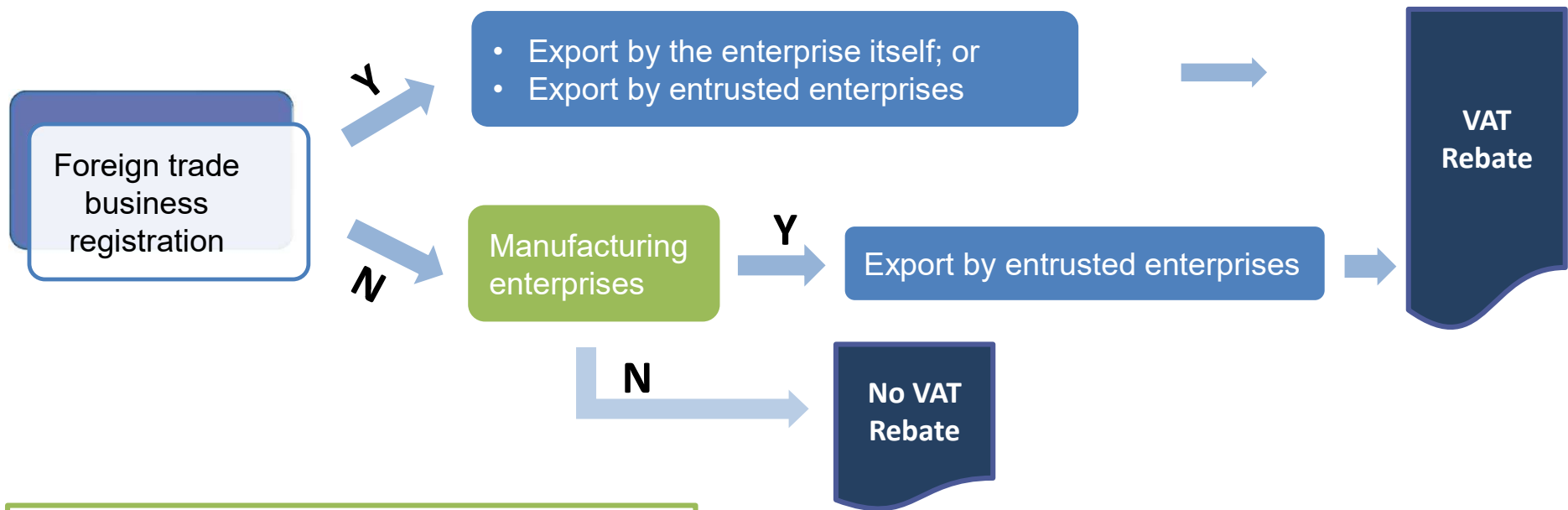
- 1 Normal exports by export enterprises
- 2 Deemed exports by export enterprises or other organizations
- 3 Processing, repair and replacement services provided by export enterprises to overseas parties





An Overview of VAT Refund for Export Goods - Scope

1 Normal exports by export enterprises



Export: actually exit China upon Customs declaration



An Overview of VAT Refund for Export Goods - Scope

2 Deemed exports by export enterprises or other organizations

- Exports for foreign aid projects, overseas contracting, overseas investments
- Exports to bonded areas
- Goods sold by duty-free goods business enterprises
- Tender awarded mechanical and electrical products exported for project which utilize a foreign government loan or an international financial organization loan
- Marine engineering structures sold to offshore oil and natural gas exploration enterprises
- Goods sold to international transportation enterprises for use on international transportation vehicles
- Water (including steam), electricity, gas sold to manufacturing enterprises in special bonded areas.





An Overview of VAT Refund for Export Goods - Scope

3

Processing, repair and replacement services provided by export enterprises to overseas parties

Provision of processing, repair and replacement services to overseas parties shall mean processing, repair and replacement services for goods:

