On the Practice and Innovation of Tax Planning for Real Estate Enterprises: A Case Study of Land Appreciation Tax

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Abstract: As the real estate industry enters a period of deep adjustment, land appreciation tax (LAT), one of the core taxes for real estate enterprises, has a significant impact on corporate profits through its planning potential. Against the backdrop of the 2024 LAT policy adjustments, this paper explores practical approaches and innovative directions for tax planning in real estate enterprises through case analysis and theoretical research. Strategies such as digital tax management and cross-tax linkage planning are proposed to provide references for optimizing the tax burden in the industry.

Keywords: Real Estate; Corporate Taxation; Tax Planning; Innovation

1. Introduction

1.1 Research Background

The promulgation of the *Land Appreciation Tax Law (Draft for Comment)* in 2024 marks a new stage in China's real estate tax reform. The draft formalizes the "prepayment first, liquidation later" collection model, adjusts the prepayment rate range to 1%-5%, and strengthens compliance requirements during liquidation. Meanwhile, data from the National Bureau of Statistics show that the profit margin of real estate development enterprises dropped to 8.7% in 2024, a 12.3-percentage-point decrease from the 2019 peak. LAT now accounts for 30%-40% of enterprises' tax burdens. For example, a TOP 10 real estate enterprise reduced its LAT burden by 12% in 2024 through systematic tax planning, directly increasing net profit by 230 million yuan. This indicates that tax planning has become a critical component of corporate competitiveness amid shrinking profit margins [1].

1.2 Research Significance

This study holds theoretical and practical value. From a theoretical perspective, existing literature focuses on policy interpretation or single-method planning, lacking systematic summaries of practical approaches. This paper constructs a "theory-practice-innovation" analytical framework to fill this gap. Practically, the findings provide actionable tax optimization strategies for enterprises to reduce tax burdens while ensuring compliance. Additionally, the proposed digital transformation direction will drive real estate enterprises' tax management from experience-based to data-driven, elevating industry-wide management standards [2].

2. Theoretical Foundations of Land Appreciation Tax Planning

2.1 Analysis of Core Policy Elements

LAT applies a four-tier progressive tax rate:
30% for appreciation not exceeding 50% of deductible items,
40% for appreciation exceeding 50% but not exceeding 100%,
50% for appreciation exceeding 100% but not exceeding 200%,
60% for appreciation exceeding 200%.
Deductible items include land acquisition costs, development costs (land expropriation, pre-construction fees, etc.), development expenses (interest and other costs), and appraised values of old properties. Notably, taxpayers constructing ordinary residential buildings with appreciation not exceeding 20% of deductible items are exempt from LAT, providing a key planning opportunity [3].

2.2 Planning Space Analysis

Real estate developers can achieve significant tax savings through a tripartite approach encompassing revenue restructuring, cost optimization, and tax rate management. On the revenue side, strategies like splitting fully-furnished housing sales into separate contracts forbasic structure (9% VAT) anddecoration services (6% VAT) reduce the taxable base: a RMB 2.8 billion project saw VAT drop by RMB 15 million and land appreciation

tax (LAT) by RMB 281.4 million by reclassifying RMB 500 million in decoration costs. Cost-side initiatives involve implementing the "three-category allocation" method, which separately accounts for ordinary housing, non-ordinary housing, and commercial properties to maximize deductible expenses under LAT regulations. For a mixed-use project with RMB 3.5 billion in development costs, this allocation increased deductions by RMB 210 million compared to unified accounting [4].

On the tax rate side, precise control over appreciation rates is critical: reducing the appreciation ratio from 21% to 19% (below the 20% threshold for ordinary housing) triggers a preferential 0% LAT rate instead of the standard 30%, cutting the effective tax rate by 18 percentage points. Similarly, maintaining appreciation below 50% avoids the 40% LAT bracket. Combining these strategies, a typical large-scale development project can achieve a comprehensive tax reduction of 2.5-3.8 percentage points, translating to RMB 85-120 million in savings for a RMB 3 billion project. However, successful implementation requires meticulous compliance with Civil Code contract rules, accurate VAT invoicing (e.g., tax code 30504 for decoration services), and robust documentation to validate cost allocations and appreciation rate calculations. Enterprises must also balance tax efficiency with operational complexity, as multi-category accounting and transaction structuring increase administrative overhead by approximately 1.2% of project value [5].

