



**REAL ESTATE TAXATION IN PORTUGAL, SPAIN AND
CHINA FOR NON-INSTITUTIONAL/INDIVIDUAL
INVESTORS: THE CASE OF CHINESE REAL ESTATE
INVESTORS IN PORTUGAL AND SPAIN**

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To my grandfather Joaquim

NOMENCLATURE

ARI – Portuguese initials for Resident Permit for Investment Activities: “Autorização de Residência para Atividades de Investimento”.

CIRS – Portuguese initials for the Individual Income Taxation Code: “Código do Imposto sobre o Rendimento das Pessoas Singulares”.

DTA – Double Taxation Agreement.

FSB – Financial Services Bureau.

IMI – Portuguese initials for the Municipal Property Tax on the possession of Real Estate Properties: “Imposto Municipal Sobre Imóveis”.

IMT – Portuguese initials for the Municipal Property Tax on the Acquisition of Real Estate Properties: “Imposto Municipal sobre as Transações Onerosas de Imóveis”.

LAT – Land Appreciation Tax.

NAV – Net Assessable Value.

REIF – Real Estate Investment Funds.

SAT – State Administration Taxation.

SSD – Special Stamp Duty.

TIVUL – Tax in the Increase of Value of Urban Land (Spanish tax).

VAT – Value-Added Tax.

ABSTRACT

During the last years, Portugal and Spain have been gaining an increasing importance in the agenda for Chinese real estate investors. These investors seek for the stability and low risk associated with this asset's class in Europe. Moreover, Portugal and Spain have implemented special programs, commonly known as “Golden Visas”, to attract foreign investors. The introduction of certain tax incentives was also relevant.

Therefore, the objective of this Dissertation is to compare the tax policy for real estate in Portugal, Spain and China, regarding individual investors and to determine which tax benefits exist and the global tax impact in the investment decision for real estate assets in the three geographies.

We created a fixed real estate portfolio based on the assets of two Portuguese Real Estate Investment Funds (REIF's) and compared the taxation of acquisition, ownership, rental income and sell in Portugal, Spain and China. Since we are in presence of quantitative data, we pursued a survey strategy, based on a realistic philosophy and adopting a hypothetic-deductive approach. The time horizon of this research was longitudinal, since three years of taxation were analyzed: 2013, 2018 and 2023 (by extrapolation).

This research was relevant because it created a framework to compare the structure of real estate taxation in Portugal, Spain and China (Beijing, Guangzhou, Shanghai, Hong Kong and Macau) and verified that real estate investment is a good entry door for Chinese investors in Europe. However, no further tax benefits exist on the exploration (rental), possession and sell of properties.

Keywords: Real Estate; Investment; Taxation; Portugal, Spain and China.

RESUMO

Durante os últimos anos, Portugal e Espanha adquiriram uma importância crescente na agenda dos investidores Chineses, particularmente no que concerne ao mercado imobiliário. Estes investidores procuram a estabilidade e o baixo risco associados a esta classe de ativos na Europa. Adicionalmente, Portugal e Espanha implementaram programas especiais, comumente denominados “Vistos Dourados” para atrair investidores estrangeiros. A introdução/implementação de incentivos fiscais também foi relevante.

Face ao exposto, o objetivo desta Dissertação é o de comparar a política fiscal para o imobiliário em Portugal, Espanha e China, no que concerne a investidores individuais e determinar quais os benefícios fiscais existentes atualmente e o impacto da questão fiscal na decisão de investimento imobiliário nestas três geografias.

Foi criado um portefólio fixo de ativos pertencentes a dois Fundos de Investimento Imobiliário (FII) Portugueses e comparada a tributação da aquisição, propriedade/posse, arrendamento e venda em Portugal, Espanha e China. Os dados utilizados são de natureza quantitativa e tem-se por base uma filosofia realista, adotando-se uma abordagem hipotético-dedutiva. O horizonte temporal desta pesquisa é longitudinal, sendo analisados três anos de tributação: 2013, 2018 e 2023 (por extrapolação).

Esta investigação é relevante uma vez que propõe uma estrutura de comparação da tributação do imobiliário em Portugal, Espanha e China (Beijing, Guangzhou, Shanghai, Hong Kong and Macau) e verifica que o investimento imobiliário constitui uma porta de entrada para investidores Chineses na Europa. No entanto, não existem benefícios fiscais à posterior exploração, posse e venda dos ativos imobiliários.

Palavras-Chave: Imobiliário; Investimento; Tributação; Portugal, Espanha e China.

INDEX

| | |
|--|-------------|
| NOMENCLATURE | iii |
| ABSTRACT | iv |
| RESUMO | v |
| INDEX OF TABLES | viii |
| ACKNOWLEDGEMENTS..... | ix |
| 1. INTRODUCTION | 1 |
| 1.1. Contextualization | 1 |
| 1.2. Research Problem and Objectives | 3 |
| 1.3. Research Questions..... | 4 |
| 1.4. Dissertation Organization and Structure | 5 |
| 2. LITERATURE REVIEW..... | 6 |
| 2.1. The Foundations of Real Estate Taxation | 6 |
| 2.2. Real Estate Taxation in Portugal | 7 |
| 2.3. Real Estate Taxation in Spain..... | 9 |
| 2.4. Real Estate Taxation in China | 10 |
| 2.4.1. Real Estate Taxation in Beijing, Shanghai, Chongqing and Guangzhou | 12 |
| 2.4.2. Real Estate Taxation in the Administrative Regions of Hong Kong and Macau ... | 12 |
| 2.4.3. Additional Considerations on the Taxation of Real Estate in China | 13 |
| 2.5. Double Taxation Agreements (DTA) | 14 |
| 2.6. Programs and Legislation to Attract Foreign Investors | 15 |
| 2.6.1. The “Golden Visa” in Portugal | 16 |
| 2.6.2. The “Golden Visa” in Spain | 19 |
| 3. METHODOLOGY | 21 |
| 4. DATA ANALYSIS..... | 24 |
| 4.1. Descriptive Analysis of Data..... | 24 |
| 4.2. Determination of the Tax Base for 2013, 2018 and 2023 | 27 |
| 4.3. Real Estate Taxation in Portugal | 28 |
| 4.4. Real Estate Taxation in Spain..... | 29 |
| 4.5. Real Estate Taxation in China | 30 |
| 4.6. Real Estate Taxation in Portugal, Spain and China: Comparative Analysis | 33 |
| 5. CONCLUSIONS AND RECOMENDATIONS | 34 |
| REFERENCES | 37 |

| | |
|---|-----------|
| APPENDIXES | 42 |
| Appendix 1: Taxation of Real Estate in Portugal..... | 42 |
| Appendix 2: Taxation of Real Estate in Spain | 44 |
| Appendix 3: Taxation of Acquisition and Transfer of Real Estate in China (Beijing, Shanghai and Guangzhou) | 46 |
| Appendix 4: Taxation of Acquisition and Transfer of Real Estate in China (Special Administrative Regions of Macau and Hong Kong) | 47 |
| Appendix 5: Taxation of Possession of Real Estate in China (Shanghai and Chongqing) .. | 49 |
| Appendix 6: Taxation of Rental Income in Shanghai, Beijing and Guangzhou | 50 |
| Appendix 7: Taxation of Rental Income in the Special Administrative Regions of Macau and Hong Kong | 53 |
| Appendix 8: Descriptive Analysis of the Sample Used..... | 54 |

INDEX OF TABLES

| | |
|---|----|
| Table 1: Descriptive Analysis Summary of the Sample Used | 27 |
| Table 2: Determination of the Tax Base..... | 28 |
| Table 3: Real Estate Taxation in Portugal - Portfolio Example..... | 29 |
| Table 4: Real Estate Taxation in Spain - Portfolio Example | 29 |
| Table 5: Real Estate Taxation in Beijing | 30 |
| Table 6: Real Estate Taxation in Shanghai | 31 |
| Table 7: Real Estate Taxation in Guangzhou..... | 31 |
| Table 8: Real Estate Taxation in the Special Administrative Region of Macau..... | 32 |
| Table 9: Real Estate Taxation in the Special Administrative Region of Hong Kong | 32 |
| Table 10: Summary of Real Estate Taxation in Portugal Spain and China | 33 |

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“In earlier days, people held currency as a safe form of wealth. Today, when people seek a safe haven for their wealth, the vast preponderance of their wealth is held in nonmonetary assets, such as savings accounts, stocks, bonds, and real estate.” (Samuelson & Nordhaus, 2010, p.461)

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1. INTRODUCTION

1.1. Contextualization

Real estate investment is characterized for its large size, for being illiquid and for its indivisible nature. For these reasons, a high level of scrutiny is required when considering to invest in this asset's class: location, construction quality, land use, expected return and legal status are important factors to take into account (Neves, Montezuma, & Laia, 2010; Belev & Gold, 2016; Cushman & Wakefield, 2017). These authors also suggest that the main reasons to invest in real estate are diversification (it has low correlation with other assets types), yield stability (income yields are relatively stable over time) and clarity and consistency of the business models (easier to understand for many investors than, for instance, financial derivatives).

In what concerns to forms of property investment (Eichholtz, Gugler, & Kok, 2011), we shall distinguish direct investment (in which the investor acquires real estate assets directly) and indirect investment (by purchasing a share capital of the entity that owns the assets). Indirect investment may be pursued through commercial companies or property investment funds (Cushman & Wakefield, 2017).

Cushman & Wakefield (2017) point out that the case in which the foreign investor buys the company and then the real estate asset is a common way of investing. This hypothesis shall only be considered in the cases in which the individual owns entirely (at 100%) the company and uses it as a mere vehicle to invest. However, this last case will not be explored in this Dissertation.

In an investment perspective, Neves et al. (2010) point out that taxes are relevant not only when estimating the cost of capital for a certain investment, but also to determine the related cash flows over time and their impact on net return. In the case of international real estate investments over time (Lieser & Groh, 2014), taxation also plays a very important and determinant role integrated in the regulatory framework of the target countries.

A crucial point is to clearly understand the tax implications (Eichholtz *et al.*, 2011) of real estate in Portugal. Many factors may generate a tax obligation and it also depends on whether

the investor is a resident, a non-resident, a non-permanent resident in Portugal, a company, an investment fund or an individual (Blevins Franks, 2017; Cushman & Wakefield, 2017). Buying the property, owning it, letting it and afterwards selling it are the main events that are subject to different taxes¹ and they need to be carefully analyzed. For non-residents, a rigorous cross-border tax planning is fundamental to try to avoid double taxation (Blevins Franks, 2017). Also, the introduction of fiscal benefits for non-permanent resident investors, and the legislation on this classification by itself, in Portugal, are other issues to take into account (Romão & Alves, 2011).

The main difference between real estate taxation in Portugal and China is stated by Qing & Guo (2006) as the fact that owners (in this last country) do not possess a complete property right, because they live under a constitutional arrangement in which the ownership of land is exclusively public. This means that individuals only hold property titles (JLL, 2018).

Despite the differences presented in the previous paragraph, there is, in the Portuguese legislation, a comparable ownership title called “surface right”² and it is described in the article 1524º of the Portuguese Civil Code. This “surface right” may be defined as the faculty to build or have plantations in a land that is owned by someone else, temporarily or definitively. However, in the Portuguese case, the land may be public or private.

The tax and legal frameworks in Portugal, specially the “Golden Visa”, or the Resident Permits for Investment Activities (ARI), make it very attractive for non-European investors (Casaburi, 2017). The author advocates that Portugal and Spain are very interesting investment recipients in southern Europe for Chinese investors. These two countries also work as an entry door to third markets as Brazil and Angola, due to their relationship with ex-colonies (Casaburi, 2017).

The real estate sector “has gone from being barely significant a few years ago, with no operations carried out, to become the seventh largest recipient of Chinese foreign investment at present.” (Casaburi, 2017, pp.40-41). According to the author mentioned, Chinese investors seek for the stability and the low risk of real estate assets in Europe. Lieser & Groh (2014) identified the legal, administrative and regulatory frameworks of the target country as

¹ All the taxes involved will be further presented and discussed in the Literature Review.

² In Portuguese, “direito de superfície” (cf. artº 1524 Código Civil).

dimensions of attractiveness for foreign investors and Casaburi (2017) claims that these attributes are especially relevant in Portugal.

A closer look into the statistics on ARI points out that 90% of the permits issued in march of 2018 in Portugal were due to real estate investment and 62,3% of the beneficiaries were Chinese citizens (APEMIP, 2018). In September of 2018, the same source identifies that in Portugal 94,5% of the permits issued were due to real estate investment and 40% of the beneficiaries were Chinese citizens (APEMIP, 2018). In cumulative terms, it is shown that the number of permits has been increasing since 2014 and the great majority is related with real estate investment. Chinese beneficiaries represent 79,4% of all beneficiaries in cumulative terms (APEMIP, 2018).

