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## China Adopts Measures to Stimulate Real Estate Market

In the past few months, China has adopted several new measures to encourage development of its real estate market, especially the residential real estate sector.

To protect individuals wishing to purchase their first residential property from a heavy tax burden, the Ministry of Finance and State Administration of Taxation issued a Notice on the Adjustments to Taxation on Real Property Transactions (财政部国家税务总局关于调整房地产交易环节税收政策的通知) on October 22, 2008 that enacted the following provisions as of November 1:

1. Reduction of the deed tax (契税) on an ordinary residential property with an area of 90 square meters or below to 1 percent when purchased by a first-time buyer;
2. Temporary exemption from stamp duty (印花税) on residential properties sold or purchased by individuals; and
3. Temporary exemption from land appreciation tax (土地增值税) on residential properties sold by individuals.

To further encourage development of the real estate market, on December 20 the State Council issued a Circular on Several Measures to Promote Healthy Development in China's Real Estate Market (Guobanfa [2008] No.131) (国务院办公厅关于促进房地产市场健康发展的若干意见(国办发〔2008〕131号)) to clarify, *inter alia*, business tax (营业税) incentives for the transfer of ordinary and non-ordinary residential housing:

1. Individuals who transfer their ordinary residential housing (普通住房) held for two years or more (instead of the previous five-year requirement) are exempt from business tax. Also, if the property has been held for less than two years when it is transferred, the business tax due is now calculated

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### Contacts:

[Rainer Burkardt](#)

+86.21.6103.6360

+49.69.17392.400

[Nicholas Chan](#)

+852.2103.0388

[Francis Li](#)

+852.2103.0368

[Daniel F. Roules](#)

+86.21.6103.6309

[Sungbo Shim](#)

+86.10.8529.8692

[Amy L. Sommers](#)

+86.21.6103.6308

[James M. Zimmerman](#)

+86.10.8529.9735

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on a net basis, rather than a gross basis;

2. Individuals who transfer their nonresidential property (非普通住房) held for two years or more (instead of the previous five-year requirement) must still pay business tax on the property on a net basis, but if the property has been held for less than two years when it is transferred, the business tax is calculated on a gross basis;
3. The business tax incentives are provisional and expire after December 31, 2009.

Although these tax incentives are mainly aimed at boosting the secondary residential real estate market, they may also have some positive effect on the real estate business in general. At least, it appears that they will help to ease pessimistic market sentiments during the present financial tsunami.

For more information on the China real estate market, contact a member of the Squire Sanders China team.

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Squire, Sanders & Dempsey L.L.P.  
24th Floor, Central Tower, 28 Queen's Road Central, Central, Hong Kong, Hong Kong SAR, China