

CLIENT ALERT

RETURN TO SENDER: China Provides New Tax and Duty Relief for Goods Returned to China for COVID-19 Reasons

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Chinese companies, including Chinese subsidiaries of multinational companies, are seeing returns of previously exported goods for many COVID-19 related reasons, including the suspension of contractual obligations under *force majeure* provisions. China is now helping affected companies with new tax and duty relief. China Customs announced on November 2, 2020, that the State Council has approved tax rebates for goods returned due to COVID-19. For goods that were exported from January 1, 2020 to December 31, 2020, the exporters will not be required to pay import duties, import value-added tax ("Import VAT"), and consumption tax on goods that are returned to China within one year of export ("Qualified Returned Goods"). Export duties paid on the goods will also be refunded to affected exporters.

The announcement clarifies the procedures and requirements for the new tax rebate policy, as follows:

1. For companies that have previously received export tax rebates (unrelated to COVID) for Qualified Returned Goods, they will need to account for and pay any applicable refunded/exempt Import VAT and consumption tax to the appropriate tax authorities.
2. Beginning on November 2, 2020, when declaring imports of Qualified Returned Goods and applying for the import tax exemption, companies will need to obtain certification from the appropriate tax authorities confirming they have remitted payment of the tax for Qualified Returned Goods and have not received any (non-COVID) tax rebates (or they have paid refunded tax to the appropriate tax authorities as stated above in 1.).
3. For companies that have paid import duties, import VAT, and consumption tax for Qualified Returned Goods between January 1, 2020 and November 2, 2020, China Customs will only issue the tax rebates upon a company's application – the process is not automatic. For those companies that have not yet declared deductions of Import VAT and consumption tax before submitting such an application, they will need to obtain certifications from the competent tax authorities to confirm that they have paid but have not deducted Import VAT and consumption tax for Qualified Returned Goods. For companies that have declared a deduction of Import VAT and consumption tax, they will only need to submit an application for a refund of collected import duties. **The deadline for companies to complete such tax rebate procedures is June 30, 2021.**
4. For China Customs to process tax rebates to companies for Qualified Returned Goods, companies must submit a written statement to China Customs that the subject goods are being returned due to the COVID-19 pandemic. China Customs will proceed based on the contents of that statement. The type of proof needed to support the statement will depend on each company's unique circumstances and will be considered on a case-by-case basis.

This new tax incentive program could provide some relief for many Chinese companies as well as subsidiaries of multinational companies operating in China that have been adversely affected by the COVID-19 pandemic.

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.

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