VAT Tax refund/rebate for trading companies in China

Description

Tax refund or tax rebate policy has been a focal point with which foreign investors are mostly concerned when intending to set up a trading company in China engaged in exporting activities.

Assuming that a foreign invested trading company with the general VAT taxpayer status (opposite to the small-scale VAT tax payer status) (the â€œCompanyâ€•) is to be set up, here is a brief introduction on basics about the tax rebate policies in China.

1. Entitlement to VAT tax rebate treatment

To qualify for tax rebate benefit, trading companies with exporting licenses shall effect the following formalities in the course of their incorporation to be eligible for tax rebate:

(1) After issue of the Business License of the Company, the Company shall file with the local foreign trade department as a foreign trading company. In return, the Company will get a Registration Form with the approval stamp on it.

(2) Then within 30 days of receipt of the Registration Form, the Company shall apply to local tax department for recognition of its status as tax rebate qualifier.

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2. Application and approval for tax rebate

After goods are exported and price for such goods are received, the trading Company shall prepare all relevant documents and materials in order and present the same to tax authority with certain period in order to receive tax rebate in relation to such goods.

Submission of those documents and materials is made in part in the form of papers and in part through electronic system designated by the state tax authority.

Amongst those documents and materials, most important ones are:

(1) Customs declaration paper for the related goods; in practice, there is one sheet of the declaration paper is designated only for use of tax refund;

(2) VAT tax invoices; such tax invoices are issued by sellers with date quantity, amount of price and VAT tax rate, which information shall be in line with those appearing on other related documents;

(3) Foreign exchange declaration showing that the price of the goods denominated in foreign currencies has been duly paid.

It shall be given particular attention to the requirement that tax rebate application shall be made within a certain period, elapse of which shall give rise to forfeit of entitlement for tax rebate. The application period is now set as â€œby the expiry of the first VAT declaration time period (as set by your local tax

authority) following the end of 90 days of the date on which the customs declaration in respect of the goods is madeâ€•.

3. Calculation of tax rebate

To understand this, let us illustrate the calculation by a hypothetic case:

The Company has bought a bulk of goods at the price of RMB 10,000 (exclusive of VAT), and actually the Company will have to pay, on top of the price, VAT tax equal to 17% (in most cases) of this price. In the end, the Company will have to RMB (10,000+1,700) for the goods.

When the Company sells the goods to overseas customers (maybe at the price of RMB 11,700), the Company after completion of the exporting may get a tax rebate equal to RMB 10,000 X tax rebate rate.

The tax rebate rate varies a lot from one type of goods to another, subject to frequent adjustment by China State Administration of Taxation. Some goods have been excluded from tax rebate catalogue already. Foreign investors shall first look at whether products to be traded will be eligible for tax refund treatment.

Please understand that VAT tax rebate can be complicated in practice. If you want to know more about certain aspect of tax rebate/refund practice in certain area of China, we are glad to help you out with that upon your engagement of our legal services.

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