

# Unification of the Taxation of Foreign Enterprises, Foreign Invested Enterprises and Domestic Enterprises

October 18th, 2010.

The State Council issued the Notice on Unifying the City Construction Tax and Educational Surcharge of the Foreign Invested Enterprises, Foreign Enterprises, Foreign Individuals and Domestic Enterprises (the "Notice") on October 18th, 2010.

According to the Notice, the city construction tax and education surcharge will be levied on foreign invested enterprises, foreign enterprises and foreign individuals from December 1, 2010.

City construction tax and education surcharge are two types of surtaxes, which are levied on the taxpayers who pay the turnover tax, such as value-added tax, consumption tax and business tax. Each type of the surtaxes shall be calculated based on the following tax rate and calculation formula:

- The rate of the city construction tax differs depending on the location of the enterprise as follows:

Location	Rate of the city construction tax
In city areas	7% of the turnover tax
In county town	5% of the turnover tax
In other areas	1% of the turnover tax

The calculation formula is as follows: the amount of the city construction tax = the rate of the city construction tax × the rate of the turnover tax × the business income.

- The rate of the educational surcharge is 3% of the turnover tax.

The calculation formula is as follows: the amount of the educational surcharge = the rate of the educational surcharge × the rate of the turnover tax × the business income.

The Notice aims to unify the taxation of foreign enterprises, foreign invested enterprises and domestic enterprises. However, the tax cost of doing business in China or with China will increase when these two types of surtaxes are applied. In case an enterprise in the city area should pay the business tax (the rate is 5%), the tax burden will increase  $[5\% \times (7\% + 3\%)]$ , namely 0.5% of the business income. If an enterprise in the city area should pay the value-added tax or consumption tax, the tax burden will increase more, because the rate of the value-added tax or consumption tax is higher.