

## Special Comment

# Transfer of collection responsibility of land transfer income to tax department aims to normalize local fiscal income and expenditure

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Hong Kong, 11 June 2021 — China Chengxin (Asia Pacific) Credit Ratings Co., Ltd. (“CCXAP”) believes that, as an important measure for institution reform and transfer of collection responsibility, the transfer of collection responsibility of land transfer income to tax department aims to normalize local fiscal income and expenditure. With the enhanced collection efficiency, the payment collection of Chengtou enterprises may improve, but the payment of unpaid land transfer fee may increase the financing pressure of Chengtou enterprises, and slow down the land injection.

On 4 June 2021, the Ministry of Finance, the Ministry of Natural Resources, the State Taxation Administration and the People’s Bank of China jointly issued the “*Notice on Transferring the Functions of Collecting Non-Tax Government Revenues including Revenues from State-Owned Land Use Rights, Exclusive Revenues from Mineral Resources, Royalties for Using Sea Areas, and Use Fees for Uninhabited Islands to Tax Authorities*” (the “Notice”) 《关于将国有土地使用权出让收入、矿产资源专项收入、海域使用金、无居民海岛使用金四项政府非税收入划转税务部门征收有关问题的通知》. The Notice shows that, starting from 1 January 2022, the natural resources department’s collection responsibility of four non-tax income, including revenues from state-owned land use rights, exclusive revenues from mineral resources, royalties for using sea areas, will be transferred to tax department. Starting from 1 July 2021, a pilot program will be launched in Hebei, Inner Mongolia, Shanghai, Zhejiang, Anhui, Qingdao and Yunnan.

The Notice is a concrete manifestation of the clarification of responsibilities after the reform of national institutions, and an important measure for the transfer of collection responsibility of non-tax income. The transfer of collection responsibility only involves the adjustment of collection function and process, and aims to enhance the collection capability and normalize the land transfer behavior, making the Central Government to understand the local land transfer income situation in a more directly, precisely and timely manner. Land transfer income belongs to non-tax income, which is still included in budget management of local government-managed funds.

We expect that the influences of the transfer on local fiscal income and expenditure include: (1) non-tax income may increase in the short term, caused by the collection of unpaid income; and (2) normalized land transfer behavior may lower the income in regions with inflated land transfer income.

**Non-tax income may increase in the short term, caused by the collection of unpaid income**

Due to the weak collection capability of administrative departments and the illegal fee reduction via refunds and subsidies in some local government to facilitate local investment introduction, there are problems during the non-tax income collection process, such as delay collection and missed collection. The Notice indicates that, after the four government non-tax income are transferred to the tax department for collection, the tax department shall be responsible for the collection and storage of the unpaid income in the previous year and in the future and the income paid in installments according to the regulations. The local non-tax income may increase in the short term, given the strong collection capability of tax department.

**Normalized land transfer behavior may lower the income in regions with highly inflated land transfer income**

Some regions inflate land transfer income through “empty transfer” behavior. After the transfer of collection responsibility, it is more difficult to reduce or delay the payment of land transfer fee, the income in regions with highly inflated land transfer income may be reduced.

We expect that the influences of the transfer on Chengtou enterprises include: (1) with the enhanced collection efficiency, the payment collection of Chengtou enterprises may improve; and (2) with the payment of unpaid land transfer fee, the short-term financing pressure of Chengtou enterprises may increase, and land injection may slow down.

**With the enhanced collection efficiency, the payment collection of Chengtou enterprises may improve**

Impacted by mass fee and tax reduction and the pandemic, the portion of land transfer income to fiscal income significantly increases, and the local government’s reliance on land transfer income is further enhanced. In addition, land reclamation is one of the most important function of Chengtou enterprise. Although it is not allowed to directly link land reclamation income to land transfer income, most local governments still settle the land reclamation income with, and make payments to, Chengtou enterprises after the land transfer. After the transfer of collection responsibility, the collection efficiency and the capital turnover efficiency of the local government will be enhanced. The payment collection of Chengtou enterprises may improve to some extent.

**With the payment of unpaid land transfer fee, the short-term financing pressure of Chengtou enterprises may increase, and land injection may slow down**

After the issue of Circular 43, the reserve land and public welfare assets are not allowed to inject into Chengtou enterprises directly. However, Chengtou enterprises will first acquire land on auction market, and then receive land transfer fee from the local government in form of capital injection and subsidies. After the transfer of collection responsibility, the collection of land transfer fee will be normalized. The payment of unpaid land transfer fee may exert short-term financing pressure on Chengtou enterprises. In addition, Chengtou enterprises have to fully pay the land transfer fee on time in the future if they acquire land on auction market, which may increase their capital expenditure pressure, and slow down the land injection.

In conclusion, CCXAP believes that the transfer of collection responsibility of land transfer income to tax department is a concrete manifestation of the clarification of responsibilities after the reform of national institutions, and an important measure for the transfer of collection responsibility of non-tax income. With the implementation of the new policy, the collection efficiency will be enhanced, and the payment collection of Chengtou enterprises is expected to improve. However, the income in some regions with highly inflated land transfer income may be reduced, and land injection may slow down, increasing the short-term financing pressure of relevant Chengtou enterprises. Considering that land transfer income is still included in budget management of local government-managed funds, the governmental support to Chengtou enterprises will not likely to change due to the transfer of collection responsibility. We expect that strict control of implicit government debt growth will still be the priority of future policies on Chengtou enterprises, which will also balance between steady growth and risk prevention, and focus on standardized operations. With the recent marginal tightening of regulatory policies, market risk appetite has declined for Chengtou bonds. We should pay attention to the differentiation risk in the credit profile of Chengtou enterprises in different regions.

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