China to enforce the 20% individual income tax rate on property sale

Description

Apparently China central government is seeing a clear uprise of property prices throughout the country.

Just today, China state council issued a new notice ordering its subordinate governments to implement seriously the existing policies that are aimed to rein in the property market, and meanwhile, stepping up a new measure of cooling policy, namely, enforcing the individual income tax rate of 20% on the difference of the purchase and sale prices of the properties in question.

In its notice, the central cabinet asked local governments to strictly apply the 20% tax rate for income derived from property transfer. Actually, the 20% personal income tax rate is not new at all. In China Individual Income Tax Law, it is clearly prescribed that the tax rate for income derived from transfer of properties is 20%. Here the income means the difference of sale price and purchase price of the same property in question.

In many places, the 20% income tax rate is not enforced, a legacy originating from the era when Chinese governments encouraged its people to buy up properties in order to boost the real estate industry and market. For example, in Shanghai, upon transaction, sellers can choose to apply 2% of total contract price or 20% of difference of sale and purchase prices to calculate his or her individual income tax burden. Of course, in most cases, it is always in seller’s favor to apply 2% rate. 20% rate simply takes away a big bulk of profits from sellers.

Once the new policy on income tax is enforced stringently, this will for sure have substantial impact on the real estate market, discouraging sellers from listing their properties, which will set back the property market to standstill.

However, I believe it will take time for local governments to implement this new policy, which could be a blow to local economy. So for people who are ready to sell their properties, you’ve gotta take quick action to close your sale before local governments enforce this new tax policy.

This new tightening measure for domestic real estate market may have an unexpected side effect that may turn up to be good news for overseas property sellers. When Chinese buyers stop buying domestic properties, they may or will look out for overseas opportunities for real estate investment. So foreign realty firms, get ready to treat your Chinese customers.

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