Spain also has a “Golden Visa” program to attract investors and entrepreneurs who wish to invest in Spain (Mateo, 2014). It was introduced by Law 14/2013 of 27th September and upon the fulfillment of certain features (financial investment, real estate investment or entrepreneurship) a permit may be attributed. Real estate investment is the major source of “Golden Visa” permits in Spain (Mateo, 2014).

1.2. Research Problem and Objectives

In face of the arguments discussed above, the main purpose of this Dissertation is to compare the tax policy for real estate in Portugal, Spain and China, regarding individual investors, with focus on individual Chinese real estate investors in Portugal and Spain. We aim to answer the research question: “Are there significant taxation differences for real estate in Portugal, Spain and China concerning individual investors?”. Besides that, it is also important to determine if any tax benefits are involved and the global tax impact in the investment decision, namely for Chinese real estate investors in Portugal and Spain.

For the reasons presented, this Dissertation may produce contributions of three orders: first, it will gather together tax information on real estate for three different countries (theoretical contribution); second, it may identify investment opportunities (practical contribution) and third, it may produce legal orientations in order to adjust tax legislation (legislative contribution).

1.3. Research Questions

This Dissertation has the main purpose of comparing the tax policy for real estate in Portugal, Spain and China, regarding individual investors, focusing the case of Chinese real estate investors in Portugal and Spain.

Following this argument, it aims to answer to the following research questions:

1. **“Are there significant taxation differences for real estate in Portugal, Spain and China concerning individual investors?”.**

What are the tax frameworks for taxation of real estate acquisition, ownership, operation and sale in China, Portugal and Spain and how do they differ from each other. Additionally, how are they influenced by legal frameworks designed for foreign investment in Portugal and Spain. This analysis will allow a comparison and may point out some opportunities for tax savings, making a theoretical contribution for literature on international taxation.

2. **“Are there any tax benefits and incentives concerning real estate for Chinese individual investors in Portugal?”**

What are, if there are, the tax benefits involving real estate investment, namely for individual Chinese foreign investors in Portugal. This will allow to understand if some parts of the real estate cycle have a more favorable tax approach and others for foreign investors.

3. “Are there any tax benefits and incentives concerning real estate for Chinese individual investors in Spain?”

In line with the previous research question, we aim to determine the existence and application of fiscal legislation regarding international investors, specially for Chinese real estate investors.

1.4. Dissertation Organization and Structure

This master Dissertation starts with an Introduction, where motivation, objectives and research questions are presented. After the first chapter, we develop a Literature Review in which we discuss the main theoretical questions that compose this investigation problem. Particularly, we describe the taxation frameworks in the three countries (Portugal, Spain and China) and how they deal with foreign investors.

The chapter that follows is dedicated to Methodology, namely, to describe and categorize the different instruments used and paradigms followed in this Dissertation. After that, Data and Results are presented and analyzed.

To end up this work and summarize the main achievements, there is a Conclusion, with recommendations to future investigations.

2. LITERATURE REVIEW

2.1. The Foundations of Real Estate Taxation

Taxes on real estate are historically related to the fact that property ownership is normally easy to establish and identify, making it difficult to evade (Cortés, 2011; European Commission, 2012).

Salm (2016) exposes three ways in which property taxes may be conceived: as benefit taxes (they aim to help providing a collective or public good benefit to local citizens); as windfall taxes (urban property owners may experience overnight gains or losses due to the interactions between land demand and land supply constraints, without them having contributed directly to them); and as wealth taxes (“...property is a primary financial asset of wealth accumulation which is visible, immobile and concentrated...”, Salm, 2016, p.5). Cortés (2011) adds an historical consumption perspective, advocating that demand and supply elasticities of property services should determine the tax rate being applied. In spite of that, the beneficial perspective is the most commonly accepted (Cortés, 2011; Salm, 2016).

As stated before, one of the main and most visible characteristics of real estate is its fixed nature (Eichholtz *et al.*, 2011; Belev & Gold, 2016; Salm, 2016) and based on this feature, there is the widespread and most commonly accepted view that when paying the property tax, people are paying for public property related services and infrastructures, i. e., they are being charged for the provision of local public services (Cortés, 2011; European Commission, 2012; Salm, 2016). Therefore, in line with the argument exposed, property taxes (on ownership) are deeply related with local governments and policies and are a good source for financing at the local level.

Theoretically, property taxes should increase transparency (Cortés, 2011) in the action of local city governments, because they have more incentives to develop actions and promote themselves within the regions where they collect the respective taxes. However, this revenue is not very representative for city councils and this relationship is not so linear in practice (Cortés, 2011).

On the other hand, foreign investors, when deciding how to allocate their capital overseas on real estate properties, need to pay special attention to the institutional environment, including tax legislation (Eichholtz *et al.*, 2011).

As mentioned in the Introduction, this Dissertation will explore the differences in real estate taxation in three countries: Portugal, Spain and China (in certain regions). Consequently, we need to present the main characteristics and differences of such tax systems. Additionally, this Dissertation will explore interactions of the previous described legislations with laws to avoid double taxation and programs to attract foreign investors to Portugal and Spain.

2.2. Real Estate Taxation in Portugal

In what concerns to Portugal's real estate taxation framework, Blevins Franks (2017) point out that there are five tax generating factors, namely, buying the property, owning the property, a "wealth effect" for possession of a high value of real estate assets, letting/renting the property and selling the property. Each of these situations are subject to different taxes, including a stamp duty (Autoridade Tributária [Portuguese Fiscal Authority], 2018). As stated before, most of the taxes related with real estate, as the transfer and the possession tax, are transferred to the different municipalities (European Commission, 2012; Autoridade Tributária, 2018).

There are three taxes that may be levied on the acquisition of a real estate property (Autoridade Tributária, 2018). The Municipal Transfer Tax (in Portuguese, "IMT") is calculated with base on the highest value between the tax registered value and the acquisition value and depends on whether it is an urban or rural property. Corporate entities resident in a "blacklisted jurisdiction" have a higher tax rate. If the transfer is subject to IMT, an additional stamp duty may be due. On the other hand, the acquisition is generally exempt from Value-Added Tax (VAT), as defined in the number 30 of the article 9th of the Portuguese VAT Code. Under certain requirements, the exemption may be waived, in which case the stamp duty is not collected.

In order to the VAT exemption being waived, in line with the numbers 5 and 6 of the article 12th of the Portuguese VAT Code, and with the Law Decree 21/2007 of 29th of January of the Portuguese Government, with further amendments, the objective and subjective requirements mentioned in the articles 2nd and 3rd of Law Decree presented must be verified. From these, we stress the fact that the transmission must involve the totality of a urban building or autonomous fraction, being affected to activities that predict the tax deduction of the VAT supported in acquisitions. Additionally, both the seller and the acquirer must be subject to VAT and have organized accounting.

Renting the property is firstly subject to a stamp duty tax of 10% of the monthly rent paid once at the beginning of the contract and then the rental income generated is taxed annually (Autoridade Tributária, 2018). However, certain maintenance and repair expenses may be deducted from gross income, as long as they are properly documented and have actually incurred (EY, 2013).

Owning a real estate property entitles the owner to pay a Municipal Property Tax (in Portuguese, “IMI”). The rates being applied depend on whether it is a rural or urban property (Autoridade Tributária, 2018).

The “wealth tax” was introduced on the 1st of January of 2017 and is levied on the sum of all tax registered urban property values and paid by property owners as of 31st of December. Certain reductions may be applied in the case of individual tax payers (Autoridade Tributária, 2018).

When the property is sold (Autoridade Tributária, 2018) a gain or loss is determined and, if there is a gain, it is subject to a tax that may vary between tax residents³ (in which case it is summed with income from other categories) and tax non-residents (to whom it is applied a flat 28% tax rate). The rules to calculate the capital gain are the ones explained in the Portuguese Legislation for Taxation of Individual Income⁴. As in the case of acquisition, the sale is generally exempt from Value-Added Tax (VAT), but under certain requirements, the exemption may be waived.

³ Tax residency in Portugal is defined in the article 16th of the Portuguese Individual Income Code, from which we stress the definition that a person who has stayed in the country for more than 183 days, followed or not, in any period of 12 months with beginning or ending in the respective year; or, if stayed less, has a home and the willingness to stay in Portugal, is a tax resident.

⁴ Whenever we apply the Portuguese rules to determine the amount due of any tax, we cross-reference the calculations with the respective legislation. This will be relevant in the data analysis section.

Additionally, the same sources of the previous paragraphs identify several situations that lead to a tax benefit or exemption for residents: one of these cases is the one of permanent residential houses (or family houses) in which the buying and the possession taxes may be reduced – this is particularly relevant for low income families. There may also be a 50% reduction in the amount of the capital gains subject to taxation if the properties are not used in a trade or business, for resident tax payers (EY, 2013; Autoridade Tributária, 2018).

The taxable value of properties for the Portuguese fiscal authority is determined administratively, following the criteria defined in articles 38th and followings of the Portuguese Municipal Property Tax Code on the possession of Real Estate Properties, however, the discussion on the calculation of this value will not be explored in this Dissertation. To our analysis, this is a given value.

In appendix 1, real estate taxation in Portugal is summarized, with special focus in the taxation of non-resident taxpayers, including a section with the respective taxes in 2013.

2.3. Real Estate Taxation in Spain

The way in which real estate is subject to taxation in Spain is quite similar to the Portuguese framework (Cushman & Wakefield, 2017). Cortés (2011) integrates the model for local public financing in Portugal and Spain (in which taxation of real estate property is an instrument) in the “Latin” classification, due to the low weight of local governments in the public sector. As a consequence, local property taxes, or property taxes on ownership, collected have low weights compared to central government capital transfers to local authorities (Cortés, 2011).

There are mainly four tax generating situations being considered now: the acquisition, the ownership, the renting and the sale (Blevins Franks, 2017).

The acquisition of real estate may be subject to a value-added tax and to a stamp duty or to a transfer tax, due by the buyer (Cushman & Wakefield, 2017). The ownership is subject to a property tax that similarly to the Portuguese homologous is considered a local tax decided at the city councils and shall be contained within certain boundaries (Cortés, 2011; Cushman & Wakefield, 2017). Income from renting the property, determined according to the Spanish tax

law (Agencia Tributaria, 2018) is also taxed, including, subject to a transfer tax, or stamp duty, determined based on the total amount of rents predicted in the contract (GobEs, 2018). The sale is subject to a capital gains' tax plus an additional tax explained in the paragraph below (Cushman & Wakefield, 2017).

In line with the description presented before, we need to refer the two main differences between the two countries (Portugal and Spain): first, there is no “wealth tax” for Spanish owners with high value of properties and second there is a Local Tax in the Increase of Value of Urban Land (TIVUL). This last tax is legislated in the Royal Decree 2/2004 of 5th of march of the Spanish Government⁵ and is due by sellers at the moment they sell a property. It depends on the cadastral value (determined administratively) of the land and on the number of years the land was held by the actual seller (Blevins Franks, 2017; Cushman & Wakefield, 2017). The TIVUL does not exempt the seller from being taxed on the capital gains.

Additionally, in Catalonia, owners of unoccupied houses (residential properties) for more than two years are subject to a special tax. In the same region, a new tourism tax is being studied to tax short term or temporary rentals (Cushman & Wakefield, 2017). Still concerning local property taxes, a few reforms have been proposed to increase equality and simplicity (Cortés, 2011), from which we stress the valuation system that should consist of an appraisal method based on market value.

Real Estate Taxation in Spain can be summarized in Appendix 2. In this appendix, we include a brief section with the taxation legislation applicable in this country in 2013 for comparison purposes, with special focus on the acquisition and rental income taxes. As it may be seen, the structure is identical to Portugal, the differences remain at the rates levied.

2.4. Real Estate Taxation in China

To introduce the real estate taxation system in China it is important to understand that it was reformulated in 1998 (Yuan & Xiang, 2013) and it has been suffering major transformations since 2006 to make it more market oriented (Qing & Guo, 2006). The basic idea behind the

⁵ In Spanish, “REAL DECRETO LEGISLATIVO 2/2004, de 5 de marzo, por el que se aprueba el texto refundido de la Ley Reguladora de las Haciendas Locales. - Boletín Oficial del Estado de 09-03-2004”

taxation framework, in accordance with the authors, was the fact that owners do not possess a complete property right, because they live under a constitutional arrangement in which the ownership of land is exclusively public. For this reason, tax payers are seen as “stakeholders in the process of development, transfer, holding, and tenancy of real estate” (Qing & Guo, 2006, p.5). This way of looking at taxes on real estate is completely the opposite of the one in the western world, in which taxpayers are regarded as beneficiaries from the provision of local public goods (Qing & Guo, 2006; European Commission, 2012; Yuan & Xiang, 2013). In China, property-owners have lease contracts for the land up to 70-years (Yangpeng, 2018).