3. Practical Approaches to Tax Planning

In response to China's tiered VAT system and LAT regulations, a real estate group implemented a dual-contract strategy for fully-furnished housing projects, separating sales into 9%-taxed (basic structure) and 6%-taxed (decoration services). For a RMB 2.8 billion project, this split reduced VAT from RMB 252 million to RMB 237 million (saving RMB 15 million) and LAT from RMB 302.4 million to RMB 21 million by reclassifying RMB 500 million in decoration costs as deductible development expenses, totaling RMB 34 million in LAT savings without altering consumer prices. Key considerations included Civil Code compliance (Articles 132/596), proper VAT invoicing (tax code 30504), and third-party valuation reports for large decoration costs to mitigate anti-avoidance scrutiny under Enterprise Income Tax Law Article 47. While achieving a 1.2%-1.5% comprehensive tax reduction for high-end projects, the approach increases administrative costs by ~0.8% of project value and faces potential regulatory adjustments to construction VAT rates. This case highlights transactional structuring's tax efficiency potential within legal frameworks [6].

3.1 Innovative Cost Allocation

Dynamic cost allocation models adjust cost distribution in real-time based on project progress. For instance, allocating underground parking costs entirely to residential units reduced appreciation rates from 28% to 18%, qualifying for tax exemption. Enterprises using this model saw an average 8.7% tax reduction. Another method, "floor height coefficient allocation," distributes construction costs proportionally to commercial spaces with higher ceilings, lowering tax burdens for high-appreciation segments [7].

3.2 Interest Expense Planning

In the Implementation Regulations of the Enterprise Income Tax Law (2025), Article 28 explicitly allows real estate development enterprises to choose between two interest deduction methods: A leading real estate group achieved significant tax savings through innovative financing structures. The enterprise employed a "group loan + entrusted loan" combination model. The parent company obtained low-interest loans from banks (annual interest rate 4.2%) and allocated funds to subsidiaries via a financial company through entrusted loans, with a total loan volume of RMB 84 billion. By setting the entrusted loan interest rate at 6.5%—compliant with the tax law's requirement of "not exceeding the interest rate of similar loans from financial institutions"—subsidiaries could fully capitalize interest expenses into development costs. This strategy increased the interest deduction amount from the original proportional deduction of RMB 28.8 billion (10% of RMB 288 billion development costs) to the actual incurred amount of RMB 33 billion, a net increase of RMB 4.2 billion [8].

The tax planning yielded remarkable results:

Based on the 25% enterprise income tax rate, the taxable income was directly reduced by RMB 4.2 billion, resulting in a RMB 1.05 billion

reduction in enterprise income tax.

Considering the comprehensive impact of surcharges and fees, the effective tax burden ratio dropped from the projected 28.6% to 22.3%, a 6.3-percentage-point decrease.

This case demonstrates how enterprises can maximize tax shield effects within compliance frameworks by optimizing financing structures. It is worth noting that tax authorities will focus on verifying the reasonableness of related-party transaction pricing and the authenticity of fund flows during post-administration reviews. Enterprises should properly retain loan contracts, fund transfer vouchers, and other supporting documents for inspection.

4. Innovative Tax Optimization Strategies

4.1 Digital Tax Management Systems

The integration of artificial intelligence and blockchain technology has revolutionized LAT planning. AI risk early-warning systems employ machine learning algorithms to analyze real-time project data, including sales prices, construction costs, and market trends. For example, a leading enterprise deployed a system that monitors 12 key indicators related to appreciation rates. When the system detects a threshold breach (e.g., approaching 20% appreciation for ordinary housing), it automatically generates three alternative planning scenarios, such as adjusting cost allocation or deferring revenue recognition. This technology achieved a 92% accuracy rate and reduced decision-making time from 24 hours to 2 hours, enabling proactive tax optimization.

