



## Work on Liquidation of Land Appreciation Tax

Recently, the SAT released the *Notice on Issues about Liquidation of Land Appreciation Tax, Guoshuihan No.220(2010)*, in which it clarifies some important items regarding to *Interim Measures of PRC Land Appreciation Tax* and its implementing rules. Its major provisions are as follows:

### 1. Income determination

Land incomes should be determined by figures on the full-amount sale invoices of commercial houses; if there're no invoices or the invoices are not full-amount, land incomes should be determined by figures on sale contract plus other incomes. If house area on the contract is inconsistent to actual house area surveyed by relevant departments, and house payment has been added or refunded, calculation of the tax should be adjusted accordingly.

### 2. Deduction amount of the guarantee fund retained by real estate development enterprises

For portion of the construction debt retained by real estate development enterprise to guarantee quality of the project, deduction should be calculated by invoice number of the guarantee fund. Deduction is not available for guarantee fund without invoice.

### 3. Deduction of real estate development expenses

- 1) Interest costs in financial expenses, if can be shared according to the project and confirmed by financial institution, can be deducted in actual number below the amount of loan interest rate in commercial banks with same type and maturity. Other expenses can be deducted within 5% of sum of “cost amount of Tenure” and “amount of real estate development”.
- 2) Interest costs in financial expenses, if can not be shared according to the project or confirmed by financial institution, can be deducted within 10% of sum of “cost amount of Tenure” and “amount of real estate development”. The above methods also apply to wholly use of self-owned fund with no interest cost.

Concrete proportion will be implemented according to former rules set by provincial governments.

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3) For real estate development enterprises who loan money from both financial institution and other sources, methods of article 1 and article 2 can not be adopted simultaneously.

4) Interest costs already calculated in development expenses should be deducted in financial expenses when liquidation.

#### **4. Deduction of charge for vacant land**

Charges for vacant land of which the real estate development enterprises developed overdue are not deductible.

#### **5. Deduction of deed tax**

Deed taxes real estate development enterprises paid for obtaining the tenure should be counted in tenure costs as “relevant expenses paid by state unified rules”.

#### **6. Land appreciation taxes of demolition and relocation resettlement**

1) For real estate development enterprises resettling relocation households by the developed project, relocation houses should be seen as sale houses and incomes should be calculated according to *Notice of the State Administration of Taxation on the Relevant Issues*

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#### *Concerning Settlement Management of Land Value-added Tax on Real Estate Enterprises, guoshuifa No.187(2006), section 3, article*

1. This should also be counted as compensation expenses of demolition and relocation. Supplement payments between the enterprises and households should be calculated in or deducted out of compensation expenses of the project.

2) For resettlement in other places, if the resettlement houses are developed by the enterprises themselves, house value should be calculated in compensation expenses according to *guoshuifa No.187(2006)*; if the houses are purchased, actually paid amount should be calculated in compensation expenses.

3) For resettlement by currency, the amount should be calculated in compensation expenses on premise of legitimate credential.

#### **7. Additional deduction on transfer of old house**

“Per year” in *Circular of the Ministry of Finance and the State Administration of Taxation on Land Value-added Taxes*, caishui No.21(2006), Section 6, article 1, 3, refer to the period from the date specified on purchase invoice to the date sale invoiced. 12 months are calculated as a year, 6~12 months should be considered as 1 year.

#### **8. Late fee for supplementary payments of land appreciation taxes**

After appropriate prepayments of land appreciation taxes, if due supplementary payments liquidated are paid off in demanded term, no late fee is required.

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## Further strengthening collection and management of high-income individual tax

### (B) Strengthen collection and management of property transfer income

- a. Strengthen collection and management of sale-limited stock transfer income. Reinforce our bond with security institutions to understand shareholder status of local listed and pro-listed companies, thus complete the task of collecting and managing sale-limited stock transfer income tax.
- b. Strengthen collection and management of stock transfer income of non-listed company. Enhance our corporation with AIC organs, try to build preceding tax procedure of amendment registration of equity transfer between natural person, or obtain stock transfer information in other ways. For transfer at fair or low price, we should determine its tax calculation basis in conformity to provisions of *Notice of SAT on Intensifying the Administration of Collection of Individual Income Tax on Incomes from Transfer of Equities, guoshuifa No.38 (2007)*.
- c. Strengthen collection and management of house transfer income.
- d. Strengthen collection and management of auction incomes. Tax authority should strictly implement provisions of *guoshuifa No.38 (2007)* and urge the auctioneer to withhold individual income tax by law.