Gopalan (2018) adds that the current system in which local authorities raise funds by selling property titles to developers cannot go on forever, because it pushes up real estate prices. So, the alternative of taxing homeowners is presented as a solution to both restrict housing prices and to provide a stable income flow for local authorities. Yuan & Xiang (2013) and Wang (2017) corroborate this idea, presenting one of the main objectives of the tax system reform as the will to tame property prices. The Land Appreciation Tax, LAT (Jones Lang LaSalle, 2018), that was firstly introduced in 1994 was specially designed in order to create a barrier to speculative development (cf. appendix 3). Bradsherjan (2018) claims that it is urgent to tame house prices via a property tax, especially due to cultural reasons involving the willingness of young homeowners to buy a house: the author claims that men can be regarded as more appealing future husbands if they own a property.

For the reasons presented, since 2011, Shanghai and Chongqing municipalities have introduced real estate taxes on second-home owners to try to control speculation around property prices (Jones Lang LaSalle, 2018; Gopalan, 2018). A study carried out by Bai, Li, & Ouyang (2014) showed that the introduction of property taxes in these two regions had different consequences: in Shanghai, average prices lowered; and in Chongqing average prices increased, because the taxes, in this later region, were discriminative – only more expensive houses were taxed. As a consequence, demand shifted from more expensive to cheaper houses, causing an increase in average prices. This means that tax implementation shall be cautious in order to attain the right effects (Bai *et al.*, 2014).

Given the high number of municipalities in China and the differences between the way in which real estate is taxed in each one, in this sub-chapter we will focus on the following regions: Beijing, Chongqing (only with respect with ownership taxes), Shanghai and Guangdong (Guangzhou). In this last region, we shall look more in detail for the

administrative regions of Hong Kong and Macau. The reason for this approach is concerned with the limited time horizon for this Dissertation and with the fact that for these locations there is more literature and information available.

There are different kinds of taxes involved in the real estate industry that cover the construction stage, the transfer stage and the possess stage (Yuan & Xiang, 2013). As it will be seen, the Chinese government taxes mainly the buying and selling activities (Yangpeng, 2018). Property ownership taxation by itself is due in most cases when it is rented. In the next paragraphs we shall look more in detail for how the different regions mentioned deal with these questions.

2.4.1. Real Estate Taxation in Beijing, Shanghai, Chongqing and Guangzhou

We may distinguish the land use tax from the leasing income tax. The land use tax depends on the use and location of the property and consists of a monetary value paid per square meter per annum (cf. appendix 5). The leasing income tax may be calculated in two different ways: it may be defined in three categories, namely, property tax, value-added tax and income tax; or, alternatively, the government may sum-up the different taxes together and call it a “comprehensive tax” (Jones Lang LaSalle, 2018). Again, these taxes may differ from city to city. Beijing, Shanghai and Guangdong (Guangzhou) follow this way of taxing real estate, as it can be seen in appendix 6.

Relatively to the acquisition and transfer of real estate, Beijing, Shanghai and Guangzhou, the taxation framework deeply relies on five taxes: a stamp duty, a deed tax, a notarization fee, a value-added tax and a city maintenance and construction tax (Jones Lang LaSalle, 2018). The LAT may also be applicable (cf. appendix 3).

2.4.2. Real Estate Taxation in the Administrative Regions of Hong Kong and Macau

In the Administrative Region of Hong Kong, the property tax is calculated on the Net Assessable Value (NAV) of the property for the relevant year of assessment (GovHK, 2018). NAV is then subject to a standard rate. It is important to mention that a year of assessment

starts on 1st April and ends on 31st March of the following year. In addition, a Provisional Tax may be due for the next year of assessment and paid in two installments: one in November and the other one in April. The amount of the provisional tax is equal to the property tax of the base year of assessment. The provisional tax may not be applied if the assessable value for the provisional tax year is estimated to be less than or likely to be less than 90% of the assessable value of the preceding year (base year), for instance, if the owner sells the property (GovHK, 2018). The lease of immovable properties is also subject to a stamp duty, depending on the term of the contract.

Additionally, there is a stamp duty on the sale or transfer of immovable properties in Hong Kong (GovHK, 2018). The stamp duty is chargeable on sellers and on buyers of any residential property and depends on whether the property being transacted is residential or non-residential. Taxes vary from 1.5% to 15% of the property value (the highest value between the appraisal value and the transaction value). In some cases, the sellers may be subject to a Special Stamp Duty (SSD) if they acquired the property and resold it within 36 months. (GovHK, 2018).

As for the Administrative Region of Macau, the Financial Services Bureau (FSB) of the Government of Macao Special Administrative Region (FSB, 2018) presents the real estate taxation in two moments: acquisition and property tax. The unique characteristic of this regime that differs from the ones presented before is the fact the property tax (the tax on ownership) is levied on the rental income if the property is leased, but, if it is not rented, there is an administrative rental value determined by the fiscal authority that is subject to taxation (FSB, 2018). The value mentioned should reflect the real economic value of a possible rent and it is subject to updates. Taxes on acquisition and ownership (rented or not) of real estate in Macau are legislated by law 15/2012 and by law 1/2011 of Macau (FSB, 2018).

The taxation of real estate in Hong Kong and Macau is summarized in appendixes 4 and 7.

2.4.3. Additional Considerations on the Taxation of Real Estate in China

Wang (2017) points out the tendency of the taxation framework in China to reduce the current land-related fees and taxes, as presented before, in both category and value and replace it by a single tax. Also, the author claims that the implementation of a new nationwide property

registry system will be crucial. According to Zhang (2015), the Provisional Regulations on Real Estate Registration went into effect in 2015, imposing the implementation of that system but Wang (2017) argues that it has not been fully implemented yet.

When designing and implementing the tax reform in China, first, there is the need to clarify the purpose of the property tax and take into account the differences across regions, namely concerning legislation and the political, fiscal and administrative environment (Salm, 2016). Another issue to be determined concerns the taxable value of real estate properties, a question that divides opinions between the initial cost and the appraisal value⁶ (Yangpeng, 2018).

To sum up, real estate taxation in China is still not uniform and is facing many transformations. Yangpeng (2018) stresses out that Chinese people, as mentioned before, do not hold permanent and complete rights on their homes, but 70-year leases, so, the tax reform should be implemented carefully. On the other hand, the implementation of a tax framework shall be done with caution in order to avoid the wrong consequences (Bai *et al.*, 2014).

2.5. Double Taxation Agreements (DTA)

Blevins Franks (2017) advise that investing abroad requires a careful and exhaustive tax planning, especially to avoid double taxation. For this purpose, it is important to mention the existence of Double Taxation Agreements (DTA) among the three countries discussed in this Dissertation: Portugal, Spain and China (Autoridade Tributária, 2018; Agencia Tributaria [Spanish Fiscal Authority], 2018).

Portugal and China have celebrated a DTA that is described in the Portuguese Parliament's Resolution nr. 28/2000 of 30/03 (Autoridade Tributária, 2018). The DTA that Portugal celebrated with Spain is legislated by the Portuguese Parliament's Resolution nr.6/95 of 28/01 (Autoridade Tributária, 2018) and the DTA between China and Spain is regulated by the Official State Bulletin of the Spanish Government nr. 152 of 25/6/1992 (Agencia Tributaria, 2018). In 2011, Spain also formalized a DTA with the Special Administrative Region of Hong

⁶ Recall the same discussion regarding the determination of the cadastral value in Spain (cf. sub-chapter 2.3).

Kong, legislated by the Official State Bulletin of the Spanish Government nr. 90 of 14/4/2012 (Agencia Tributaria, 2018).

Ho & Lu (2018) argue that the most fundamental and substantial document regarding China DTA (for foreign investors that want to invest in China) is Circular No. 75 issued by the Chinese State Administration of Taxation (SAT). The authors expose the fact that it draws heavily on the European Model Tax Convention. However, we will not explore this topic further, because the focus of our Dissertation are Chinese investors coming to Portugal and Spain and not otherwise.

In addition, in this Dissertation, we shall only present and analyze the case of individual investors who wish to spend an amount of capital of at least 500.000,00€ but not higher than 600.000,00€ (to fulfill the criteria explained below to obtain a Residence Visa, as defined in the Methodology section). Consequently, we are dealing with non-institutional investors, with relatively low knowledge of the new market they are investing in, so, they will be particularly subject and sensitive to asymmetries in information (Eichholtz *et al.*, 2011). In the next sub-chapter we discuss these issues and we shall describe the type of investors we will explore and their scope of investment.

2.6. Programs and Legislation to Attract Foreign Investors

Both Portugal and Spain have created beneficial tax regimes and special permits to attract foreign investors (Mesquita, 2014; Cushman & Wakefield, 2017): Spain's taxation framework predicts some benefits on the taxation of real estate income and capital gains for non-residents; Portugal has a differentiated fiscal regime for non-permanent resident investors ("temporary residents") that is described by the Portuguese Law Decree 249/2009 of 23rd of september (Autoridade Tributária e Aduaneira, 2018). One of the main objectives of these regimes is to promote fiscal competitiveness (Mesquita, 2014) in a world more and more globalized (Eichholtz *et al.*, 2011).

In the next sub-chapters, we present the specificities of the "Golden Visa" programs in Portugal and in Spain and we describe the tax benefits these countries have introduced to

capture investors from other countries. It is, however, crucial to denote that the “Golden Visa” legislation that grants resident permits and may lead to the obtention of citizenship in the host country is independent, but not mutually exclusive, from the tax legislation that introduces fiscal benefits, under certain conditions, for new “tax” residents.

2.6.1. The “Golden Visa” in Portugal

There is a “Golden Visa” Program in Portugal that grants resident permits for non-European citizens, including their family members (Mesquita, 2014; Fengyang, 2016; Casaburi, 2017). The aim of this program is to capture people with acquisition and investment power (Mesquita, 2014).

The “Golden Visa” Program, or the Resident Permit for Investment Activities (ARI) is legislated by Law 23/2007 of 4th of July of the Portuguese Government, with further amendments. The Orders 11820-A/2012, of 4th of September, and 1661-A/2013, of 28th of January, of the same Government define the procedures and rules to its appliance (Mesquita, 2014). To obtain the temporary resident permit, one shall fulfill certain requirements, namely, capital transfers to Portugal, job creation or real estate acquisition for a minimum time horizon of five years in national (Portuguese) territory (Mesquita, 2014).

For the purpose of this Dissertation, we look with more attention to the real estate investment. In order to be qualified to obtain a Visa, the investor has to acquire directly or indirectly (via a company) real estate assets of at least 500.000,00€ (five hundred thousand euros) and to remain in Portugal at least seven days (followed or not) in the first year and fourteen days (followed or not) in the subsequent periods of two years. The permit has the initial duration of one year and it is renewed for periods of two years. After 6 years, there is the possibility to request the Portuguese nationality. On the other hand, there is the possibility to pursue an investment of 350.000,00€ (three hundred and fifty thousand euros) in a property built for more than 30 years or located in an area of urban rehabilitation to carry on renovation works (Mesquita, 2014; Autoridade Tributária e Aduaneira, 2018).

From the 983 “Golden Visas” awarded from June 2013 to October 2015, 335 were for Chinese citizens (Casaburi, 2017). In what concerns to Chinese investors, Casaburi (2017) suggests that there are two categories of Chinese real estate investment in Portugal: firstly,

there are private investors that seek for prime locations, exclusive neighborhoods and premium properties; secondly, there are investors that look for properties to develop and sell at a profit. These investors want the stability and the low risk associated with real estate assets (Belev & Gold, 2016; Casaburi, 2017). It is imperative to understand, especially in these cases, that owner occupied houses involve two types of decisions: a consumption decision and an investment decision (European Commission, 2012).

As for the reasons that support the success of the “Golden Visa” Program, Fengyang (2016) points out the good environmental quality, the easy access to real estate investment, the low cost and simple process of migration and the teaching quality, namely for their children. Actually, it was found that many Chinese investors pursue the “Golden Visa” Program in order to support their children while studying in Portugal (Fengyang, 2016).

In Portugal, there is, in addition, a fiscal regime for non-permanent resident investors described in Law Decree 249/2009 of 23rd of September of the Portuguese Government (Romão & Alves, 2011; Autoridade Tributária e Aduaneira, 2018). To access this regime, individuals that want to become tax residents in Portugal cannot have been “tax” residents for the past five years prior to the request near the official entities. Also, we shall denote that any individual that fulfills the condition above, independently of pursuing or not investment activities, may access this regime and it is applied for 10 years, subject to renovation⁷ (Romão & Alves, 2011).

