

Export rebate and drop ship goods within China

Q: Consider the following situation: Customer XYZ would like to purchase goods of type 1 from supplier A located in China, drop ship type 1 goods to supplier B located in China to be assembled into another assembly goods of type 2. The type 2 goods will be then be shipped to the US. Both suppliers A & B would invoice the same customer XYZ. It is simple for supplier B to get the tax rebate since the assembled type 2 goods would be exported from their facility to the US. But how would supplier A get the right paperwork in order to the tax rebate? Supplier would not be directly sending parts outside mainland China. Note that supplier B does not wish to buy type 1 goods from supplier A. Any help would be greatly appreciated.

A: Assuming that type 1 goods are manufactured from local materials in China. To get export refund, supplier A has to ship the type 1 goods to an export bonded warehouse, a bonded logistic center or bonded logistic park within China (collectively called the special customs zones). Supplier A must also possess the status of a VAT general taxpayer in order to be eligible for export refunds. Supplier B can import the type 1 goods from the special customs zones tax-free for further processing and assembling, and get the export refund from the domestically manufactured components after shipping type 2 goods out of China. Where supplier A ships the type 1 goods into the special customs zone, the PRC customs law deems the type 1 goods to have been delivered outside China. Accordingly the normal export procedure, export license, and VAT refund rules shall apply. Where the type 1 goods are shipped back again to areas outside the special customs zone (elsewhere in China) for processing or assembling, there are two choices available to supplier B. If they are imported as general goods, the normal import procedure, import license rules shall apply. The customs duty and import VAT shall be imposed on the type 1 goods. Note that general goods are not eligible for export refunds when they are eventually shipped out of China. If they (type 1 goods) are imported as bonded goods, the import duty and VAT are exempted. To get more information, please visit our website at www.china-tax.net.