

# **Notification that Foreign enterprises should pay city maintenance and construction tax & educational surcharges**

**PROVISIONAL REGULATIONS OF THE PEOPLE'S REPUBLIC OF CHINA**

**Guo Fa [2010]No.35**

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In order to further a unified tax system, fair taxation and the creation of an equal competitive external environment, all foreign enterprises and foreign individuals who are taxpayers of Consumer Tax, Value Added Tax or Business Tax should pay city maintenance and construction tax & educational surcharges.

The new regulation takes effect from 1<sup>st</sup> December 2010.

The tax burden of foreign enterprises will be the same as that of the domestic enterprises.

Foreign enterprises are referred to the notification in Chinese published here:  
<http://www.chinatax.gov.cn/n8136506/n8136593/n8137537/n8138502/9938060.html>

# Scope and Rate of Tax

<i>Taxpayers to whom the new regulation applies:</i>	All foreign enterprises and foreign individuals who are taxpayers of Consumer Tax, Value Added Tax or Business Tax
<i>Taxation base:</i>	Based on the total actual Consumer Tax, Value Added Tax or Business Tax
<i>Rate of city maintenance and construction tax:</i>	7% for companies located in cities 5% for companies located in villages & towns 1% for companies located elsewhere
<i>Rate of educational surcharges</i>	3%

# Tax Calculation Example

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For a foreign company located in Shanghai:

If consumer tax payable is RMB 500, VAT payable is RMB 600 and business tax payable is RMB 700, then...

- **maintenance and construction tax** =  $(500+600+700)*7\% =$   
RMB 126
- **educational surcharges** =  $(500+600+700)*3\% =$  RMB 54

Total tax payable is RMB  $500+600+700+126+54 =$  RMB 1980

After the new regulation comes into effect the tax burden will increase by **RMB 180**, an increase of **10%**

# Tax Calculation Example

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Tax obligation occurs on the day tax payer receives business income or obtain payment collection receipt.

If a foreign enterprise or individual does not have an operation structure within China, its withholding agent shall withhold the city construction tax and supplemental education tax based on the tax responsibilities accrued from 1 December 2010.