Romão & Alves (2011) and Mesquita (2014) advocate that this regime is particularly attractive for pensionists (retired people) and for income generated by activities of high value added, namely the ones described in the Portuguese Government Order no. 12/2010. These activities may be taxed at a special rate of 20% (Autoridade Tributária e Aduaneira, 2018), promoting a fiscal benefit for taxpayers of categories “A” and “B”⁸, as defined by the Portuguese individual income tax law (Romão & Alves, 2011).

Additionally the fiscal regime for non-permanent residents allows for the “temporary residents” to be exempt of taxation in Portugal relatively to the incomes from renting and selling real estate properties (capital gains) generated in other countries as long as there is the

⁷ According to Romão & Alves (2011) the possibility of renewing the access to the regime is not fully clarified, but that discussion is beyond the scope of this Dissertation.

⁸ These categories have a correspondence with the Individual Income Portuguese Code (CIRS), as described in its arts. 2º and 3º. If the activities described were taxed following the “normal rules”, the rates applied and thus the tax due were higher – cf. Romão & Alves (2011).

possibility to tax them where they were generated and there exists an Agreement with that country (DTA or another agreement or convention with the OCDE⁹). This measure may avoid double taxation, but cannot be applied if the country from where the income comes from is a “blacklisted jurisdiction” (Romão & Alves, 2011; Mesquita, 2014; Autoridade Tributária e Aduaneira, 2018). In line with the previous authors, we shall mention that pensionists that receive pensions from another countries benefit from the exemption of taxation in Portugal of their pensions under the same requirements.

According with the numbers 5, 7, 8, and 9 of the article 81st of the Portuguese Individual Income Taxation Code, non-permanent residents that benefit from the exemption of taxation in Portugal relatively to the incomes mentioned in the previous paragraph have these same incomes taken into account (englobed) when determining the tax rate to be applied to the other incomes not exempt in Portugal (tax exemption with progressivity). There is also the possibility to englobe the incomes mentioned and opt for de taxation credit methodology defined in the number 1 of that article. However, rental incomes received abroad do not need to be englobed. In addition, the country where the incomes were originally generated cannot be a “blacklisted jurisdiction”.

The real estate income generated in Portugal, however, is subject to the general rules of the Portuguese individual income tax law (Autoridade Tributária e Aduaneira, 2018).

As shown in the previous paragraphs, the Investment Permits have gained increased interest to foreigners and the real estate investment takes an important part in the investment choices (Casaburi, 2017). This may be due to the easy access to this typology of investment (Fengyang, 2016). There are also many factors that make Portugal attractive, namely, the good environmental and teaching quality (Fengyang). Mesquita (2014) points out that the new temporary residents may take advantage of DTA’s and have tax benefits concerning incomes from other countries (Autoridade Tributária e Aduaneira, 2018): one may apply for a Visa and then request the access to the fiscal regime described in Law Decree 249/2009 of 23rd of September of the Portuguese Government. However, in spite of real estate being a “good entry door” to Portugal, then, the income generated is subject to the general Portuguese Tax Law – there are no further special tax benefits defined.

⁹ The Convention on Mutual Administrative Assistance in Tax Matters was first developed in 1988 and aims to promote tax cooperation in order to avoid tax evasion and avoidance for all countries (OECD, 2018). This Convention entered into force for both Hong Kong and Macau on the 1st of September of 2018 (OECD, 2018).

2.6.2. The “Golden Visa” in Spain

The Spanish “Golden Visa” Program was introduced by Law 14/2013 of 27th September, of the Spanish Government, and upon the fulfillment of certain features a permit may be attributed (Mateo, 2014). The initial period is one year (residency visa), but it may be extended for periods of two years (residency permit), with no limit to renewals, as long as the investor is not originally from a “blacklisted jurisdiction”, maintains the conditions that originated the visa (Mateo, 2014) and has traveled to Spain at least once during the period (Adim, 2017). To obtain citizenship, the investor has to permanently live in Spain for ten years (GobEs, 2018).

The requirements to obtain a residence visa may be of three orders: financial investment, real estate investment or entrepreneurship (Mateo, 2014; Mesquita, 2014). Once again, we shall detail the real estate investment that must be of at least 500.000,00€ (five hundred thousand euros) directly or indirectly via a company (Mesquita, 2014; Adim, 2017).

Although our focus is the real estate investment, it is important to state that the Spanish regime predicts the attribution of the visa to buyers of Spanish Government Bonds of at least two million euros (Mesquita, 2014), an investment not predicted in the homologous Portuguese legislation. Actually, the regulation on the attribution of “Golden Visas” is quite similar in the two countries (Adim, 2017).

Both in Portugal and in Spain, legislation on investment permits is recent, so, there are a few conflicts that persist, as the discussion of resident versus non-resident, for the purposes of taxation, in interaction with non-permanent residence visas and permits (Mesquita, 2014). Again, the residency legislation is independent, but not mutually exclusive, from the concept of residency for taxation purposes. If the holders of the permits are non-residents (for taxation purposes) in each country, the DTA’s celebrated with other third countries cannot be applied and they must be taxed as non-residents (Mesquita, 2014), so, even with a residency visa, an investor may be treated as a non-resident tax payer (Adim, 2017).

In the article 93rd of the Law 35/2006, of 28th of November, of the Spanish Government, also known as the Beckham Law (Amorim, 2017) is defined a special regime for foreign workers in Spanish territory. If the workers have not been tax residents in Spain for the prior ten years and for working reasons they are going to live in Spain, they may be taxed as non-residents in the first year and in the five years that follow (Amorim, 2017). To access this tax regime, they

need to fulfill the requirements displaced in the law above and for an income up to 600.000,00€ (six hundred thousand euros) the tax rate being applied is 24% and from that income on, the tax rate shall be 47% (Amorim, 2017).

In comparison with the Portuguese legislation, there is no special treatment for incomes of foreign source (Amorim, 2017). Remember that in Portugal, for instance, pensions from other countries are exempt from national taxation as long as not received from a country in a “blacklisted jurisdiction” (Romão & Alves, 2011).

The DTA’s celebrated between Portugal and China (Autoridade Tributária, 2018) and between Spain and China (Agencia Tributaria, 2018) concerning the income generated from real estate assets including capital gains on sale predict the possibility for them to be taxed in the country where the income was generated. In what concerns to the property tax, deeply related with the fixed nature of the assets, it is due in the country where the real estate property is located (Autoridade Tributária, 2018; Agencia Tributaria, 2018). As we have demonstrated, in the absence of further benefits on the taxation of these incomes, the general rules shall be applied and residency defined carefully in order to apply taxation correctly.

3. METHODOLOGY

As defined in the Introduction, the main objective of this Dissertation is to compare the tax policy for real estate in Portugal, Spain and China, regarding individual investors, with focus on individual Chinese real estate investors in Portugal and Spain. In addition, it is also important to determine if any tax benefits are involved and the global tax impact in the investment decision, namely for Chinese real estate investors in Portugal and Spain.

To pursue the objectives presented above, we adopt a realistic philosophy, independent and objective, and we opt for an explanatory and deductive approach, i. e., the theory and legal frameworks are described and then compared (Saunders *et al.*, 2016). The data analyzed further has a quantitative nature (property values, cadastral or “tax registered” values, rental incomes and tax rates) and we aim to establish a hypothetic-deductive relation, able to be generalized and used in the comparative analysis of tax impacts on real estate investments.

After gathering all the relevant fiscal information, our purpose is to compare the taxation of a real estate portfolio in the three countries in analysis. Therefore, we collected data from 2227 properties belonging to two Portuguese Real Estate Investment Funds (REIF) for Residential Rental (convenience sampling)¹⁰ and took it as a fixed portfolio, then studying how it should be taxed in Portugal, Spain and China, according with the following assumptions:

- (1) We defined an investment portfolio of Portuguese rented properties acquired in 2013, held until 2018 and assumed to be sold in 2023 (ten years investment horizon);
- (2) A year of assessment starts at the 1st of January and ends at the 31st of December of the same year;
- (3) Three moments of taxation are explored with more detail: the acquisition in 2013, how it should be taxed if sold in 2018 and how it should be taxed if sold in 2023, not forgetting the income generated in each of those years, ignoring the years between;

¹⁰ We collected data from two Portuguese Funds: “Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional Arrendamento Mais” and “Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional Solução Arrendamento”, both under the Management of Norfin.

- (4) The data used corresponds to market data, made available by the administration of the Real Estate Investment Funds;
- (5) The extrapolations of values made to 2023 are explained in the Data Analysis Section;
- (6) In China, only the following regions are analyzed: Beijing, Shanghai, Guangzhou, Macau and Hong Kong;
- (7) Tax policy will remain constant between 2018 and 2023 for Portugal and Spain;
- (8) Tax policy for China is assumed be the same for 2013 and 2023 as the one verified in 2018;
- (9) In Portugal and Spain we analyze taxation only for non-residents and in China for tax residents;
- (10) Even though the REIF's benefit from certain tax exemptions that go beyond the scope of this Dissertation, we assume the portfolio to be taxed as if the owners were individual investors that pursued an investment in rented properties between 500.000,00€ and 600.00,00€ just to be elected to a "golden visa" in Portugal and Spain but not taxed for high-value property possession in Portugal (Autoridade Tributária e Aduaneira, 2018). Additionally, no investor is resident in a "blacklisted jurisdiction"¹¹;

The main point that we want to stress is the fiscal effect in each country, so, as stated, we assume a market portfolio to be constant in the three countries, only varying the way in which the different tax generating factors are actually taxed.

For these reasons, the strategy here adopted is a survey strategy and since we study a phenomenon along ten years, the time horizon of this Dissertation is longitudinal (Saunders *et al.*, 2016).

It is important to mention that the methodology here presented respects the quality criteria proposed by Saunders *et al.* (2016). It is reliable (there is transparency in the way sense was made from the original data, providing consistent findings), objective (non-biased by the

¹¹ A note shall be made on the fact that the Portuguese Legislation classifies Hong Kong as a "blacklisted jurisdiction" as defined in the Portuguese Order 150/2004 of 13th of February, so this assumption does not apply to non-resident tax payers in Portugal that are tax residents in Hong Kong.

researcher's view) and it has internal and external validity (i. e., it is generalizable). Additionally, this research is in line with *The European Code of Conduct for Research Integrity* (ALLEA, 2017). Due to ethical issues, raw data on each individual observation used in this Dissertation cannot be publicized, so, only statistic measures and values shall be used as a working base (cf. "4. Data Analysis").

There are, however, some limitations to this investigation work. The first one has to do with the fact that the literature on the Chinese taxation system is not very abundant and for a framework that deeply differs from the one we are used to in Europe, reliable information is crucial. Due to this limitation, only a few regions in China were studied, as explained in the Literature Review. The second one is concerned with the fact that fiscal frameworks are constantly being changed by political authorities, which may alter the investment conditions during its time horizon. We cannot forget the fact that real estate investment is typically long in time and a change in the tax and fiscal variables may change the return and ultimately may turn a good investment decision into a bad investment choice.

The last limitation of this research is the fact that taxation, although playing an important role, shall not be overemphasized when deciding whether to pursue or not a certain real estate investment. Other factors shall also be taken into consideration (Casaburi, 2017).

4. DATA ANALYSIS

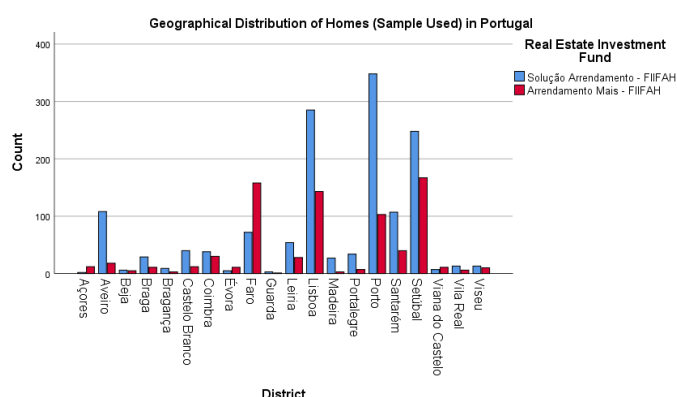
4.1. Descriptive Analysis of Data

As mentioned in the Methodology section, we collected a sample of 2227 residential properties belonging to two Portuguese REIF's: in simple terms, REIF “Solução Arrendamento” (1448 properties) and REIF “Arrendamento Mais” (779 properties). We started with 3788 cases, but we had to narrow our sample to those cases which were acquired in 2013 and to properties with at least 35 m² of area, which is the minimum area for an apartment in Portugal (cf. Portuguese Law Decree 38 382/51 of 7th of August). Therefore, we ended up with the 2227 observations referred with data for two periods: acquisition (2013) and now (2018).