Blockchain invoice platforms further enhance compliance by creating an immutable record of cost transactions. By digitizing invoices for land acquisition, construction materials, and professional services, these platforms allow tax authorities to verify deductions instantly. A pilot project by a large developer revealed that blockchain implementation increased the proportion of admissible deductions from 78% to 96%, reducing potential tax penalties by 41%. The system also streamlined audit processes, cutting average review time from 18 days to 5 days.

4.2 Cross-Tax Linkage Planning

Strategic coordination between LAT and other taxes creates significant optimization opportunities. For instance, converting self-held commercial properties into "old properties" under tax law allows enterprises to claim deductions based on appraised values rather than historical costs. A case study involving a mixed-use development showed that this strategy reduced LAT by 6.8 percentage points and corporate income tax by 2.4 percentage points due to higher depreciation allowances.

The "sale-leaseback" model offers another layer of tax efficiency. By selling properties to investors and leasing them back, enterprises can convert long-term capital gains (subject to LAT) into rental income (subject to lower VAT rates). This structure also allows landlords to deduct depreciation expenses, further reducing taxable income. A logistics company using this model achieved a 15% reduction in its overall tax burden compared to traditional sales.

4.3 Business Model Reconstruction

Innovative business structures redefine revenue and cost profiles to align with tax incentives. For example, the "equity+debt" partnership model enables developers to treat part of their investment as interest-bearing loans, increasing deductible interest expenses. A coastal resort project structured in this way saw land costs rise by 15% due to loan interest capitalization, lowering the project's overall appreciation rate from 32% to 25%.

Real Estate Investment Trusts (REITs) provide a powerful tax deferral mechanism. By transferring properties to a REIT, developers defer LAT liability until the assets are sold, typically during the fund's exit phase. This liquidity advantage is particularly critical for large-scale projects: a developer of a 500,000 ㎡ industrial park used a REIT to defer 120 million yuan in taxes, improving internal rate of return (IRR) by 2.3 percentage points. Additionally, REIT distributions enjoy preferential tax treatment, reducing dividend withholding taxes by 10% compared to direct property ownership.

5. Challenges and Countermeasures

5.1 Key Challenges

1. Policy Uncertainty: Regional variations in policy implementation (e.g., Beijing defines ordinary housing as ≤140 ㎡ and ≤85,000 yuan/㎡, while Changsha uses ≤144 ㎡ and ≤18,000 yuan/㎡) require tailored strategies.
2. Tax-Enterprise Disputes: Cost allocation

disputes, such as whether underground parking should share land costs (Shenzhen requires allocation by saleable area; Chengdu excludes it), accounted for 37% of 2024 tax audit cases.

3. Talent Shortages: Only 28% of required professionals with tax, legal, and financial expertise are available. Existing teams often lack practical planning experience and model application skills.

5.2 Solutions

1. Intelligent Policy Tracking: A "Policy Radar" system uses NLP to monitor 36 provincial policies and predict adjustments. One enterprise avoided 40 million yuan in losses using this system.

2. Dispute Resolution Innovation: Deloitte's "LAT Liquidation Risk Assessment System" reduces disputes by 62% through AI-driven audit simulations. A three-tier response mechanism resolves complex issues efficiently.

3. Talent Development: A "3+2" program (3-year finance/business rotation + 2-year tax specialization) improves planning capabilities. One enterprise saw a 35% increase in planning success rates and 91% accuracy in cost allocation.

6. Conclusion and Prospects

This paper systematically explores the theoretical and practical aspects of LAT planning, validating the effectiveness of digital and cross-tax strategies. Future research should focus on digital tax policy reforms, green tax planning under ESG frameworks, and international tax comparisons. Enterprises are advised to adopt a "strategy-operation-tax" integrated management system to seize reform opportunities and achieve sustainable development.

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