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China Tax Issues to House Leasing

In recent years, more and more companies chose to rent houses to develop their own operation and business activities. In order to promote a healthy house leasing market, the government has successively introduced a series of policies. This article will analyze the relevant taxes involved in house leasing by different entities in accordance with the relevant preferential tax policies of Shenzhen, for Kaizen clients' reference.

1. Real Estate Development Companies Rent Out Self-Built House Property

(1) Value Added Tax

Determined by the nature of the business, real estate development companies are generally as general taxpayers (with annual sales exceeding CNY5 million), and they rent out their self-built house properties shall pay VAT in accordance with the following regulations.

Taxpayers	**Behaviors**	**Calculation Method**
General Taxpayers	Rent out self-built house properties before April 30, 2016	*Simplified Method:* Tax Payable =Income (VAT inclusive) ÷ (1+5%) × 5%
	Rent out self-built house properties after May 1, 2016	*General Method:* Tax Payable =Income (VAT inclusive) ÷ (1+9%) × 9%
Small-scale Taxpayers	Rent out self-built house properties projects	*Simplified Method:* Tax Payable =Income (VAT inclusive) ÷ (1+5%) × 5%

If the location of the leased self-built house properties is not in the same county (city) as the location of the company, the VAT prepayment should be made at the location of the house properties:

Taxpayers	Behaviors	Prepaid Method
General Taxpayers	Rent out self-built real estate before April 30, 2016	*<u>Prepay to the competent tax authorities where the real estate is located:</u>* Tax Prepaid = Income (VAT inclusive) ÷ （1+5%） × 5% *<u>Tax declaration to the competent tax authority where the organization is located:</u>* Tax Payable = 0
	Rent out self-built real estate after May 1, 2016	*<u>Prepay to the competent tax authorities where the real estate is located:</u>* Tax Prepaid = Income (VAT inclusive) ÷ （1+5%） × 3% *<u>Tax declaration to the competent tax authority where the organization is located:</u>* Tax Payable = Income (VAT inclusive) ÷ （1+9%） × 9% - Tax Prepaid
Small-scale Taxpayers	Rent out self-built real estate projects	*<u>Prepay to the competent tax authorities where the real estate is located:</u>* Tax Prepaid = Income (VAT inclusive) ÷ （1+5%） × 5% *<u>Tax declaration to the competent tax authority where the organization is located:</u>* Tax Payable = 0

Note:

According to relevant policies, from January 1, 2019 to December 31, 2021,VAT exempted if the small-scale taxpayers' monthly sales income does not exceed CNY100,000 (quarterly sales does income not exceed CNY300,000).

(2) Surcharge Taxes

Surcharge Taxes	Tax Basis	Tax Rate
Urban Maintenance and Construction Tax	VAT Amount	7%， 5% or 1%
Surcharge for Education	VAT Amount	3%
Surcharge for Local Education	VAT Amount	2%

Note:
Shenzhen urban construction tax rate is 7%. If small-scale taxpayers meet the conditions for exemption from VAT, surcharge taxes are also exempt. If small-scale taxpayers are required to pay value-added tax, the surcharge tax will be levied by half.

(3) Property Tax

The tax law stipulates that the tax basis of the property tax levied on house leasing is the rental income (VAT inclusive). The tax calculation formula is:

Tax payable = Rental Income Excluding VAT × 12%

Note:
According to the relevant policies, from January 1, 2019 to December 31, 2021, the property tax of small-scale taxpayers will be reduced by half. In addition, Shenzhen Real Estate Development Company rents self-built houses and levies property tax based on the price. The calculation formula is:

Tax payable = Original Value of Taxable Property × 70% × 1.2% ÷ 12 × Months Due

(4) Stamp Duty

Companies renting out house properties shall pay stamp duty at 0.1% of the total rental amount in the lease contract concluded by both parties. The tax amount is CNY1 if the calculation tax amount is less than CNY1.

Note:
According to the relevant policies, from January 1, 2019 to December 31, 2021, the stamp duty of small-scale taxpayers will be reduced by half.

(5) Enterprise Income Tax

The tax law stipulates that the real estate development companies shall incorporate the rental income obtained by house leasing into the total income of the enterprise to calculate and pay enterprise income tax. The general tax rate is 25%.

