Shifts in real estate taxation affecting your investment

Description

Recently this year saw a string of shifts in tax policies that affect businesses in China, in particular, foreign invested enterprises.

â… City and Township Land Use Tax

At the end of the year of 2006, the state cabinet revised the Interim Regulation of the Peopleâ€™s Republic of China on the City and Township Land Use Tax and the revised version came into force as of January 1st of 2007. Under the new version, two significant changes were made as follows:

(1) This regulation is for the first time applicable to foreign invested enterprises after January 1 of 2007. The old edition took effect on November 1, 1988, a time when China was desperately hungry for money. To lure foreign capital, this law did not apply to foreign invested enterprises using urban land in China purported as a tax incentive for foreign capital. However, things change fast. Today, it is the common opinion that foreign capital is too much especially in real estate sector. Thus, it is not surprised to see that such tax exemption is no longer available for foreign investors.

(2) Another change is the raise of the tax rates. To be specific, the tax rates are hiked threefold:

Unit: RMB per square meter per annum

Areas subject to taxation Current tax rate (RMB) Old tax rate (RMB)
Big cities 1.5-30 0.5-10
Medium cities 1.2-24 0.4-8
Small cities 0.9-18 0.3-6
Townships, mining areas 0.6-12 0.2-4

In response to the central governmentâ€™s move, local governments have issued their local implementation rules in that regard. For example, Shanghai government issues its version on November 12, 2007, dividing the land of Shanghai into six classes with the tax rate ranging from 30 RMB per square meter to 1.5 RMB per square meter.

â…¡ Arable Land Occupation Tax

Much the same as the City and Township Land Use Tax. The Interim Regulation of the Peopleâ€™s Republic of China on Arable Land Occupation Tax is for the first time applicable to foreign invested enterprises which had been exempted from this tax burden. Also the tax rates are quintupled compared to original rates.

For places where the area of land per capita is less than one mu , the tax rate is 10-50 RMB per square meter;

For places where the area of land per capita is more than one mu and less than two mu, the tax rate is

8-40 RMB per square meter;

For places where the area of land per capita is more than two mu and less than three mu, the tax rate is 6-30 RMB per square meter;

For places where the area of land per capita is more than three mu, the tax rate is 5-25 RMB per square meter.

This tax is collected annually according to a phone inquiry to the tax authorities in Shanghai government, though the law itself is not clear about it.

â…¢ Corporate Income Tax

In March of this year, the Chinese top legislation body passed the new corporate tax law, the Law of the Peopleâ€™s Republic of China on Enterprise Income, in a bid to unify the separate income tax practices in respect of domestic enterprises and foreign invested and foreign companies. This is definitely the most far reaching change so far in terms of impact on foreign investment in China.

We will touch on this issue later in other articles.

As to the issues above, should you want to have more information thereof, please contact us at his emails and phones set out at the top right corner of this page.

Date Created
November 2011
Author
admin