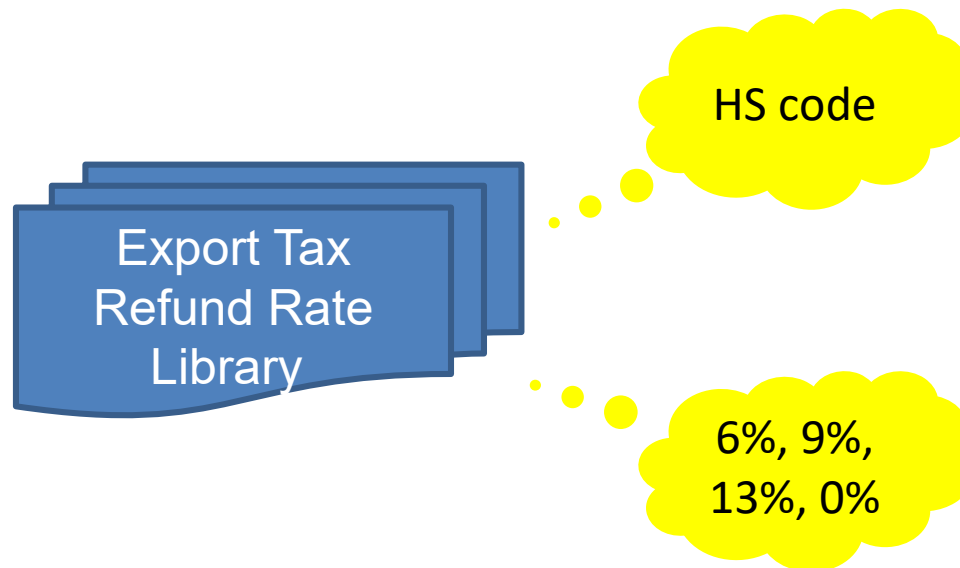
- which enter China and are then re-exported; or
- transportation vehicles used for international transportation.



An Overview of VAT Refund for Export Goods- Tax Rate

VAT rebate rate

Except for the VAT export refund rate specified by the Ministry of Finance and the State Administration of Taxation according to the decision of the State Council, the rebate rate of export goods is the applicable tax rate.





An Overview of VAT Refund for Export Goods - Method

ECR method

Exemption, credit, and refund method

Applicable to manufacturing enterprises qualified as general taxpayers

Exemption: exported goods are exempt from out-put VAT

Credit: input VAT credit on materials purchased for the production of export goods is offset against the output VAT on domestic sales