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### (B) Strengthen collection and management of income from interest, dividends and bonuses.

1. Strengthen collection and management of dividend and bonus incomes. Particularly improve tax withholding management of joint stock limited company during dividends and bonuses distribution, enforce strict rules of individual income tax deduction toward distributing companies listed overseas. Intensify management of company's stock capital and registration capital converted from reserve, for stock capital and registration capital converted from undistributed profits, surplus reserves and other capital reserve besides stock insurance at premium, calculation and collection of individual income tax should follow the content of current policy by items of "interest, dividends and bonus incomes".

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2. Strengthen collection and management of interest incomes. In ways of looking into relevant subjects of financial sheets and thoroughly assets examination, investigate loan and interest-payment facts from natural person, enterprises and other organizations to individuals, and levy individual income tax based on interest income.
3. Strengthen management of nonproductive expenditure disbursed from company and loan from investment enterprise by individuals. For incomes of investor, his family and other related person, individual income tax should be levied by items of “interest, dividend and bonus incomes” according to provisions of *No.158 (2003) of the Ministry of Finance and the State Administration of Taxation*.

**(C)Strengthen collection and management of production and business operation incomes derived from larger individual proprietorship business, partnership business and individual industrial and commercial households.**

- a. Strengthen establishment and management of account-books. Tax authority should encourage taxpayers to set up account-books according to laws and administrative regulations. For those who are not able to set up account-books, taxable income rate should be determined according to relevant laws. Authentication intermediaries such as tax agency, accountant, attorney, assets evaluation and real estate appraisal should not conduct the determination.
- b. Strengthen cancellation registration management of unincorporated enterprises. Before canceling the industrial and commercial registration, investors of the enterprise should clean off its tax affairs, and pay individual income tax on its untaxed incomes.

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c. Strengthen management of consumption expenses of individual along with production and business expenses in unincorporated enterprises. Enterprise capital spent on consumption and property expenses of investors, their family members and relevant persons should be taxed in forms of individual income tax by stems of “production and business incomes of individual industrial and commercial households”.

**(D)Strengthen collection and management of service remuneration, and comparative management of wages and salaries.**

All local tax authorities should intensively cooperate with related government departments, obtain relevant payment information of service remuneration, substantially improve management of individual income tax derived from various kinds of service remuneration,

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## Business income tax declaration of 2009

According to *Notice on Business Income Tax Declaration of 2009, guoshuihan No.249 (2010)*, as there're still relevant tax policies unclear and some enterprises had meet obstacles when declaring and paying the taxes. Concerned issues are noticed as follows:

1. For taxpayers need to adjusting the declaration or to supplement (refund) taxes because of policies which came into force after 5/31/2010, correcting declaration could be made before 12/31/2010.
  2. Tax authorities should receive correcting declarations and refund taxes in time with legal procedures.
  3. Tax authorities should do a good job on other tax collection of 2009. In conformity to related laws and documents, they should conduct and raise standard of liquidation work.
4. The above mentioned provisions are only effective for liquidation and collection work of 2009.

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especially some high-paying projects( art performance, speech making, consulting, financing and full/part time training, etc), and encourage withholding agencies to perform their obligations.

For enterprises of high-income profession, we should gather total amount of wages and salary incomes from data of detailed all-staff and full-amount declaration, and compare it with total amount of wages expenses from the declaration form of enterprise income tax.

**(E)Strengthen collection and management of incomes obtained by foreign individuals.**

Actively coordinate with management departments of the Police to obtain entry & exit and other information of foreigners, so as to provide legal basis for tax collection and offshore clearance; Cooperate with bank organs and foreign currency administrative departments, and strengthen management of tax certification for overseas payment, so as to control the finance transfer pass. All state and local bureaus should work together to establish files of foreign individuals, to know remuneration standards of inbound enterprises and to emphasize on incomes derived within China paid by organizations out of China.