

Updates on the implementation of Local Education Surcharge



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Background

On November 7, 2010, the Ministry of Finance issued Caizong [2010] No. 98 ("Circular 98") requiring all provinces or cities to impose the Local Education Surcharge ("LES") at a flat rate of 2% on the total payment of value-added tax, business tax and consumption tax.

LES is a separate local surcharge distinguished from City Construction and Maintenance Tax (imposed at 7%, 5% or 1% depending on the location of the taxpayer) and Education Surcharge (imposed at a flat rate of 3%), although they share the same calculation basis based on total turnover taxes paid.

Circular 98 applies to all kinds of companies and individuals including foreign invested companies, foreign companies and foreigners.

LES imposing or adjusting dates of some provinces or cities

Following Circular 98, various provinces or cities start to impose or adjust the LES rate to 2%. We list out below the LES imposing or adjusting dates of some provinces or cities for reference.

Provinces or Cities	LES implementation date
Shanghai	January 1, 2011
Guangdong	January 1, 2011
Jiangsu	February 1, 2011
Tianjin	February 1, 2011
Sichuan	February 1, 2011
Chongqing	May 1, 2011
Beijing	January 1, 2012

Comments

As different provinces or cities have different LES imposing or adjusting dates, companies or individuals should check the local implementation status.

There would be additional indirect tax costs as a result of the LES collection or adjustment. Affected entities should assess and budget the costs and explore possibilities to minimize the additional costs such as re-negotiating the pricing methods with suppliers or customers.

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