

# Tax Analysis

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## PRC Tax

## Indirect Tax Services

### Collection of Local Education Surcharge to be unified across China

The Shanghai and Jiangsu government authorities have announced that they will be collecting the 2% Local Education Surcharge retroactively as from 1 January 2011 and 1 February 2011, respectively (Hu Cai Jiao [2011] No. 10 and Su Zheng Fa [2011] No. 3). The local tax burden on enterprises in the two regions will be significantly increased by this change, collectively with the abolishment of the long-standing exemption of City Maintenance and Construction Tax and National Education Surcharge to foreign-invested entities from December 2010 (See Deloitte Tax Analysis P123/2010, issued 8 November 2010).

The Local Education Surcharge is imposed on entities and individuals on the total of VAT, Business Tax and Consumption Tax payable, with the revenue collected used to finance local education. Until recently, the surcharge was only applicable in certain regions of China. However, in November 2010, the Ministry of Finance issued Circular (Cai Zong [2010] No. 98, ("Circular 98")), urging *all* local governments to impose the Local Education Surcharge at a flat rate of 2% with a view to unifying the application of the surcharge across the country.

The circulars issued by the Shanghai and Jiangsu government authorities are a response to Circular 98 and, as illustrated in the following table, the new policies will increase the total local surcharge to 13% in Shanghai and to 12% in Nanjing, the capital of Jiangsu province.

### Local surcharges in Beijing, Shanghai and Nanjing

Local Surcharges	Beijing	Shanghai	Nanjing
City Maintenance and Construction Tax	7%	7%	7%
National Education Surcharge	3%	3%	3%
Local Education Surcharge	Collection schedule to be confirmed	2%	2%
River Maintenance Fee	-	1%	-
<b>Total</b>	<b>10%</b>	<b>13%</b>	<b>12%</b>

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## Comments

For taxpayers located in regions that do not yet impose the Local Education Surcharge, or in areas where the applicable rate was less than 2%, Circular 98 creates an additional tax burden. Although the collection schedule still needs to be confirmed in some areas (such as Beijing), it is expected that the 2% Local Education Surcharge will soon become applicable in all provinces throughout China.

Since the City Maintenance and Construction Tax, the National Education Surcharge and the Local Education Surcharge are all calculated on the VAT payable, Business Tax and Consumption Tax, there are financial implications, in particular, for taxpayers with significant indirect tax payables.

For the short term, affected taxpayers, especially in those areas where the Local Education Surcharge has not yet been imposed, should consider issuing invoices before the surcharge is levied. For the long term, a comprehensive tax planning strategy with a view to simplifying transaction procedures, would be worthwhile to eliminate or reduce unnecessary layers of transactions.

For more information or advice on the surcharge, please contact the Deloitte Indirect Tax Team.

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