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The Tax Man Cometh: Chongqing and Shanghai to Launch Pilot Property Tax Programs

The journalists of *China Security* (a daily newspaper sponsored by Xinhua News Agency, the newspaper designated by the China Securities Regulatory Commission (CSRC), China Insurance Regulatory Commission (CIRC) and China Banking Regulatory Commission (CBRC) for information disclosure) recently confirmed that Shanghai and Chongqing will host first-round trials of a property tax system, though no detailed timetable has been set by the central government. The Ministry of Finance's Tax Policy Department Director Zhou Chuanhua said in early December that the government will gradually implement a tax on private properties during the next five-year planning period (the 12th Five-Year Plan). According to another official from the Ministry of Finance, the property tax is designed to be the primary tax source for local governments in east China, while the resource tax will be the primary tax source in west China. Commentators believe that the proposal for property tax reform will be issued before the annual meeting of the National People's Congress in March.

It has been reported that Chongqing and Shanghai will issue different pilot projects. According to the Notice on Further Strengthening the Adjustment and Control of the Real Estate Market (issued by Chongqing Municipal People's Government on December 8, 2010), Chongqing's property tax will focus mainly on high-end housing and villas. According to some unverified

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reports, the property tax will not be limited to high-end housing in Shanghai. If a family purchases property in Shanghai after the new regulations go into effect and, as a result, owns more than 200 square meters in total property, it must pay the property tax for the portion of the property area exceeding 200 square meters. If a family already owns a property or properties totaling more than 200 square meters before the new regulations go into effect, it does not have to pay any tax for the existing property.

There are still many controversies regarding how the property tax will be implemented. Nevertheless, the property tax is expected to be an effective tool in reining in property market speculation, and is expected to stabilize housing prices. The question on investors' minds is: will the tax function as predicted?

For more information on the new property tax or to discuss other aspects of China's real estate market, please contact your primary Squire Sanders lawyer or one of the lawyers listed in this Alert.

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