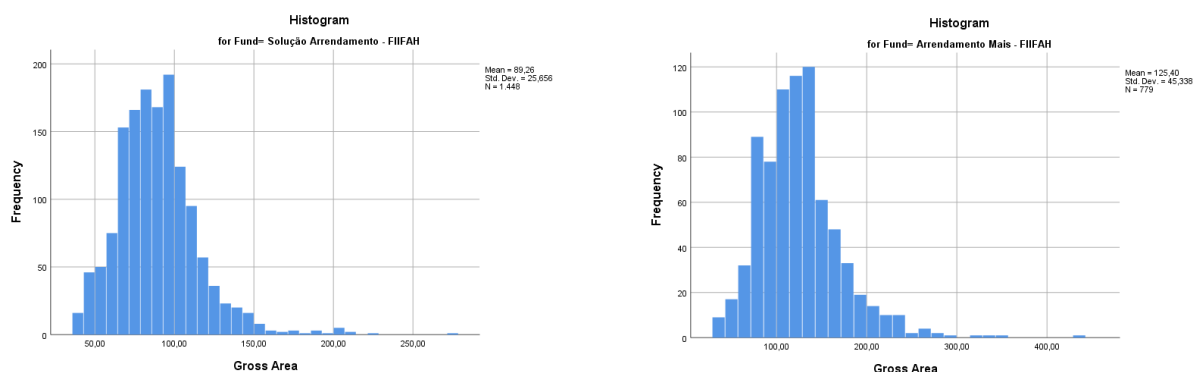
For all properties in our sample, we have the following data: acquisition value; monthly rent at the acquisition moment; current value; current monthly rent; gross area of each apartment and location.

In terms of geographical distribution across Portugal of our sample (cf. Graphic 1), the majority of cases is verified in Lisbon (Portugal's capital), Porto and Setúbal. The average area of the residential units is 101,9 m² and the standard deviation is 37,99 m². The median area is 94,7 m² and the variable area is positively skewed, so, most of the cases have lower areas and a few observations have high areas. The distribution of areas in each REIF is summarized in Graphic 2.

Graphic 1: Geographical Distribution of the Sample Used across Portugal



Graphic 2: Distribution of the Area of each Apartment



In Table 1, we present a descriptive analysis of the variables we are studying. To further details on these statistics cf. Appendix 8.

The average property value in 2013 was 89.970,16€ and the median was 72.250,00€, which means that 50% of the properties had a value equal or lower than 72.250,00€ and 50% of the cases were valued greater than 72.250,00€. The standard deviation of this variable is 53.805,96€, so, on average, the property value in 2013 was deviated from its average by 53.805,96€. The skewness coefficient is greater than zero, meaning that the distribution is positively skewed (or skewed to the right): there is a concentration of observations to the left of the mean. A note shall be made to the extreme property values (maximum and minimum): these values are significantly different from each other and the data provided does not allow for further consideration on the specific type of assets, so, for the purpose of our analysis, we use the median property value.

The average property value in 2018 was 90.142,00€ and the median was 74.000,00€, which means that 50% of the properties had a value equal or lower than 74.000,00€ and 50% of the cases were valued greater than 74.000,00€. The standard deviation of this variable is 51.676,50€, so, on average, the property value in 2018 was deviated from its average by 51.676,50€. The skewness coefficient is greater than zero, meaning that the distribution is positively skewed (or skewed to the right): there is a concentration of observations to the left of the mean. For the purpose of our analysis, as we did relatively to 2013, we use the median property value and we can verify that, on average, property values have increased 0,19% between 2013 and 2018.

The average monthly rent value in 2013 was 447,66€ and the median was 360,00€, which means that 50% of the properties had a monthly rent equal or lower than 360,00€ and 50% of the cases were valued greater than 360,00€. The standard deviation of this variable is 268,97€, so, on average, the rental value in 2013 was deviated from its average by 268,97€. The skewness coefficient is greater than zero, meaning that the distribution is positively skewed (or skewed to the right): there is a concentration of observations to the left of the mean. For the purpose of our analysis, we use the median rental value.

The average monthly rent value in 2018 was 319,98€ and the median was 293,25€, which means that 50% of the properties had a monthly rent equal or lower than 293,25€ and 50% of the cases were valued greater than 293,25€. The standard deviation of this variable is 140,40€, so, on average, the rental value in 2018 was deviated from its average by 140,40€. The skewness coefficient is greater than zero, meaning that the distribution is positively skewed (or skewed to the right): there is a concentration of observations to the left of the mean. For the purpose of our analysis, as we did relatively to property values, we use the median rental value. As it can be seen, contrarily to property valuations, rentals have decreased, on average, between 2013 and 2018.

A note shall be made on the verified decrease of average rental values between 2013 and 2018. The most probable explanation has to do with the change of tenants: old tenants exited homes and new ones negotiated lower rents. This is supported on two facts. First, real estate is highly related with the location of the properties (Neves, Montezuma, & Laia, 2010; Belev & Gold, 2016), so, in an extreme scenario, each municipality entails a different market, with different characteristics. Second, and in the line with the first argument, of houses to be rented was stable between 2013 and 2015 and the supply of houses to rent registered an increase, in Portugal (APEMIP, 2018). To fully determine the causes of this effect, we had to had access rental contracts and study the different locations.

There is another value that we shall use that is the tax registered value of each property: we had access to data from 2018, but not for all 2227 observations. From the 889 of the 2227 cases from which we had data, we estimated the geometric mean for the difference between the property value and the taxable property value, which is less 24,34%: we used the geometric mean since it is more appropriate to deal with rates.

Table 1: Descriptive Analysis Summary of the Sample Used

| Variable | Gross Area | Property Value in 2013 | Rent in 2013 (Monthly) | Property Value in 2018 | Rent in 2018 (Monthly) |
|----------------------|----------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Units | m² | € | € | € | € |
| Average | 101,90 | 89 970,16 € | 447,66 € | 90 142,00 € | 319,98 € |
| Std. Deviation | 37,99 | 53 805,96 € | 268,97 € | 51 676,50 € | 140,40 € |
| Median | 94,70 | 72 250,00 € | 360,00 € | 74 000,00 € | 293,25 € |
| Maximum | 429,60 | 686 150,00 € | 3 430,00 € | 735 000,00 € | 2 500,00 € |
| Minimum | 35,33 | 4 050,00 € | 20,00 € | 5 000,00 € | 30,34 € |
| Inter Quartile Range | 40,85 | 44 650,00 € | 220,00 € | 46 450,00 € | 121,34 € |
| Skewness | 1,70 | 3,46 | 3,46 | 4,01 | 4,47 |

4.2. Determination of the Tax Base for 2013, 2018 and 2023

Having described the Methodology used and presented statistics our sample, we calculate the tax base for each year and tax generating factor in Table 2. However, we shall present a note on Capital Gains: to calculate this value we have determined the difference between the amount hypothetically received from selling and the acquisition price (value in 2013) corrected by a monetary correction coefficient (cf. Table 2). Since the Capital Gains were negative in both theoretical periods (2013-2018 and 2013-2023), we decided not to include the monetary correction coefficient.

Table 2: Determination of the Tax Base

| Determination of the Tax Base | | | | |
|-------------------------------|------------------|------------------|------------------|--|
| Year | 2013 | 2018 | 2023 | Assumptions |
| Property Value | 200 363 543,73 € | 200 746 225,00 € | 201 129 637,17 € | The sum of all property values in each year, i. e., the value of the Portfolio of the 2227 observations. For 2018 to 2023, we assume the same variation that occurred from 2013 to 2018. |
| Capital Gain | - | - 1 620 954,17 € | - 1 237 542,00 € | Determined accordingly with the Portuguese Tax Legislation (cf. articles 42nd and followings from the Portuguese Individual Income Taxation Code). |
| Capital Gain Corrected | - | 382 681,27 € | 766 093,44 € | Since the Capital Gains were negative, to force taxation we did not consider the monetary correction referred in article 50th of the Portuguese Individual Income Taxation Code. |
| Annual Rental Income | 11 963 220,00 € | 8 551 214,52 € | 11 963 220,00 € | The sum of the rental income of all observations multiplied by 12 to obtain the annual amount. In 2023 rents are assumed to be equal to 2013. |
| Monthly Rent | 996 935,00 € | 712 601,21 € | 996 935,00 € | Used to calculate the Stamp Duty in each year assuming tenants change in each specified year. It is the sum of the monthly rents in each year. |
| Occupancy | 100% | 100% | 100% | |
| Property Taxable Value | 151 595 057,19 € | 151 884 593,84 € | 152 174 683,48 € | Respecting the differences between property value and tax registered values in 2018, which is less 24,34% for the second. |

4.3. Real Estate Taxation in Portugal

In accordance with sections “2.2 Real Estate Taxation in Portugal” and Appendix 1, we can summarize the taxation of the portfolio defined previously respecting the Portuguese tax legislation in Table 3.

We present three columns. The first column is taxation in 2013, year of acquisition of the portfolio (assuming the 1st of January). The second column is taxation in 2018, assuming the same rules/legislation as in 2017, if it was sold at the end of that year (no property tax on this year). The third column concerns taxation in 2023 if it was sold in 2023 (no property tax on this year and the capital gains tax is only charged in 2023).

Table 3: Real Estate Taxation in Portugal - Portfolio Example

| Real Estate Taxation in Portugal for Non-Residents | | | | |
|--|------------------------|------------------------|-----------------------|---|
| Year | 2013 | 2018 | 2023 | Observations |
| Acquisition of Portfolio | 16 029 083,50 € | | | Transfer tax, being charged the maximum rate: 8% |
| Stamp Duty on Acquisition | 1 602 908,35 € | | | Special Stamp of 0,8% in 2013 |
| Stamp Duty on Tenancy Contracts | 99 693,50 € | 71 260,12 € | 99 693,50 € | Stamp Duty of 10% on the monthly rental value |
| Rental Income | 3 349 701,60 € | 2 394 340,07 € | 3 349 701,60 € | 28% for individuals in all years |
| Property tax | 682 177,76 € | 683 480,67 € | | 0,45% of the "Property Taxable Value" |
| Capital Gains Tax | | 107 150,76 € | 214 506,16 € | 28% for individuals in both years |
| Additional Property Tax ("AIMI") | | | | This tax is not levied, because we assume the average investment to be between 500000€ and 599000€. |
| Total per year | 21 763 564,71 € | 2 572 750,94 € | 3 663 901,26 € | The investor only pays the property tax of 2018 if he sells in 2023, but he never pays the property tax of 2023. |
| Taxation in 2013 and 2018 | | 24 336 315,65 € | | No property tax charged in 2018. |
| Taxation in 2013, 2018 and 2023 | | 28 576 546,83 € | | When the property is only sold in 2023 (projection), no capital gains tax is charged in 2018. However, the investor pays the property tax of 2018, but not the one corresponding to 2023. |

4.4. Real Estate Taxation in Spain

In accordance with sections "2.3 Real Estate Taxation in Spain" and Appendix 2, we can summarize the taxation of the portfolio defined previously respecting the Spanish tax legislation in Table 4. To calculate the TIVUL, since the value of the building has to be excluded, we applied the Portuguese Regulamentary Decree 25/2009 of 14th of september, namely its article 10th to assume that the value of the land corresponds to 25% of the total value.

Table 4: Real Estate Taxation in Spain - Portfolio Example

| Real Estate Taxation in Spain for Non-Residents | | | | |
|---|------------------------|------------------------|-----------------------|---|
| Year | 2013 | 2018 | 2023 | Observations |
| Acquisition of Portfolio | 22 039 989,81 € | | | Transfer tax, being charged the maximum rate: 11% |
| Stamp Duty on Acquisition | | | | Exempt |
| Stamp Duty on Tenancy Contracts | 99 693,50 € | 71 260,12 € | 99 693,50 € | No reliable and solid literature was found on this issue, so, we assume it to be equal to Portugal |
| Rental Income | 2 960 896,95 € | 2 052 291,48 € | 2 871 172,80 € | 24,75% in 2013 and 24% in 2018 and 2023 |
| Property tax | 1 667 545,63 € | 1 974 499,72 € | | 1,1% in 2013; 1,3% in 2018 |
| Capital Gains Tax | | 95 670,32 € | 191 523,36 € | 25% in 2018 and 2023 |
| "TIVUL" | | 421 479,75 € | 422 284,75 € | 3,7% of 30% of the land cadastral value, without the value of the building (presumably, the building represents 75% of value) |
| Total per year | 26 768 125,89 € | 2 640 701,67 € | 3 584 674,41 € | The investor only pays the property tax of 2018 if he sells in 2023, but he never pays the property tax of 2023. |
| Taxation in 2013 and 2018 | | 29 408 827,56 € | | No property tax charged in 2018. |
| Taxation in 2013, 2018 and 2023 | | 34 450 851,62 € | | When the property is only sold in 2023 (projection), no capital gains tax nor "TIVUL" is charged in 2018. However, the investor pays the property tax of 2018, but not the one corresponding to 2023. |

4.5. Real Estate Taxation in China

According with section “2.4 Real Estate Taxation in China” and Appendixes 3, 4, 5, 6 and 7, we can summarize the taxation of the portfolio in the following regions of China: Beijing (cf. Table 5); Shanghai (cf. Table 6); Guangzhou (cf. Table 7); Special Administrative Region of Macau (cf. Table 8) and Special Administrative Region of Hong Kong (cf. Table 9).