Refund: excess amount of input VAT is refundable

ER method

Exemption and refund method

Applicable to enterprises with no manufacturing capabilities

Exemption: exported goods are exempt from out-put VAT

Refund: certain portion of input VAT is refundable, but not creditable

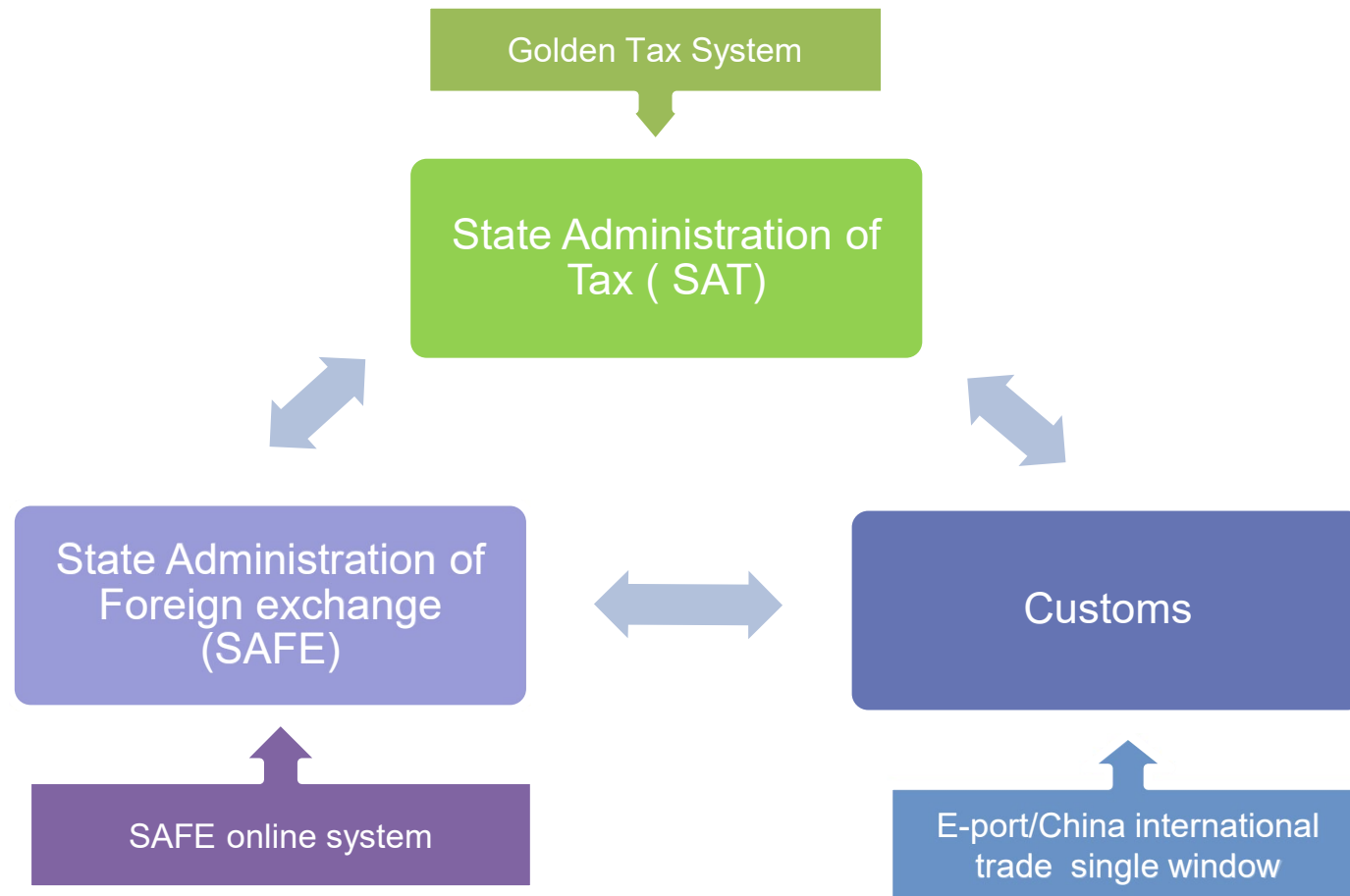


- **General Process of VAT refund**



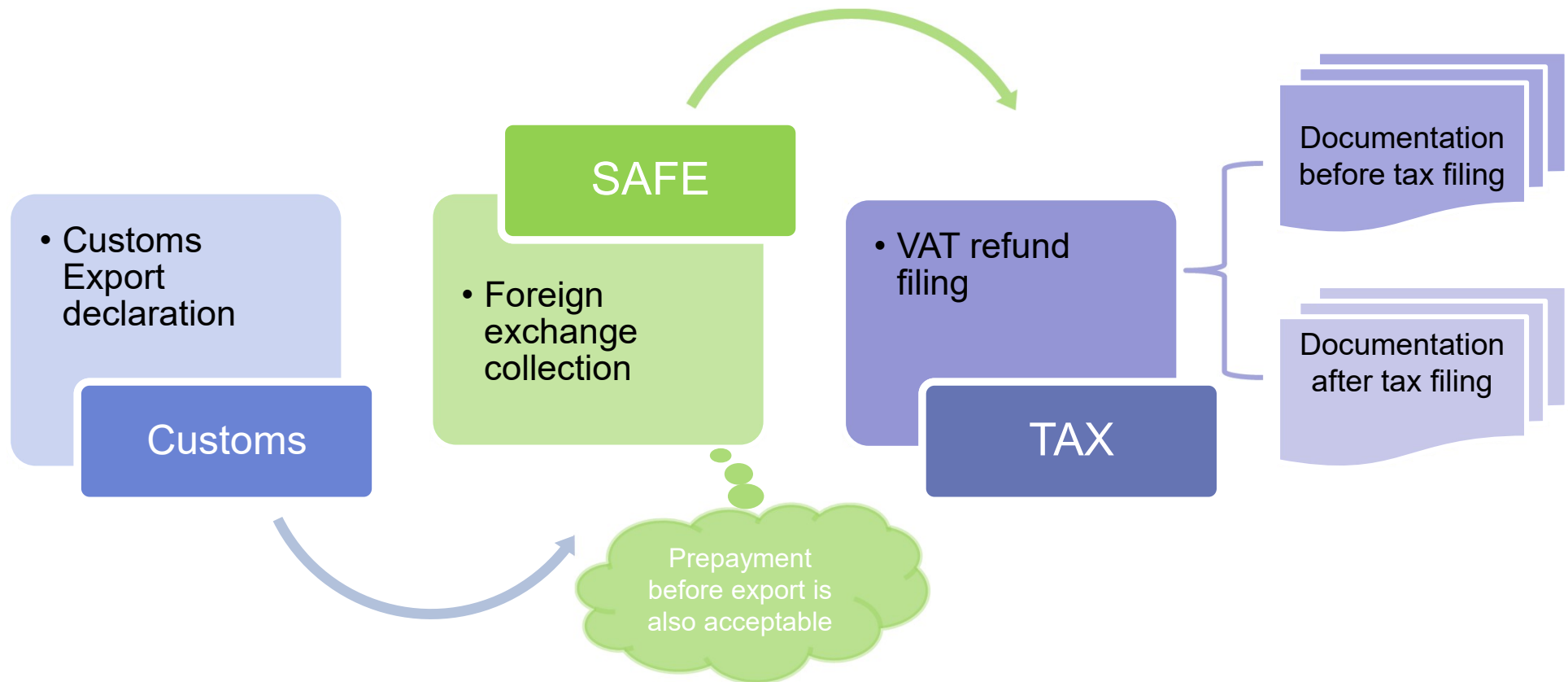


General Process of VAT Refund





General Process of VAT Refund