Note:

According to the relevant policies, small and low-profit enterprises can enjoy preferential tax rates from January 1, 2019 to December 31, 2021

2. General Companies Rent Out House Property

(1) Value Added Tax

Taxpayers	**Behaviors**	**Calculation Method**
General Taxpayers	Rent out house properties which acquired before April 30, 2016	*Simplified Method:* Tax Payable = Income (VAT inclusive) ÷(1+5%)× 5%
	Rent out house properties which acquired after May 1, 2016	*General Method:* Tax Payable = Income (VAT inclusive) ÷(1+9%)×9%
Small-scale Taxpayers	House properties leased by units and individual industrial and commercial households	Tax Payable = Income (VAT inclusive)÷(1+5%)×5%
	Non-residential houses leased for individual industrial and commercial households	Tax Payable = Income (VAT inclusive)÷(1+5%)× 1.5%

If the location of the leased self-built house properties is not in the same county (city) as the location of the company, the VAT prepayment should be made at the location of the house properties:

Taxpayers	**Behaviors**	**Prepaid Method**
General Taxpayers	Rent out house properties which acquired before April 30, 2016	*Prepay to the competent tax authorities where the real estate is located:* Tax Prepaid = Income (VAT inclusive)÷(1+5%)×5% *Tax declaration to the competent tax authority where the organization is located:* Tax Payable = 0
	Rent out house properties which acquired after May 1, 2016	*Prepay to the competent tax authorities where the real estate is located:* Tax Prepaid = Income (VAT inclusive)÷(1+5%)×3% *Tax declaration to the competent tax authority where the organization is located:* Tax Payable = Income (VAT inclusive)÷(1+9%)×9% - Tax Prepaid

Taxpayers	Behaviors	Prepaid Method
Small-scale Taxpayers	House properties leased by units and individual industrial and commercial households	*Prepay to the competent tax authorities where the real estate is located:* Tax Prepaid = Income (VAT inclusive)÷(1+5%)×5% *Tax declaration to the competent tax authority where the organization is located:* Tax Payable = 0
	Non-residential houses leased for individual industrial and commercial households	*Prepay to the competent tax authorities where the real estate is located:* Tax Prepaid = Income (VAT inclusive)÷(1+5%)×1.5% *Tax declaration to the competent tax authority where the organization is located:* Tax Payable = 0

Note:

According to relevant policies, from January 1, 2019 to December 31, 2021,VAT exempted if the small-scale taxpayers' monthly sales income does not exceed CNY100,000 (quarterly sales does income not exceed CNY300,000).

(2) Surcharge Taxes

Surcharge Taxes	Tax Basis	Tax Rate
Urban Maintenance and Construction Tax	VAT Amount	7%，5% or 1%
Surcharge for Education	VAT Amount	3%
Surcharge for Local Education	VAT Amount	2%

Note:

Shenzhen urban construction tax rate is 7%. If small-scale taxpayers meet the conditions for exemption from VAT, surcharge taxes are also exempt. If small-scale taxpayers are required to pay value-added tax, the surcharge tax will be levied by half.

(3) Property Tax

The tax law stipulates that the tax basis of the property tax levied on house leasing is the rental income (VAT inclusive). The tax calculation formula is:

Tax payable = Rental Income Excluding VAT × 12%

Note:
According to the relevant policies, from January 1, 2019 to December 31, 2021, the property tax of small-scale taxpayers will be reduced by half. Shenzhen companies can enjoy 3 years of property tax exemption for new purchased from the primary market. In addition, Shenzhen companies rent out owned houses and levies property tax based on the price. The calculation formula is:

Tax payable = Original Value of Taxable Property × 70% × 1.2% ÷ 12 × Months Due

(4) Stamp Duty

Companies renting out house properties shall pay stamp duty at 0.1% of the total rental amount in the lease contract concluded by both parties. The tax amount is CNY1 if the calculation tax amount is less than CNY1.

Note:
According to the relevant policies, from January 1, 2019 to December 31, 2021, the stamp duty of small-scale taxpayers will be reduced by half.

(5) Enterprise Income Tax

Real estate development companies shall incorporate the rental income obtained by house leasing into the total income of the enterprise to calculate and pay enterprise income tax. The general tax rate is 25%.

Note:
According to the relevant policies, small and low-profit enterprises can enjoy preferential tax rates from January 1, 2019 to December 31, 2021

3. Individual Rent Out House Property

(1) Value Added Tax

For residential houses rented by individuals, the VAT payable shall be calculated at a levy rate of 5% and levy at 1.5%. For non-residential houses rented by an individual, the VAT payable shall be calculated at a levy rate of 5% and levy at 5%.

Residential House

Tax Payable = Rental Income (VAT inclusive) ÷ (1+5%) ×1.5%

Non-residential House

Tax Payable = Rental Income (VAT inclusive) ÷ (1+5%) × 5%

Note:

According to the relevant policies, individuals shall collect rental income from house leasing by lump-sum rental , it can be equally apportioned during the lease period. VAT exempted if the apportioned monthly rental income does not exceed CNY100,000.

