



Shanghai and Chongqing pioneering Property Tax on a Trial Basis

Shanghai and Chongqing have started levying property taxes on individual residential properties on a trial basis on 28 January 2011, aiming to curb speculative investment and cool down local housing markets. With exceptions for detached residential properties in Chongqing, the long-awaited trial policies in both cities will generally only apply to newly purchased residential properties.

Regulations discussed in this issue

- Announcement on the provisional measures of property tax on individual residential properties in Shanghai, HuFuFa (2011) No. 3, and the administrative measures of collection of property tax on individual residential property
- Provisional measures of property tax trial reform on individual residential property in Chongqing, and the implementation rules of collection and administration on property tax on individual residential property
- All policies are effective on 28 January 2011

Background

Aiming to encourage reasonable housing consumption and effective property resources allocation, property tax on residential properties has been a long-discussed topic in China. After a very long wait and much speculation, on 27 January 2011, Shanghai and Chongqing both announced their respective trial property tax policies, which became effective on 28 January 2011.

The key points of the trial policies are set out below:

	Shanghai	Chongqing
Applicable area	Territory of Shanghai	Nine main districts of Chongqing
Taxable target	<ul style="list-style-type: none"> • <u>Shanghai resident families</u> Newly-purchased second or subsequent residential properties • <u>Non-Shanghai resident families</u> Newly-purchased residential properties 	<ul style="list-style-type: none"> • Detached residential properties owned by individuals (including those purchased prior to 28 January 2011) • Newly-purchased high-end residential properties • Second and subsequent ordinary residential properties newly purchased by non-local residents who do not work or own companies in Chongqing
Taxable base	<ul style="list-style-type: none"> • Transaction price is provisionally adopted at the initial stage • Valuation price with reference to the market value may eventually be adopted 	<ul style="list-style-type: none"> • Transaction price • Valuation price will be adopted in the future
Tax rates	0.6% (0.4% in certain cases)	0.5% - 1.2%
Tax payable	Property tax payable = Taxable area of newly-purchased property (construction area) * Unit price (or assessed price) * 70% * Tax rate	Property tax payable = (Construction area of taxable residential property – Tax exemption area) * Unit transaction price * Tax rate
Potential exceptions	<ul style="list-style-type: none"> • <u>Shanghai residents</u> <ul style="list-style-type: none"> - Potential exemption if aggregate average floor area per family member is no more than 60 square metres - Potential refund of property tax paid on new purchase if the new purchase is a replacement of the sole family residential property - Potential exemption on purchase of first residential property by a grown up child • <u>Non-Shanghai residents</u> <ul style="list-style-type: none"> - Potential exemption for qualified “key talent” that hold resident permits, actually work and live in Shanghai and are purchasing their sole residential property - Potential exemption for those who hold resident permits for more than three years and actually work and live in Shanghai and are purchasing their sole residential properties 	<ul style="list-style-type: none"> • <u>Family exemption</u> <ul style="list-style-type: none"> - 180 square metres for detached residential properties purchased prior 28 January 2011 - 100 square metres for newly-purchased detached residential properties and high-end residential properties <p>One family can only enjoy the exemption deduction once, and only on one property. There is no tax exemption for non-local residents who do not work or own companies in Chongqing.</p>
Effective date	28 January 2011	28 January 2011
Filing period	Annual	Annual

KPMG Observations

Shanghai and Chongqing have both started levying property taxes on certain residential properties with a view to curb speculative investment and cool down the local housing markets. While both cities have made new residential property purchases by non-local residents the common subject of property taxes going forward, as each city has been given the authority by the central government to determine the details of its own property tax policies, the focuses of the policies are different.

Shanghai will only levy property taxes on new purchases, thereby avoiding any direct impact on individual home owners who may already have multiple properties on hand, although the property tax policy may still affect the resale of those

properties. Further, Shanghai's policy does not differentiate high-end properties from the rest, and hence avoids creating a potential distortionary effect on the pricing of the high-end market. By contrast, Chongqing's policy has made it very clear that the high-end property market will absorb the most impact of their property tax regime. The Chongqing property tax's impact on detached residential properties is prospective as well as retrospective - detached residential properties purchased prior to the effective date of the policy will also be subject to property tax.

In terms of potential property tax exceptions, property tax exemptions will be granted based on the average floor area per family member in Shanghai. In Chongqing, the tax exemption area is fixed for each family.

Central government officials have indicated that property tax on residential properties will be levied throughout China in the future. In the meantime, many other regions in China will be watching to see how effective the policies in Shanghai and Chongqing are in regulating their property markets, and how they will impact their local economies and local government's fiscal revenue.

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