General Process of VAT Refund

Documentation before tax filing



Documentation after tax filing

***Record-filing documents
for export tax refund***

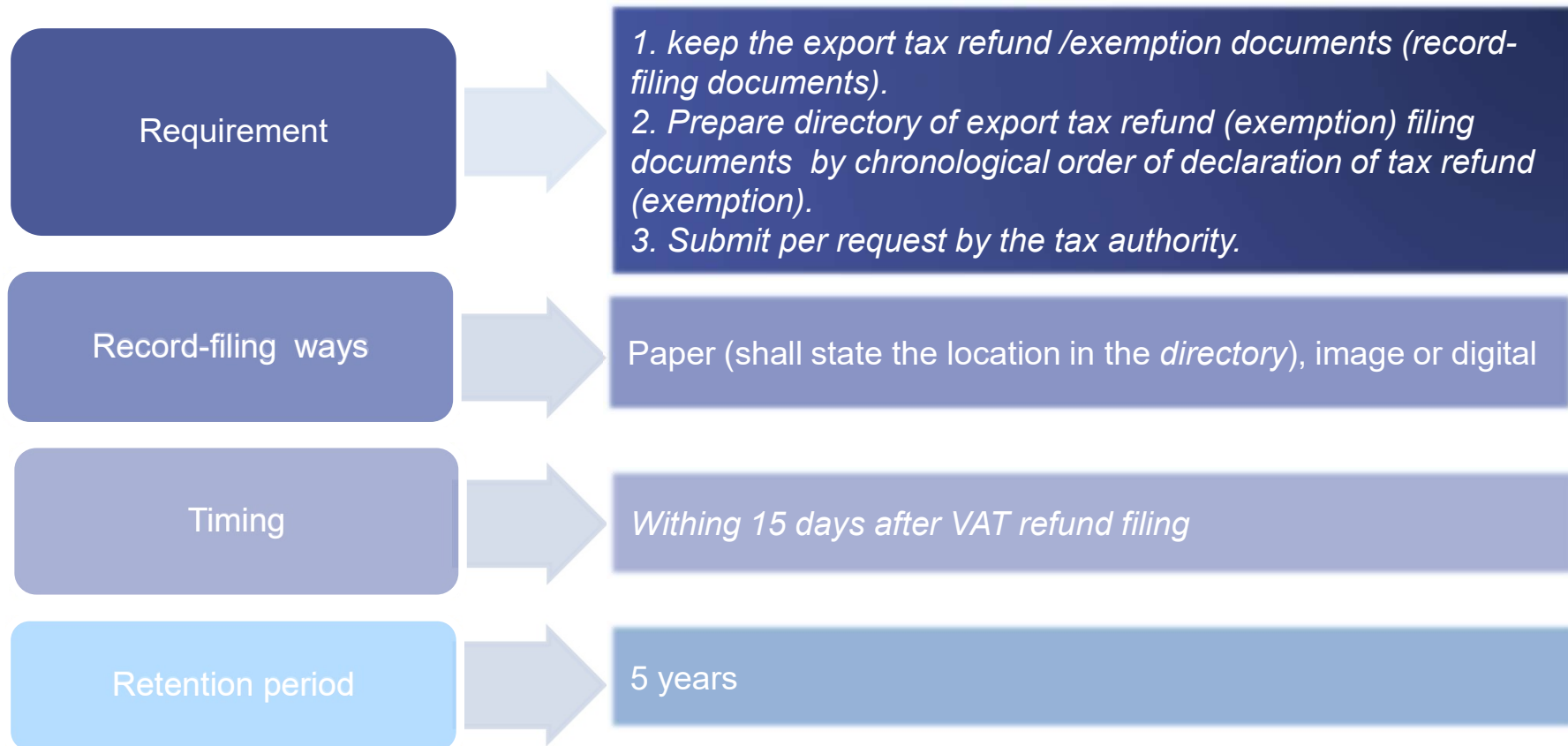


- **Record-filing Documents for Export Tax Refund**





Record-filing Documents for Export Tax Refund



NOTE

Administration of record-filing documents took effective from May 1, 2022.
It shall not apply to zero-rated cross-border services