Table 5: Real Estate Taxation in Beijing

| Real Estate Taxation in Beijing | | | | |
|---------------------------------------|------------------------|------------------------|------------------------|---|
| Year | 2013 | 2018 | 2023 | Observations |
| Acquisition of Portfolio | 10 719 449,59 € | | | |
| Sale Agreement | 100 181,77 € | | | 0,05% of the assets value. |
| Notarization Fees | 601 090,63 € | | | 0,3% of the property purchase price |
| Deed Tax | 10 018 177,19 € | | | 5% of the purchase price |
| Rental Income | 1 887 796,12 € | 1 349 381,65 € | 1 887 796,12 € | |
| Stamp Duty | 11 963,22 € | 8 551,21 € | 11 963,22 € | 0,1% of the lease fees (annual) |
| Real Estate Tax | 478 528,80 € | 342 048,58 € | 478 528,80 € | 4% of rental income |
| VAT | 179 448,30 € | 128 268,22 € | 179 448,30 € | 1,5% of rental income |
| City Maintenance and Construction | 12 561,38 € | 8 978,78 € | 12 561,38 € | 7% of VAT |
| Education Fee Supplement | 5 383,45 € | 3 848,05 € | 5 383,45 € | 3% of VAT |
| Local Education Fee Supplement | 3 588,97 € | 2 565,36 € | 3 588,97 € | 2% of VAT |
| Individual Income Tax | 1 196 322,00 € | 855 121,45 € | 1 196 322,00 € | 10% of the income from property leasing |
| Portfolio Sell | 10 854 727,42 € | 10 990 263,62 € | | |
| VAT | 10 037 311,25 € | 10 056 481,86 € | | 5% of the amount of sales |
| City Maintenance and Construction Tax | 702 611,79 € | 703 953,73 € | | 7% of VAT |
| Land Appreciation Tax | 114 804,38 € | 229 828,03 € | | 30% given the profit rate <30% on the capital gain (JLL, 2018) |
| Total per year | 12 607 245,71 € | 12 204 109,07 € | 12 878 059,74 € | |
| Taxation in 2013 and 2018 | | 24 811 354,78 € | | |
| Taxation in 2013, 2018 and 2023 | | 26 834 687,09 € | | When the property is only sold in 2023 (projection), no Portfolio Sell taxes are charged in 2018. |

Table 6: Real Estate Taxation in Shanghai

| Real Estate Taxation in Shanghai | | | | |
|---------------------------------------|------------------------|------------------------|------------------------|---|
| Year | 2013 | 2018 | 2023 | Observations |
| Acquisition of Portfolio | 10 719 449,59 € | | | |
| Sale Agreement | 100 181,77 € | | | 0,05% of the assets value. |
| Notarization Fees | 601 090,63 € | | | 0,3% of the property purchase price |
| Deed Tax | 10 018 177,19 € | | | 5% of the purchase price |
| Rental Income | 2 321 014,20 € | 1 908 161,54 € | 2 321 014,20 € | |
| Stamp Duty | 11 963,22 € | 8 551,21 € | 11 963,22 € | 0,1% of the lease fees (annual) |
| Real Estate Tax | 1 435 586,40 € | 1 026 145,74 € | 1 435 586,40 € | 12% of rental income |
| Land Use Tax | 873 464,58 € | 873 464,58 € | 873 464,58 € | 30 RBM per square meter per annum assuming 1RBM=0,1283€ (source: Yahoo Finance; 26/10/2018) |
| Portfolio Sell | | 10 854 727,42 € | 10 990 263,62 € | |
| VAT | | 10 037 311,25 € | 10 056 481,86 € | 5% of the amount of sales |
| City Maintenance and Construction Tax | | 702 611,79 € | 703 953,73 € | 7% of VAT |
| Land Appreciation Tax | | 114 804,38 € | 229 828,03 € | 30% given the profit rate <30% on the capital gain (JLL, 2018) |
| Total per year | 13 040 463,79 € | 12 762 888,95 € | 13 311 277,82 € | |
| Taxation in 2013 and 2018 | | 25 803 352,74 € | | |
| Taxation in 2013, 2018 and 2023 | | 28 259 903,14 € | | When the property is only sold in 2023 (projection), no Portfolio Sell taxes are charged in 2018. |

Table 7: Real Estate Taxation in Guangzhou

| Real Estate Taxation in Guangzhou | | | | |
|---------------------------------------|------------------------|------------------------|------------------------|---|
| Year | 2013 | 2018 | 2023 | Observations |
| Acquisition of Portfolio | 10 719 449,59 € | | | |
| Sale Agreement | 100 181,77 € | | | 0,05% of the assets value. |
| Notarization Fees | 601 090,63 € | | | 0,3% of the property purchase price |
| Deed Tax | 10 018 177,19 € | | | 5% of the purchase price |
| Rental Income | 969 020,82 € | 692 648,38 € | 969 020,82 € | |
| Stamp Duty | 11 963,22 € | 8 551,21 € | 11 963,22 € | 0,1% of the lease fees (annual) |
| Rental Income Tax | 957 057,60 € | 684 097,16 € | 957 057,60 € | 8% on annual income |
| Portfolio Sell | | 10 854 727,42 € | 10 990 263,62 € | |
| VAT | | 10 037 311,25 € | 10 056 481,86 € | 5% of the amount of sales |
| City Maintenance and Construction Tax | | 702 611,79 € | 703 953,73 € | 7% of VAT |
| Land Appreciation Tax | | 114 804,38 € | 229 828,03 € | 30% given the profit rate <30% on the capital gain (JLL, 2018) |
| Total per year | 11 688 470,41 € | 11 547 375,79 € | 11 959 284,44 € | |
| Taxation in 2013 and 2018 | | 23 235 846,20 € | | |
| Taxation in 2013, 2018 and 2023 | | 24 340 403,22 € | | When the property is only sold in 2023 (projection), no Portfolio Sell taxes are charged in 2018. |

Table 8: Real Estate Taxation in the Special Administrative Region of Macau

| Real Estate Taxation in the Special Administrative Region of Macau | | | | |
|--|------------------------|------------------------|------------------------------|---|
| Year | 2013 | 2018 | 2023 | Observations |
| Acquisition of Portfolio | 27 049 078,40 € | | | |
| Tax on Acquisition | 26 047 260,68 € | | 13% on the portfolio value | |
| Stamp Duty | 1 001 817,72 € | | 0,005 of the portfolio value | |
| Rental Income | 1 136 505,90 € | 812 365,38 € | 1 136 505,90 € | |
| Stamp Duty | 59 816,10 € | 42 756,07 € | 59 816,10 € | 0,005 of the annual rental income |
| Rental Income Tax | 1 076 689,80 € | 769 609,31 € | 1 076 689,80 € | 10% of 90% of the annual rental income tax |
| Portfolio Sell | | - € | - € | |
| No information on taxes of this nature | | | | |
| Provisional Tax | Not discussed | | | |
| Total per year | 28 185 584,30 € | 812 365,38 € | 1 136 505,90 € | |
| Taxation in 2013 and 2018 | | 28 997 949,68 € | | |
| Taxation in 2013, 2018 and 2023 | | 30 134 455,58 € | | When the property is only sold in 2023 (projection), no Portfolio Sell taxes are charged in 2018. |

Table 9: Real Estate Taxation in the Special Administrative Region of Hong Kong

| Real Estate Taxation in the Special Administrative Region of Hong Kong | | | | |
|--|------------------------|------------------------|--------------------------|---|
| Year | 2013 | 2018 | 2023 | Observations |
| Acquisition of Portfolio | 30 054 531,56 € | | | |
| Buyer's Stamp Duty | 30 054 531,56 € | | 15% of the assets value. | |
| Rental Income | 1 824 391,05 € | 1 304 060,21 € | 1 824 391,05 € | |
| Income Tax | 1 794 483,00 € | 1 282 682,18 € | 1 794 483,00 € | 15% on annual income |
| Stamp Duty | 29 908,05 € | 21 378,04 € | 29 908,05 € | 0,25% of annual rent |
| Portfolio Sell | | 30 111 933,75 € | 30 169 445,57 € | |
| Stamp Duty on Sell | | 30 111 933,75 € | 30 169 445,57 € | 15% of the amount of sales (Part 1 of Scale 1 - cf. GovHK, 2018) |
| Special Stamp Duty | | | | Not applicable, because the holding period was greater than 36 months |
| Total per year | 31 878 922,61 € | 31 415 993,96 € | 31 993 836,62 € | |
| Taxation in 2013 and 2018 | | 63 294 916,57 € | | |
| Taxation in 2013, 2018 and 2023 | | 65 176 819,45 € | | When the property is only sold in 2023 (projection), no Portfolio Sell taxes are charged in 2018. |

4.6. Real Estate Taxation in Portugal, Spain and China: Comparative Analysis

Given the results presented in the previous sections, we can summarize the differences in terms of real estate taxation in the three countries in Table 10.

Table 10: Summary of Real Estate Taxation in Portugal Spain and China

| Comparative Analysis of Real Estate Taxation | | | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Portugal | Spain | Beijing | Shanghai | Guangzhou | SAR Macau | SAR Hong Kong |
| Taxation in 2013 and 2018 | 24 336 315,65 € | 29 408 827,56 € | 24 811 354,78 € | 25 803 352,74 € | 23 235 846,20 € | 28 997 949,68 € | 63 294 916,57 € |
| Taxation in 2013, 2018 and 2023 | 28 576 546,83 € | 34 450 851,62 € | 26 834 687,09 € | 28 259 903,14 € | 24 340 403,22 € | 30 134 455,58 € | 65 176 819,45 € |

5. CONCLUSIONS AND RECOMENDATIONS

In the Introduction, we defined the main purpose of this Dissertation: to compare the tax policy for real estate in Portugal, Spain and China, regarding individual investors, with focus on individual Chinese real estate investors in Portugal and Spain. In this chapter, we outline the main conclusions and findings.

The first major finding of this Dissertation is concerned with the fact that the taxation frameworks of real estate are significantly different between Portugal and China and between Spain and China. Between Portugal and Spain, the differences fall fundamentally at the rates levied at the acquisition level and ownership state (but differences may be substantial).

Even though, we have simplified the legislation and adopted a description of the different taxes through four main axes: acquisition of properties; exploration (renting) the same properties; sell of the real estate assets; and possession (for Portugal and Spain this last feature was treated separately and for China it was connected with the rental income taxation). Moreover, it was shown that in different regions in China, taxation frameworks and legislation may be completely different.

Particularly, in the regions studied in China (except for Shanghai), it was found out that taxes on possession of residential properties are only levied on rented houses (if the landlord is not a company), which means that if the house is vacant no tax is due. Contrarily, in Portugal and in Spain, property taxes are levied independently of the house being rented or not.

Another question that stands is the stratification of the real estate taxes levied in Beijing for non-corporate landlords that rent residential properties. As it was presented, it is very clear the association between the tax collected and the purpose of that tax, for instance, the “Education Fee Supplement” or the “City Maintenance and Construction Tax” (cf. Appendix 6). This means that there is a connection between property taxes and the provision of some public goods, as it happens in the reasoning behind taxation frameworks in the European countries (Cortés, 2011; Salm, 2016).

The construction of a real estate portfolio allowed to compare the different dimensions of taxation in the seven taxation frameworks presented. In spite of the assumptions of this

approach (cf. Methodology Section) and assuming always the maximum rate for each dimension, it was found out that generally Portugal is aligned with Beijing, Shanghai, Macau and Guangzhou (which levies taxation in a lighter way than Portugal, as calculated). On the other hand, taxation in Spain is higher than in Portugal and is closer to Macau. Hong Kong is the region where taxation is the highest and Guangzhou is the region where taxation is the lowest, given the regions/countries studied.

