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China Alert

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Consumption Tax Exemption for Biodiesel

The Ministry of Finance (MOF)and the State Administration of Taxation (SAT) jointly issued Circular 118 to retroactively exempt pure biodiesel made from waste animal fat or vegetable oil from consumption tax, effective from 1 January 2009. The issuance of this circular demonstrates the Chinese government's increased encouragement of the renewable energy industry and is a result of active feedbacks and petitions by major players in this field.

Regulations discussed in this issue:

- Regulations on Exemption of Consumption Tax on Pure Biodiesel made from Waste Animal Fat or Vegetable Oil, issued under Caishui [2010] No. 118 on 17 December 2010, effective from 1 January 2009 (Circular 118)

Background

The Ministry of Finance and the State Administration of Taxation issued a series of consumption tax reform circulars for oil products at the end of 2008, some of which abolished rules which would otherwise exclude biodiesel made from animal fat or vegetable oil from the scope of consumption tax. As a result, biodiesel in general, regardless of whether it was made from waste animal fat or vegetable oil, or its purity, was subject to consumption tax at CNY 0.8/L.

This created financial challenges for manufacturers of pure biodiesel made from waste animal fat or vegetable oil. Biodiesel made from waste oil is generally a preferred alternative energy and the industry's development has been encouraged internationally. Consumption tax on biodiesel would increase the manufacturers' costs. Since biodiesel prices are primarily influenced by price guidance set by the National Development and Reform Committee, as well as the supply and demand for petroleum-based diesel fuel, biodiesel manufacturers are not able to pass additional consumption tax costs to their customers by increasing biodiesel sales price, leading to reduced profitability. Hence, imposing consumption tax on biodiesel without distinguishing raw materials consumed to manufacture such biodiesel would discourage investment in the field of biodiesel production using waste oil.

Exemption criteria

Circular 118 sets out that only pure biodiesel, which meets both of the following criteria, is exempted from consumption tax:

- The waste animal fat or vegetable oil comprise no less than 70 percent of total raw materials consumed

- The biodiesel produced meets the standard specifications set out in Biodiesel Fuel Blend Stock (BD100) for Diesel Engine Fuels.

Biodiesel which does not meet the above criteria simultaneously, or is produced using diesel or blended diesel components, will continue to be subject to consumption tax.

Circular 118 is effective retroactively from 1 January 2009. Consumption tax already paid by biodiesel producers on biodiesel meeting the above conditions will be refunded.

KPMG's observation

After the aforementioned abolishment of rules that excluded biodiesel from the scope of consumption tax, major players in the biodiesel field started voicing their concerns to the local finance bureaux and state tax bureaux in various provinces, such as Fujian and Sichuan. Their feedback was subsequently forwarded to MOF and SAT. After carrying out interviews with the industry association and major players in this field, as well a detailed study on biodiesel, MOF and SAT reached the conclusion that lifting consumption tax on biodiesel made mainly from waste animal fat or vegetable oil, including grease production industry offal and catering industry's used cooking oil, would benefit the development of the renewable energy sector, help to alleviate petroleum supply shortages, and enhance environmental and ecological protection in China. Thereafter, MOF and SAT issued Circular 118 accordingly.

While organised industry lobbying efforts that are commonly seen in western countries may not be viable in China, we have noticed that the policy makers in China have become more open to the feedbacks of industry players and more receptive to their comments and suggestions when formulating policies.

Therefore, in cases where a policy is no longer in line with the industrial development objective, or a technology or industry is economically, socially or environmentally beneficial, but is not addressed in the existing preferential policies, investors and companies should provide feedbacks to the relevant government authorities through viable channels so that the government can take those comments into consideration when formulating/revising fiscal policies. KPMG China's industry specialists have been coordinating efforts in this regard and would be happy to assist should such request arise.

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