Record-filing Documents for Export Tax Refund

Record-filing documents

Purchase and sale contract of the export enterprise

- Export contract (newly added)
- Foreign trade integrated service contract (newly added)
- Purchase contract of the foreign trade enterprise
- Purchase contract for the acquisition of non-self-manufactured goods by manufacturing company

Transportation documents for exports

- Cargo documents issued by the carrier such as ocean bill of lading, air waybill, railway waybill, cargo carrier document, postal receipt, etc.
- Domestic transport invoice for which the freight is borne by the export enterprise;
- International freight forwarding agency service fee invoice for which the expenses are borne by the export enterprise (newly added)

Documents for customs declaration entrusted by export enterprises to other units

- Entrusted Customs declaration agreement (newly added)
- Invoice for Customs declaration service fee issued by the entrusted Customs declaration organization (newly added)



- **Foreign Exchange Policy for Export Tax Refund**





Foreign Exchange Policy for Export Tax Refund

Changes

STA
Announcement
[2022] No. 9

A

Reduce the number of pre-declaration matters

B

Expand the scope of deemed foreign exchange collection

C

Implement classified and accurate management of foreign exchange collection based on the risk level of the enterprise

D

Clarify management of different situations

NOTE

Articles on foreign exchange policy took effective from Jun 21, 2022.



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Foreign Exchange Policy for Export Tax Refund

Deemed Collection of Foreign Exchange

- 1 Foreign exchange receipts are not collected due to changes in foreign commodity market
- 2 Foreign exchange receipts are not collected due to poor quality of export commodities
- 3 Foreign exchange receipts are not collected due to deterioration, decay, abnormal death or loss of animals and fresh products
- 4 Foreign exchange receipts are not collected due to natural disasters, war and other force majeure factors
- 5 Foreign exchange receipts are not collected due to bankruptcy, closure and dissolution of the importer





Foreign Exchange Policy for Export Tax Refund

Deemed Collection of Foreign Exchange

- 6 Foreign exchange receipts are not collected due to changes in the currency exchange rate of the importing country
- 7 Foreign exchange receipts are not collected due to over-load or under-load of export goods
- 8 Foreign exchange receipts are not collected because the date of all foreign exchange collection agreed in the export contract is later than the deadline for tax refund
- 9 Unable to collect foreign exchange and obtain export credit insurance compensation(Newly added)
- 10 Other rational reasons





Foreign Exchange Policy for Export Tax Refund

Classified Management of foreign exchange collection

Taxpayers under administration category 4 for export tax refund

Taxpayer declares tax refund (exemption) for exports after the deadline for declaration of tax refund (exemption)

The tax authorities discover that the materials for foreign exchange collection are false or fraudulently used

shall submit documents for foreign exchange collections when declaring export tax refund (exemption).

shall submit documents for foreign exchange collections at the time of declaration of export tax refund (exemption) within 24 months from the date of issuance of written notice by the tax authorities

Proof Materials for Deemed Foreign Exchange Collection

Form of Foreign Exchange Collection for Exports

Bank receipts





Foreign Exchange Policy for Export Tax Refund

Clarify management of different situations

- 1 Where the final date for all foreign exchange collection agreed in the export contract is after the deadline for declaration of tax refund (exemption), the taxpayer fails to complete foreign exchange collection before the date as agreed in the contract; or
- 2 Where the taxpayer fails to collect foreign exchange receipts within the stipulated period, and the provisions on deemed foreign exchange collection are not complied with; or
- 3 Where the taxpayer fails to retain materials for foreign exchange collection pursuant to the provisions of STA Announcement [2022] No. 9

If the export tax refund (exemption) has not been processed by the tax authority

The tax authorities shall not process export tax refund (exemption)

If the export tax refund (exemption) has been processed

A negative declaration shall be used in the following month (may pay tax retrospectively)



Foreign Exchange Policy for Export Tax Refund

Clarify management of different situations

Exports for which a taxpayer is genuinely unable to collect foreign exchange receipts **and** the provisions on deemed foreign exchange collection are not complied with.



VAT exemption but no refund

Where the tax authorities discover that the materials for foreign exchange receipts for exports in the declaration for tax refund (exemption) by a taxpayer are false or fraudulently used



VAT taxable, no exemption or refund



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