

TaxFlash



Regional taxes and levies

The House of Representatives has finally passed the new law on regional taxes and levies on 18 August, after three years of deliberations. The new law takes effect from 1 January 2010 (replacing Law No. 18/1997 as amended by Law No. 34/2000).

Under the new law regional governments are allowed to collect sixteen specific types of taxes. Cigarette tax and swallow nest tax are new types of taxes permitted by the new law. Land and building tax and duties on land and building right transfers, currently collected by the central government, are to be transferred to regional governments under the new law. All other regional taxes are already permitted under the current law.

Some features of the new law are summarised below:

- **“Closed” list.** Under the new law, regions can only collect taxes specified in the law. Collection of any other than those on the list is forbidden. This is different from the position under the current law which potentially allows regions to impose a broader range of taxes. The limitation on the types of taxes that can be imposed by regions under the new law will therefore provide more certainty for the business community.
- **More authority to regions.** The new law authorizes regional governments to determine the tax rates to be applied in their respective regions. However to prevent regions from setting excessively high tax rates, the new law sets a maximum permitted rate for each type of tax. This flexibility gives regions the ability to adjust tax rates to meet their respective needs for funds, regional circumstances, objectives, etc. Hence, the rate of a particular type of tax may vary amongst regions. Tax competition amongst regions may also be possible.

Regional tax rates under the current and the new law

No.	Type of Tax	Maximum Rate	
		Current	New
1	Motor vehicle tax <ul style="list-style-type: none"> the 1st private owned car the next private owned cars public transportation vehicles heavy equipment 	5% N/A N/A 0.1 - 0.2%	1 - 2% 2 - 10% 0.5 - 1% 0.1 - 0.2%
2	Duty on motor vehicle ownership transfers <ul style="list-style-type: none"> 1st time transfers of motor vehicles next transfers of motor vehicles 1st time transfer of heavy equipment next transfers of heavy equipment 	10% N/A N/A	20% 1% 0.75% 0.075%
3	Fuel tax	5%	10%
4	Surface water tax	20%	10%
5	Underground water tax	20%	20%
6	Cigarette tax	-	10% of excise
7	Hotel tax	10%	10%
8	Restaurant tax	10%	10%
9	Entertainment tax	35%	35 - 75%
10	Advertising tax	25%	25%
11	Street lighting tax <ul style="list-style-type: none"> Provided by 3rd party Self-provided 	10%	10% 3% 1.5%
12	Minerals non metal & rock tax	20%	25%
13	Parking tax	20%	30%
14	Swallow nest tax	-	10%
15	Land & building tax for rural & urban areas	0.1% / 0.2%	0.3%
16	Duty on acquisition of land and building rights	5%	5%

- **Central government control.** Regional government regulations are necessary to implement the regional tax law. While regional governments must develop the relevant regulations taking into account their respective regional circumstances and objectives, final agreement on these laws will be in the hands of the central government. A particular regional regulation may not come into force until it has been approved by the central government.
- **Designating mechanism.** The new law includes a designating mechanism under which a certain part of a particular tax must be spent for a particular designated purpose. For instance, at least 10% of the motor vehicle tax revenues must be spent to construct and maintain roads and other public transportation infrastructure. At least 50% of cigarette tax revenues must also be allocated for health care services and facilities as well as enforcement of cigarette-related law and regulations.

Though the new law will come into force on 1 January 2010, it may not be fully implemented until a couple of years later. The current regional taxes will continue to apply for two years until new regional government regulations based on the new law are in force. The current land and building tax law and regulations will also remain applicable until 2013 to the extent no regional government regulations regarding the same subject have been put into force. Further, the existing law and regulations regarding duties on land and building right transfers will also remain applicable for up to one year from the new law enforcement date. The provisions regarding cigarette tax will only take effect from 1 January 2014.

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