The findings mentioned in the last paragraph are particularly important because they show an alignment between real estate taxation in Europe and in the regions studied in China, except for Hong Kong. This closeness is not in structural terms, but in the overall taxes levied on the same tax base. However, it cannot be forgotten that we analyzed a Portuguese portfolio that may be completely different from a Chinese pool of real estate assets – there are certain local market characteristics that may be related to different taxation frameworks, but overall absolute differences are not substantial.

As for the “Golden Visa” programs of Portugal and Spain that aim to capture foreign investment, the real estate investment constitutes a good entry door to attain residency visas (Casabury, 2017), but once it is incurred there are no special benefits applicable to income from renting or selling the properties. Even in Portugal, the fiscal regime for non-permanent resident investors described in Law Decree 249/2009 of 23rd of September of the Portuguese Government (Romão & Alves, 2011; Autoridade Tributária e Aduaneira, 2018) that may be required, in addition, by investors, does not contemplate tax benefits or exemptions for real estate investment as it does, for instance, for pensions. However, taxation is not everything when evaluating investment opportunities.

A closer look into the differences verified between Portugal and Spain regarding the taxation of non-residents highlights the fact that the Portuguese framework is more attractive in terms of real estate taxation. The main differences are registered at the acquisition and possession stages. A note shall be made on the fact that this study levied the maximum rates, and in the case of acquisition taxes (transfer taxes) there is an interval of possible variation: for Spain, for instance, the interval is 2% to 11% of the acquisition value.

In fact, if the transfer tax in Spain was the middle point of the interval, 6,5%, the overall taxation between Portugal and Spain would be very similar, *coeteris paribus*. However, since, newly constructed residential houses are subject to VAT at a 10% rate (Cushman &

Wakefield, 2017), we assume that the transfer tax on used residential properties is closer to the upper limit of the interval, thus, making Portugal more attractive in terms of real estate taxation. As for the property tax, notice that the lower limit, 0,4%, of Spain is nearly the same as the upper limit, 0,45%, for Portugal.

These previous paragraphs lead to other question regarding the DTA's celebrated between Portugal and China and between Spain and China that is related with the elimination of double taxation. As it is stated in the DTA's between Portugal and China (article 23rd, nr.1); Spain and China (article 24th, nr.2) and Spain and the Special Administrative Region of Hong Kong (article 21st, nr.1), there is the possibility for Chinese taxpayers to deduct the amount of taxes paid abroad in capital gains and income in China, as long as they are not higher than the homologous tax that would be due following the Chinese legislation (Autoridade Tributária e Aduaneira, 2018; Agencia Tributaria, 2018).

On the other hand, a non-permanent resident in Portugal, according with article 81st of the Portuguese Individual Income Taxation Code, that benefits from the exemption of taxation in Portugal relatively to the incomes mentioned in the last paragraph generated abroad, have these same incomes considered (englobed) when determining the tax rate to be applied to the other incomes not exempt in Portugal. There is also the possibility to englobe the incomes mentioned and opt for de taxation credit methodology defined in the number 1 of that article. However, rental incomes received abroad do not need to be englobed. In addition, the country where the incomes were originally generated cannot be a "blacklisted jurisdiction".

In what concerns suggestions for future investigations, we would recommend the use of a different methodology, for instance, interviewing investors that pursue real estate investment in Portugal, Spain and China and try to determine if the different taxation systems produce a major impact on net return. Another suggestion is to study deeper the interaction between DTA's and the "Golden Visa" programs.

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APPENDIXES

Appendix 1: Taxation of Real Estate in Portugal

| Real Estate Taxation in Portugal (Cushman & Wakefield, 2017) | |
|---|--|
| Acquisition | Ownership |
| <p>(1) Transfer Tax ("IMT"): the acquisition of real estate properties is subject to transfer tax levied on the highest value between the acquisition price and the tax registered value at the following rates: (i) 0% - 8% on residential property; (ii) 6,5% on other urban property or land construction; (iii) 5% on rural property; (iv) 10% when the buyer is not an individual and is resident in a "blacklisted jurisdiction", as defined in Ministerial Order 150/2004 of 13th of February;</p> <p>(2) Value-Added Tax (VAT): the acquisition of real estate properties is generally exempt from VAT, but it can be waived under certain conditions.</p> | <p>(1) Rental Income (non-residents): 28% in the case of individuals; 25% in the case of companies; in both cases, the income is subject to a 25% withholding tax if the entities that pay have organized accounting; resident individuals may be subject to a 28% tax or sum the income with income from other categories;</p> <p>(2) VAT: rentals are generally exempt from VAT, but it can be waived under certain conditions and subject to the standard rate of 23%;</p> <p>(3) Property Tax: It varies from 0.3% to 0.45% for urban property and land for construction and 0.8% on rural property, being waived on the property taxable value. If the owner is a company resident in a "blacklisted jurisdiction", the tax rate is 7.5%;</p> <p>(4) Additional Property Tax ("AIMT"): 0.7% for individuals; 0.4% for companies; and, 7.5% for entities resident in a "blacklisted jurisdiction". This tax is levied on the sum of all tax registered urban property values and paid by property owners as of 31st of December. Individuals are only taxable on the value exceeding €600.000,00 (six hundred thousand euros), but are subject to an increased rate of 1% on part exceeding one million euros;</p> <p>(5) Special Contribution: 20% to 30% on the increase of value and may apply in the event of any new property developments due to major infrastructure public works carried out in Lisbon, Porto and their outskirts. It is due by the person or entity in whose name the building permit is issued.</p> |
| Sale | |
| <p>(1) Capital Gains (non-residents): 25% for corporate entities; 28% for individuals. These gains may be excluded from taxation in Portugal if a DTA applies; resident individuals may sum the capital gains with other income at 50% if it is not used in a trade or business;</p> <p>(2) VAT: generally exempt, but the exemption may be waived under certain conditions.</p> | |

Real Estate Taxation in Portugal in 2013 (EY, 2013; Deloitte, 2013)

| Acquisition | Ownership |
|---|--|
| <p>(1) Transfer Tax ("IMT"): the acquisition of real estate properties is subject to transfer tax levied on the highest value between the acquisition price and the tax registered value at the following rates: (i) 0% - 8% on residential property; (ii) 6,5% on other urban property or land construction; (iii) 5% on rural property; (iv) 10% when the buyer is not an individual and is resident in a "blacklisted jurisdiction", as defined in Ministerial Order 150/2004 of 13th of February;</p> <p>(2) Value-Added Tax (VAT): the acquisition of real estate properties is generally exempt from VAT, but it can be waived under certain conditions.</p> | <p>(1) Rental Income (non-residents): 28% in the case of individuals; 25% in the case of companies; in both cases, the income is subject to a 25% withholding tax if the entities that pay have organized accounting;</p> <p>(2) VAT: rentals are generally exempt from VAT, but it can be waived under certain conditions and subject to the standard rate of 23%;</p> <p>(3) Property Tax: It varies from 0.3% to 0.45% for urban property and land for construction and 0.8% on rural property, being waived on the property taxable value. If the owner is a company resident in a "blacklisted jurisdiction", the tax rate is 7.5%;</p> <p>(4) Additional Property Tax ("AIMI"): introduced in 1st January 2017;</p> <p>(5) Special Contribution: 20% to 30% on the increase of value and may apply in the event of any new property developments due to major infrastructure public works carried out in Lisbon, Porto and their outskirts. It is due by the person or entity in whose name the building permit is issued.</p> |
| Sale | |
| <p>(1) Capital Gains (non-residents): 25% for corporate entities; 28% for individuals. These gains may be excluded from taxation in Portugal if a DTA applies; resident individuals may sum the capital gains with other income at 50% if it is not used in a trade or business;</p> <p>(2) VAT: generally exempt, but the exemption may be waived under certain conditions.</p> | |

Appendix 2: Taxation of Real Estate in Spain

| Real Estate Taxation in Spain (Cushman & Wakefield, 2017) | |
|---|--|
| Acquisition | Ownership |
| <p>(1) Value-Added Tax (VAT): newly completed or restored properties - (i) 21% if it consists of a transfer of a non-residential property; (ii) 10% if it consists of a residential property (including parking spaces and storage units); <u>used</u> properties are exempt of VAT and subject to Transfer Tax – the exemption may be waived if certain conditions are met in the case of non-residential properties;</p> <p>(2) Transfer Tax: used properties are subject to transfer tax (and exempt from VAT) at rates from 2% to 11% depending on the region).</p> | <p>(1) Rental Income: 25% of net rent (gross rent less certain expenses) if Spanish resident companies; 24% if non-residents from non European Union Countries; 19% if non-residents from European Union Countries; If non-residents have a permanent establishment they are taxed in the same way as residents;</p> <p>(2) VAT: rentals for commercial uses are subject to VAT at the general rate of 21%; residential rentals are exempt but subject to transfer tax, except in the cases in which the landlord provides services equivalents to those of the hotel industry;</p> <p>(3) Property Tax: It varies from 0.4% to 1.3% of the property cadastral value, depending on the region. In Barcelona, a “metropolitan tax” of 0.149% of the cadastral value is due;</p> <p>(4) In the case of companies that carry on leasing activities, an additional 0.1% of the cadastral value is due if annual turnover is greater than 1 million euros and it operates for more than two years.</p> |
| Sale | |
| <p>(1) Capital Gains: 25% of the difference between the transfer price and the tax value of the properties (similar to the net carrying value determined in accounting); 19% if it is a non-resident entity;</p> <p>(2) Local Tax on the Increase of Value of Urban Land “IIVUL”: up to 30% of the land cadastral value – the value of the building should not be considered – adjusted by a percentage determined the number of years that the land has been held by the seller (up to 20 years) by a coefficient ranging from an annual 3% to 3.7%.</p> | |

| Real Estate Taxation in Spain in 2013 | |
|---|---|
| Acquisition (BNP, 2013) | Ownership (BNP, 2013; EY, 2013) |
| <p>(1) Value-Added Tax (VAT): <u>newly</u> completed or restored properties -</p> <p>(i) 21% if it consists of a transfer of a non-residential property; <u>used</u> properties are exempt of VAT and subject to Transfer Tax – the exemption may be waived if certain conditions are met in the case of non-residential properties;</p> <p>(2) Transfer Tax: used properties are subject to transfer tax (and exempt from VAT) at rates from 3% to 11% depending on the region).</p> | <p>(1) Rental Income: 30% of net rent (gross rent less certain expenses) if Spanish resident companies; 24,75% if non-residents; If non-residents have a permanent establishment they are taxed in the same way as residents; Tax residents may have a reduction in taxable rental income up to 100% if the tenants meet certain conditions;</p> <p>(2) VAT: rentals for commercial uses are subject to VAT at the general rate of 21%;</p> <p>(3) Property Tax: It varies from 0.4% to 1.1% of the property cadastral value, depending on the region.</p> |
| <p>(3) Stamp Duty: paid by the purchaser at rates between 0.25% and 2 %, depending on the region where the properties are located. If the transfer is subject to Transfer Tax, the buyer is exempt from paying the stamp duty.</p> | |
| Sale (BNP, 2013; EY, 2013) | |
| <p>(1) Capital Gains: the difference between the transfer price and the tax value of the properties (similar to the net carrying value determined in accounting) is taxed as follows: 21% until €5.999,99; 25% from €6.000,00 up to € 23.999,99; and 27% from €24.000,00 onwards; 21% if it is a non-resident entity;</p> <p>(2) Local Tax on the Increase of Value of Urban Land “TIVUL”: the transfer is subject to this tax if the property was owned for at least one year.</p> | |

Appendix 3: Taxation of Acquisition and Transfer of Real Estate in China (Beijing, Shanghai and Guangzhou)

| Real Estate Taxation in China – Acquisition and Transfer of Real Estate | |
|--|---|
| Beijing, Shanghai and Guangzhou (Guangdong) (Jones Lang LaSalle, 2018) | |
| Stamp Duty | Sale Agreements: 0.05% of the value of the assets |
| | Lease Agreements: 0.1% of the leasing fee |
| Notarization Fees | 0.01% - 0.3% of the property purchase price |
| Deed Tax (3%-5% of property purchase price) | Sole Property for family occupation under 90 square meters: 1% |
| | Sole Property for family occupation above 90 square meters: 1.5% |
| | Second Property for family occupation under 90 square meters: 1% |
| | Second Property for family occupation above 90 square meters: 3% |
| Value-Added Tax | If the property sold was owned less than 2 years: 5% of the amount of sales proceeds |
| | If the property sold was owned more than 2 years: 5% of the amount of sales proceeds, unless it is a first property, which is exempt. |
| City Maintenance and Construction Tax | 1%, 5% or 7% depending on the location. |
| Land Appreciation Tax (LAT) | |
| The LAT rate is applicable in a proportional way to the profit ratio. The costs deductible are the following: original cost of Land Use Rights; land development costs; construction costs; interest; value-added tax; stamp duty and the assessed value of old houses and buildings (Jones Lang LaSalle, 2018). | |

Appendix 4: Taxation of Acquisition and Transfer of Real Estate in China
(Special Administrative Regions of Macau and Hong Kong)

| Real Estate Taxation in China – Special Administrative Regions of Hong Kong and Macau | | |
|---|--|--|
| Hong Kong (GovHK, 2018) | | Macau (FSB, 2018) |
| Sale or Transfer of Immovable Properties | | Sale or Transfer of Immovable Properties |
| Buyer's Stamp Duty (BSD): with effect from 27 October 2012, unless specifically exempted, BSD is payable on an agreement for sale or a conveyance on sale executed for the acquisition of any residential property. BSD is charged at 15% on the stated consideration or the market value of the property (whichever is the higher). | | |
| Sell of Residential Properties: applicable to instruments of residential property executed on or after 5 November 2016: A flat rate of 15% of the consideration or value of the property (the higher). | | |
| Special Stamp Duty: SSD is calculated by reference to the stated consideration or the market value of the property (whichever is the higher), at the following rates for different holding periods of the property by the seller or transferor before disposal. | | |
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Real Estate Taxation in China – Special Administrative Regions of Hong Kong and Macau

Hong Kong (GovHK, 2018)

Sale or Transfer of Immovable Properties – Stamp Duty

Residential Properties: executed on or after 5 November 2016 - a flat rate of 15% of the consideration or value of the property (whichever is the higher). If executed after 23rd February 2013 but before 5th November 2016, Part 2 of Scale 1 is applicable (cf. GovHK, 2018).