(2) Surcharge Taxes

Surcharge Taxes	Tax Basis	Tax Rate
Urban Maintenance and Construction Tax	VAT Amount	7%， 5% or 1%
Surcharge for Education	VAT Amount	3%
Surcharge for Local Education	VAT Amount	2%

Note:

Shenzhen urban construction tax rate is 7%. If individual taxpayers meet the conditions for exemption from VAT, surcharge taxes are also exempt. If the individual taxpayers are required to pay value-added tax, the surcharge tax will be levied by half.

(3) Property Tax

The tax law stipulates that when an individual rents out a residential house, the tax payable should be calculated based on the rental income (VAT exclusive) multiplied by tax rate of 4%. If the non-residential houses rented by an individual, the tax payable shall be calculated at tax rate of 12%.

Residential House
Tax Payable = Rental Income (VAT exclusive) × 4%

Non-residential House
Tax Payable = Rental Income (VAT exclusive) × 12%

Note:
Shenzhen's preferential policy for the property tax related to house leasing by individual is that the property tax is calculated based on the rental income (tax exclusive) multiplied by 2%, regardless of residential houses or non-residential houses.

(4) Stamp Duty

Residential House: Exempted
Non-residential House: *Tax Payable = Rental Income on Lease Contract ×0.1%*

Note:
For non-resident houses rented by individuals, stamp duty can be levied by half.

(5) Individual Income Tax

The tax law stipulates that individuals obtained rental income from house leasing, shall be calculated and paid individual income tax according to the item of "Property Lease Income", and the tax rate is 20%. Individual income tax is temporarily reduced at 10%. If an individual rents out a non-resident house, he shall pay individual income tax at a rate of 20%.

Residential House
<u>Monthly rental income less than CNY4,000</u>
Tax Payable = [Monthly Rental Income – Deduction Items – Maintenance Cost (Limit to CNY800) – CNY800] ×10%

<u>Monthly rental income more than CNY4,000</u>
Tax Payable = [Monthly Rental Income – Deduction Items – Maintenance Cost (Limit to CNY800)] × (1-20%) × 10%

Non-residential House

Monthly rental income less than CNY4,000

Tax Payable = [Monthly Rental Income – Deduction Items – Maintenance Cost (Limit to CNY800) – CNY800] × 20%

Monthly rental income more than CNY4,000

Tax Payable = [Monthly Rental Income – Deduction Items – Maintenance Cost (Limit to CNY800)] × (1-20%) × 20%

Note:

Shenzhen's preferential policies for individual income tax related to house leasing by individual are as follows (this preferential policy has not been issued to public by the Shenzhen Taxation Bureau):

Non-residential House

Tax Payable = Monthly Rental Income (VAT exclusive) × 0.5%

Non-residential House

Tax Payable = Monthly Rental Income (VAT exclusive) × 1%

For the comparison of various taxes involved in house leasing by different entities, the conditions of small and low-profits enterprise and the enterprise income tax preferential policies, please refer to the "*Comparison Table of China Tax Issues to House Leasing*"

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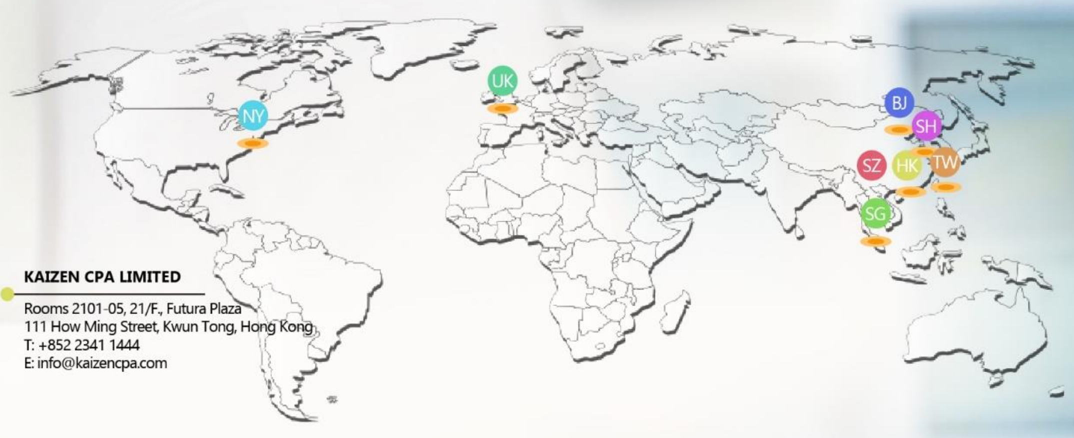

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