

## Land Appreciation Computation Method

### 1) Tax base

The Land Appreciation Tax is based on the appreciation obtained by taxpayers from the transfer of real estate.

The appreciation equals to the balance of proceeds received by the taxpayers on the transfer of real estate after deducting the sum of deductible items as prescribed.

The proceeds above include the total payment for the transfer of real estate plus the relevant economic benefit of all forms in cash, in kind and other.

The prescribed deductible items include:

- a. The sum paid for the acquisition of land use rights and the relevant fees paid as ruled by the State.
- b. Costs for the development of land and for the construction of new buildings and necessary facilities, including the compensation fees for land taking-over and for dismantling buildings and evacuation, pre-construction engineering expenses, the construction and installation expenses, expenses for infrastructure; expenses for supplementary public utilities and indirect expenses on development.
- c. Expenses on land development and construction of new buildings and attached facilities are composed of the sales expenses, overhead expenses and financial expenses related to the real estate development projects. The deduction of these expenses are provincial level in consideration of the local circumstances.
- d. The assessed prices (refer to the prices equal to the replacement cost appraised by the real estate appraised by the real estate appraisal institutions approved by the government times the depreciation ratio based on the remaining useful life) confirmed by the local competent tax offices of old houses and buildings.
- e. The taxes related to the transfer of real estate, including Business Tax, City Maintenance and Construction Tax and Stamp Tax paid by taxpayers for transfer of real estate. The Educational Surcharge paid by the taxpayers in the transfer of real estate may be deducted as tax paid.
- f. The taxpayers who are engaged in real estate development may enjoy additional deduction of 20% of the add-up of items (a) and (b)

The calculation of the Land Appreciation Tax is to be made by taking the most basic accounting items of the cost accounting for the real estate, or the object of accounting, as the accounting unit. Where a taxpayer develops the land and transfers the real estate plot after plot and by stages after receiving the use right of a tract of land, the value of the deductible items may be amortized according to the transferred proportion of the land-right to the total area of the tract of land, or according to the construction area, or according to other method confirmed by the competent tax department.

Where taxpayers have no acceptable reasons for the lower price of the real estate in transfer than the The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

appraised price, or conceal and under-report the transactional price of the real estate, or provide false value of deductible items, the competent tax department shall compute and collect the Land Appreciation Tax on the basis of the appraised price (refers to the price appraised with reference to the real estate of similar location and similar type by the real estate appraisal institutions recognized by the local competent tax offices and approved by the government).

## 2) Tax rates

Land Appreciation Tax adopts four grade progressive rates as in the following table:

Table of Land Appreciation Tax Rate

Grade	Tax base	Rate (%)
1	For that part of the appreciation amount not exceeding 50% of the sum of deductible items	30
2	For that part of the appreciation amount exceeding 50%, but not exceeding 100%, of the sum of deductible items	40
3	For that part of the appreciation amount exceeding 100%, but not exceeding 200%, of the sum of deductible items	50
4	For that part of the appreciation amount exceeding 200%, of the sum of deductible items	60

## 3) Computation of tax payable

In calculating the Land Appreciation Tax payable, the appreciation amount shall be first determined by deducting the sum of deductible items from the proceeds derived from the transfer of real estate by the taxpayers. Then according to the appreciation amount in proportion to the sum of deductible items, the applicable rate for each part of the appreciation amount shall be determined, on the basis of which the Land Appreciation Tax payable for each part of the appreciation amount shall be computed. The add-up of the amount of Land Appreciation Tax payable by the taxpayer.

The formula for computing the amount of tax payable is:

$$\text{Tax payable} = (\text{appreciation} * \text{applicable tax rate})$$

Example: some enterprise sold one building at the price of 50 million yuan. The sum of deductible items of costs, expenses and paid taxes is totally 20 million yuan. The amount of Land Appreciation Tax payable by the enterprise is calculated as:

$$\text{Appreciation amount} = 50 \text{ million yuan} - 20 \text{ million yuan} = 30 \text{ million yuan}$$

$$\begin{aligned} \text{Tax payable} &= 10 \text{ million yuan} * 30\% + 10 \text{ million yuan} * 40\% + 10 \text{ million yuan} * 50\% \\ &= 12 \text{ million yuan} \end{aligned}$$

There is another simple way for calculation as follows:

- a. for the appreciation amount not exceeding 50% of the sum of deductible items:

$$\text{Tax payable} = \text{appreciation amount} * 30\%$$

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- b. for the appreciation amount exceeding 50%, but not exceeding 100%, of the deductible items:  
Tax payable = appreciation amount \* 40% - sum of deductible items \* 5%
- c. for the appreciation amount exceeding 100%, but not exceeding 200%, of the sum of the deductible items:  
Tax payable = appreciation amount \* 50% - sum of deductible items \* 15%
- d. for the appreciation amount exceeding 200% of the sum of deductible items:  
Tax payable = appreciation amount \* 60% - sum of deductible items \* 35%.

For the same example above:

Tax payable = 30 million yuan \* 50% - 20 million yuan \* 15% = 12 million yuan

Renminbi is used as the basic unit in calculating the Land Appreciation Tax. When the income received from the transfer of real estate is in foreign currency, it shall be converted into Renminbi according to the exchange rate quoted by the People's Bank of China on the day of payment or on the first day of the month of payment (or the rate worked out according to relevant rules), and then the amount of tax payable shall be calculated and paid on the basis of the Renminbi.



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