

Tax on disposal of landed properties in China

Q: I own an office premises in Shanghai. What tax will I have to pay upon disposal of the property?

A: The disposal of property is subject to income tax in China.

[1] Income from the transfer of property is taxed at a rate of 20%.

Tax payable = taxable income x 20%; where taxable income = income from transfer of property - original value of property – tax and expenses

[2] The disposal of office premises is subject to the following taxes:

- 1) Business tax at 5% on the gross amount of sales proceeds;
- 2) Stamp tax is also payable at 0.05% on the gross amount of the sales contract;
- 3) Land appreciation tax is levied from 30% to 60% with reference to the percentage of appreciated value over the deductible amount. For completed properties, the deductible amount is the sum of purchased price and taxes paid. In the absence of tax invoice for the purchased properties, the land appreciation tax is imposed at 0.5% to 1% of the contract amount.

	Appreciation as a percentage of the deductible amount	Rates
I	Not exceeding 50%	30%
II	Exceeding 50% but not exceeding 100%	40%
III	Exceeding 100% but not exceeding 200%	50%
IV	Exceeding 200%	60%

The scope of the PRC Land Appreciation Tax includes the transfer of land use right and the buildings that are constructed on the land. At the moment, the said tax is collected on 1% (0.5% in some other areas) of the contract amount for simplicity sake.

[3] Illustration: The selling price of an office premises is say RMB11,000,000 and the cost of purchase including taxes is RMB4,000,000. The appreciation is RMB7,000,000. Calculate the amount of the land appreciation tax.

	Tax brackets	Appreciated value	Tax rate	Tax In million
I	4000000 x 50% = 2000000; less than 2m	2 million	30%	0.6
II	4000000 x 100% = 4000000; 2m to 4m	2 million	40%	0.8
III	4000000 x 200% = 8000000; 4m to 8m	<u>3 million</u>	50%	<u>1.5</u>
IV	Over 8m (not available)		60%	
		<u>7 million</u>		<u>2.9</u>

The tax rates range from 30% to 60%, but the highest appreciated portion only reaches 50% (300 in this example).

[4] Simple calculation method: The land appreciation tax rules provide for a simple calculation method. There is an applicable quick calculation coefficient associated with each tax rate. The quick calculation formula is as follows: tax amount = appreciation value x applicable tax rate – amount of deduction x quick calculation

coefficient. One can arrive at the same tax amount using the formula: $7,000,000 \times 50\% - 4,000,000 \times 15\% = 2,900,000$; where 15% is the quick calculation coefficient corresponding to the 50% tax rate.

	Applicable tax rate	Quick calculation coefficient
I	30%	0
II	40%	5%
III	50%	15%
IV	60%	35%

[5] Public notary: There is a requirement for the parties to have the purchase and sale agreement notarized at the public notary. The notary charge is computed on the following scale. If the contract value is RMB11,000,000, then the notary charge will be as follows: $500,000 \times 0.3\% + 4,500,000 \times 0.25\% + 5,000,000 \times 0.2\% + 1,000,000 \times 0.15\% = 24,250$.

Scale of notary charges

Less than 500,000	0.30%
Between 4,500,001 and 5,000,000	0.25%
Between 5,000,001 and 10,000,000	0.20%
Between 10,000,001 and 30,000,000	0.15%
Between 30,000,001 and 50,000,000	0.10%
Between 50,000,001 and 100,000,000	0.05%
Over 100,000,000	0.001%