Non - Residential Properties: executed on or after 23rd February 2013 Part 2 of Scale 1 is applicable (cf. GovHK, 2018).

Appendix 5: Taxation of Possession of Real Estate in China¹² (Shanghai and Chongqing)

| Real Estate Taxation in China | |
|---|---|
| Shanghai (JLL, 2018) | Chongqing (JLL, 2018) |
| <u>Owner-occupied properties:</u> from 0,4% to 0,6% of 70% of the original value of the property. | <u>Owner-occupied properties:</u> from 0,5% to 1,2% of 70% of the original value of the property. |
| <u>Leased properties:</u> 12% of rent for both foreign and local companies. | |
| <u>Land Use Tax:</u> on land use right holders (1,5 RMB - 30 RMB per square meter per annum), depending on the location and use | |

¹² Cf. Jones Lang LaSalle, JLL (2018)

Appendix 6: Taxation of Rental Income in Shanghai, Beijing and Guangzhou

| Real Estate Taxation in China (Other way of Taxing Rental Income from Residential Properties)) | | | |
|--|--|---|--|
| Shanghai (JLL, 2018) | | Beijing (JLL, 2018) | |
| Individual Landlord | Corporate Landlord | Individual Landlord | Corporate Landlord |
| Comprehensive rate = 5% | Real Estate Tax (12% of rental income) | Real Estate Tax (4% of rental income) | Real Estate Tax (12% of rental income) |
| | Value Added Tax (5% of rental income) | Value Added Tax (1,5% of rental income) | Value Added Tax (11% of rental income) |
| | City Maintenance and Construction Tax (7% of value added tax) | City Maintenance and Construction Tax (1/5/7% of value added tax) | City Maintenance and Construction Tax (1/5/7% of value added tax) |
| | Education Fee Supplement (5% of value added tax) | Education Fee Supplement (3% of value added tax) | Education Fee Supplement (3% of value added tax) |
| | | Local Education Fee Supplement (2% of value added tax) | Local Education Fee Supplement (2% of value added tax) |
| | Corporate Income Tax (25% of the income from property leasing) | Individual Income Tax (10% of the income from property leasing) | Corporate Income Tax (25% of the income from property leasing) |
| | Stamp Tax (0,1% of Rental Income) | or | Stamp Tax (0,1% of Rental Income) |
| | Urban and Township Land Use Tax (1,5 RMB - 30 RMB /m ² / annum) | Comprehensive rate = 5% | Urban and Township Land Use Tax (1,5 RMB - 30 RMB /m ² / annum) |

| Real Estate Taxation in China (Other way of Taxing Rental Income from Non-Residential Properties)) | | | |
|--|--|--|--|
| Shanghai (JLL, 2018) | | Beijing (JLL, 2018) | |
| Individual Landlord | Corporate Landlord | Individual Landlord | Corporate Landlord |
| Real Estate Tax (12% of rental income) | Real Estate Tax (12% of rental income) | Real Estate Tax (12% of rental income) | Real Estate Tax (12% of rental income) |
| Value Added Tax (5% of rental income) | Value Added Tax (5% of rental income) | Value Added Tax (5% of rental income) | Value Added Tax (11% of rental income) |
| City Maintenance and Construction Tax (1% to 7% of value added tax) | City Maintenance and Construction Tax (1% to 7% of value added tax) | City Maintenance and Construction Tax (1/5/7% of value added tax) | City Maintenance and Construction Tax (7% of value added tax) |
| Education Fee Supplement (5% of value added tax) | Education Fee Supplement (5% of value added tax) | Education Fee Supplement (3% of value added tax) | Education Fee Supplement (3% of value added tax) |
| | | Local Education Fee Supplement (2% of value added tax) | Local Education Fee Supplement (2% of value added tax) |
| Individual Income Tax (20% of the income from property leasing) | Corporate Income Tax (25% of the income from property leasing) | Individual Income Tax (20% of the income from property leasing) | Corporate Income Tax (25% of the income from property leasing) |
| Stamp Tax (0,1% of Rental Income) | Stamp Tax (0,1% of Rental Income) | Stamp Tax (0,1% of Rental Income) | Stamp Tax (0,1% of Rental Income) |
| Urban and Township Land Use Tax (1,5 RMB - 30 RMB /m ² / annum) | Urban and Township Land Use Tax (1,5 RMB - 30 RMB /m ² / annum) | Urban and Township Land Use Tax (1,5 RMB - 30 RMB /m ² / annum) | Urban and Township Land Use Tax (1,5 RMB - 30 RMB /m ² / annum) |

| Real Estate Taxation in China (Other way of Taxing Rental Income from Non-Residential Properties)) | | | |
|---|--------------------|---------------------|--------------------|
| Shanghai (JLL, 2018) | | Beijing (JLL, 2018) | |
| Individual Landlord | Corporate Landlord | Individual Landlord | Corporate Landlord |
| or | | | |
| Comprehensive rate: (1) Monthly Rental <31500 RMB, rate=12%; (2) Monthly Rental ≥31500 RMB, rate=7% | | | |

| Real Estate Taxation in China (Other way of Taxing Rental Income from Residential Properties)) | |
|--|--------------------|
| Guangzhou (JLL, 2018) | |
| Monthly Rental | Comprehensive Rate |
| [0;2000[RMB | 4% |
| [2000;30000] RMB | 6% |
|]30000;100000] RMB | 7,9% |
|]100000; + ∞ [RMB | 8% |

| Real Estate Taxation in China (Other way of Taxing Rental Income from Non-Residential Properties) | |
|---|--------------------|
| Guangzhou (JLL, 2018) | |
| Monthly Rental | Comprehensive Rate |
| [0;2000[RMB | 5% |
| [2000;30000] RMB | 8% |
|]30000;100000] RMB | 13,7% |
|]100000; + ∞ [RMB | 14% |

Appendix 7: Taxation of Rental Income in the Special Administrative Regions of Macau and Hong Kong

| Real Estate Taxation in China – Special Administrative Regions of Hong Kong and Macau | | |
|---|--|---|
| Hong Kong (GovHK, 2018) | | Macau (FSB, 2018) |
| Leased Properties | | Leased Properties |
| [A] | Rental Income | 10% of the annual rental value established in the contract deducted from 10% for maintenance and conservation. |
| [B] | Irrecoverable Rent | |
| [C] | [A] – [B] | |
| [D] | Rates paid by owners | |
| [E] | [C] – [D] | Unleased Properties |
| [F] | Statutory allowances for repairs and outgoings: [E] * 20% | 6% of the annual rental administrative value established in the official documents, deducted from 10% for maintenance and conservation. |
| Net Assessable Value (NAV) | [E] – [F] | |
| Tax Due | 15% * NAV | |
| Stamp Duty (depending on the term of the lease) | | Stamp Duty |
| Term | Rate (Stamp Duty) | 5% of the entire rental value of the contract. |
| Not defined or uncertain | 0.25% of the yearly or average yearly rent rounded-up to the nearest \$100 | |
| Until 1 year | 0.25% of the total rent payable over the term of the lease rounded-up to the nearest \$100 | |
| 1 – 3 years | 0.5% of the yearly or average yearly rent rounded-up to the nearest \$100 | |
| More than 3 years | 1% of the yearly or average yearly rent rounded-up to the nearest \$100 | |
| Key money, construction fee etc. mentioned in the lease | 4.25% of the consideration if rent is also payable under the lease. Otherwise, same duty as for a sale of immovable property | |
| Duplicate or counterpart | \$5 each | |

Appendix 8: Descriptive Analysis of the Sample Used

| | | | Statistic | Std. Error |
|------------------------|----------------------------------|-------------|----------------|------------|
| Gross Area | Mean | | 101,9007 | ,80509 |
| | 95% Confidence Interval for Mean | Lower Bound | 100,3219 | |
| | | Upper Bound | 103,4795 | |
| | 5% Trimmed Mean | | 98,9472 | |
| | Median | | 94,7000 | |
| | Variance | | 1443,483 | |
| | Std. Deviation | | 37,99319 | |
| | Minimum | | 35,33 | |
| | Maximum | | 429,60 | |
| | Range | | 394,27 | |
| | Interquartile Range | | 40,86 | |
| | Skewness | | 1,705 | ,052 |
| | Kurtosis | | 6,149 | ,104 |
| Property Value in 2013 | Mean | | 89970,1588 | 1140,17165 |
| | 95% Confidence Interval for Mean | Lower Bound | 87734,2477 | |
| | | Upper Bound | 92206,0699 | |
| | 5% Trimmed Mean | | 83823,6625 | |
| | Median | | 72250,0000 | |
| | Variance | | 2895080829,664 | |
| | Std. Deviation | | 53805,95534 | |
| | Minimum | | 4050,00 | |
| | Maximum | | 686150,00 | |

| | | | | |
|------------------------|----------------------------------|-------------|----------------|----------|
| | Range | | 682100,00 | |
| | Interquartile Range | | 44650,00 | |
| | Skewness | | 3,457 | ,052 |
| | Kurtosis | | 23,648 | ,104 |
| Rent in 2013 | Mean | | 447,66 | 5,700 |
| | 95% Confidence Interval for Mean | Lower Bound | 436,48 | |
| | | Upper Bound | 458,84 | |
| | 5% Trimmed Mean | | 416,98 | |
| | Median | | 360,00 | |
| | Variance | | 72344,435 | |
| | Std. Deviation | | 268,969 | |
| | Minimum | | 20 | |
| | Maximum | | 3430 | |
| | Range | | 3410 | |
| | Interquartile Range | | 220 | |
| | Skewness | | 3,460 | ,052 |
| | Kurtosis | | 23,685 | ,104 |
| Property Value in 2018 | Mean | | 90142,00 | 1095,048 |
| | 95% Confidence Interval for Mean | Lower Bound | 87994,57 | |
| | | Upper Bound | 92289,42 | |
| | 5% Trimmed Mean | | 84517,75 | |
| | Median | | 74000,00 | |
| | Variance | | 2670460579,718 | |
| | Std. Deviation | | 51676,499 | |

| | | | |
|--------------|----------------------------------|-------------|----------|
| | Minimum | 5000 | |
| | Maximum | 735000 | |
| | Range | 730000 | |
| | Interquartile Range | 46450 | |
| | Skewness | 4,014 | ,052 |
| | Kurtosis | 34,382 | ,104 |
| Rent in 2018 | Mean | 319,9826 | 2,97524 |
| | 95% Confidence Interval for Mean | Lower Bound | 314,1480 |
| | | Upper Bound | 325,8171 |
| | 5% Trimmed Mean | 307,4808 | |
| | Median | 293,2500 | |
| | Variance | 19713,559 | |
| | Std. Deviation | 140,40498 | |
| | Minimum | 30,34 | |
| | Maximum | 2500,00 | |
| | Range | 2469,66 | |
| | Interquartile Range | 121,34 | |
| | Skewness | 4,466 | ,052 |
| | Kurtosis | 51,212 | ,104 |

