

## Increased value-added tax rates on minerals kick in

BEIJING, Jan. 1 (Xinhua) -- A higher value-added tax (VAT) on 82 mineral products became effective Thursday.

China raised the VAT rate for minerals two months ago to ease the burdens of producers. Mineral producers welcomed the policy but analysts are uncertain whether the new tax rates would bolster the sector.

The VAT rate for such mineral imports as copper ore, nickel ore, aluminum ore as well as ore concentrates was raised to 17 percent from 13 percent, according to the Ministry of Finance and the State Administration of Taxation.

The two ministries said the new rates will cover both ferrous and nonferrous metals and non-metal minerals. The rate for salt would remain unchanged at 13 percent.

"The four-percent increase is an adjustment of a big margin," a source inside the Henan Yuguang Gold and Lead Co. said. The man, who preferred to remain anonymous, added the company would be able to save a large amount of money it would have spent on taxes and will therefore be able to reduce costs.

Thanks to higher VAT rates, such companies will be able to deduct a larger amount of taxes paid for ore imports when they sell final products.

Jiang Ning, an analyst with the Shanghai-based nonferrous metals website, said it was too early to tell whether the nonferrous metal sector would perform better.

Nonferrous metal producers have posted all-round losses after prices fell by 20 to 46 percent in last few months. Some producers were forced to suspend production to avoid further losses.

According to the National Bureau of Statistics (NBS), profits of the non-ferrous metal and processing industry fell 34.1 percent year-on-year in the first 11 months of 2008.

Jiang said he expected the nonferrous sector to have a poor performance in the first quarter of this year.

In addition to higher VAT rates, the country's State Reserve Bureau, which maintains stockpiles of key raw materials, was reported to be discussing a purchase of 300,000 tonnes of aluminum at a premium price from producers. The move is aimed at increasing prices and supporting producers.

Jiang said if that happens, such a move would only be effective in the short term and was not enough to change the long-term trend. He added that the biggest problem for non-ferrous metal producers was insufficient demand after global financial turmoil slashed demand across the world.

The steel sector also suffered because of retreating global demand. The NBS said profits of the iron and steel industry fell by 13.7 percent during the first 11 months of 2008.

Many analysts said the metal industry in general is regaining confidence as a result of the proposed purchase plan. They said increased infrastructure construction would also boost demand for steel.

The VAT rate hike for mineral products was part of the country's more broad VAT reform which exempts companies from paying value-added tax for equipment purchases.

The reform was announced in November and included in the 4 trillion yuan (586 billion U.S. dollars) stimulus package.

The VAT reform is expected to reduce the tax burden on companies by more than 123 billion yuan next year.

In 2007, VAT revenue exceeded 1.5 trillion yuan, accounting for 31 percent of the country's total tax income.