

## Evaluation and Analysis on the Pilot Reform of Real Estate Tax in China under the Background of “No Real Estate Stir-frying”

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**Abstract:** For a long time, China's uneven possession of real estate resources and the rapid growth of real estate prices have led to more serious inequities, resulting in the loss of some social development benefits. In 2016, the Central Economic Work Conference first proposed that “houses are used for living, not for frying”. Based on this, this article takes the pilot project of Humin real estate tax reform as the object. Evaluate relevant issues from three aspects: taxpayers, taxation targets, and taxation basis. Some rationalization proposals have been put forward with a view to playing a positive role in social equity.

### 1. Research Background

At the end of 2016, the Central Economic Work Conference clearly defined the real estate market as “housing is not speculative”. At the same time, we should start from finance, land, finance and taxation, investment, legislation and other aspects. Based on the basic national conditions of our country and fully respect the law of market development, we should establish a long-term mechanism of stable housing prices [1].

In October 2017, at the Nineteenth National People's Congress of the Communist Party of China, General Secretary Xi Jinping emphasized: “Adhere to the position that”houses are used for living, not for frying”. Accelerate the establishment of a multi-subject supply, multi-channel security, rent and purchase security system, so that all people live and live” [2].

In September 2018, property tax legislation ushered in gratifying progress. In the legislative plan of the 13th National People's Congress Standing Committee, the property tax law was included as one of them. It can be seen that in the past, considering the breadth of relevant personnel, it has affected the interests of many parties and it is difficult to advance. The property tax legislation is at the stage of demonstration and has not entered the plan. Now, there is basically a consensus on the arguments and arguments, and the legislative conditions are relatively mature.

### 2. Comments on the Reform of Housing Property Tax in Shanghai and Chongqing

The following will be from the taxpayer, the object of collection, tax basis for three levels of evaluation.

#### 2.1 Taxpayers.

Both Shanghai and Chongqing clearly and uniformly define the taxpayer as “the owner of taxable housing property rights”, that is, the owner of housing property rights. From the main point of view, directly targeting the population of existing housing, this will directly affect the decision-making of housing holders on the disposal of existing housing in the future, as well as the anticipated purchase of new housing. For the disposal of the houses already held, there are only three aspects: one is to live on one's own, but to rent, and the other is to sell. There are also three aspects in the decision-making of the anticipated purchase of new houses: one is not eager to buy but wait and see, the other is to buy a new set, and the third is to buy more than two sets. In the “two sessions” of 2018, the then deputy minister of the Ministry of Finance, Shi Yaobin, clearly stated that the primary role of the property tax is to regulate the distribution of personal income and

promote the rational distribution of social wealth in order to benefit the society. At the same time, property taxes will also play an active role in raising fiscal revenues to promote government public service functions [3]. Then the specific implementation of the property tax must focus on the impact of these two aspects, or the impact of one of them.

## **2.2 Target of Taxation.**

The object of taxation in Shanghai, one is the residents of this city, the second set of housing newly purchased for this group of people (whether it is second-hand old houses or new houses), and the second is the new purchase of houses by the migrants. For other housing holdings, there is no taxation, which virtually eliminates two huge groups. They include local residents and migrants who already have a home and two or more homes. As a rough estimate, according to relevant data, the total area of housing used for residential purposes in Shanghai in 2010 was about 526.4 million square meters, assuming an average of 100 square meters of housing, a total of about 5.26 million housing units [4]. According to the property tax reform, a large part of the housing will not be taxed, and only a small part of the tax will be levied. It is conceivable that the amount of tax revenue obtained from this is very small. Expect to rely on this part of the small tax revenue to regulate income distribution and raise fiscal revenue, obviously the effect is not ideal.

The object of Taxation in Chongqing is quite different from that in Shanghai, that is, high-grade and single-family commercial housing. There is also the “invisible” so-called “three no” personnel (no registered permanent residence, no enterprise and no job) to buy a second (or more) general housing, Shanghai does not distinguish between high and low-end, with quantity as the main criterion. According to the Chongqing Statistical Yearbook 2011, Chongqing had about 3.68 million residential units at the end of 2010, while high-end and single-family housing only accounted for a small amount, and the tax base was narrow. Perhaps Chongqing intends to start regulation from high-end housing, but it is not realistic to implement two major functions through this policy, and the effort is too light.

There is data showing that after one year of implementing the property tax, the contribution of real estate tax in Shanghai's fiscal revenue is about 2.2 billion yuan, involving more than 50,000 sets of property tax housing. Chongqing is even less, about 100 million yuan, and it involves more than 10,000 sets of houses [5-6]. From the data, it can be clearly seen that the Shanghai and Chongqing real estate tax pilot projects, the object of collection is to put aside a large number of inventory housing, temporary tax exemption. Invisibly, it pushes the function of real estate tax into the direction of commodity tax. Compared with property tax, commodity tax is an indirect tax, which makes the tax burden easier to pass on to others. Therefore, it does not play a very good role in regulating income distribution.

## **2.3 Basis for Taxation.**

In the initial stage of the pilot project, both Shanghai and Chongqing chose market transaction price as the basis of taxation, and the taxation directly pointed to the sales link. The tax base is based on its sales price and has typical characteristics of commodity tax. The real estate transaction price as a basis, from the taxpayer's own point of view, has certain rationality, the amount of expenditure, that is, expenditure as the basis for collection. Therefore, from the standpoint of short-term or no inflation, this kind of fairness is temporary.

In fact, changes in property prices are almost different every month, and homeowners can benefit from a large increase in property prices. If the basis of taxation is still based on the transaction price, it is not appropriate. For example, a family of three households in Shanghai bought a 100-square-meter house in Shanghai in 2011. When the average price of the Shanghai market transaction was about 20,000 yuan per square meter, a total of 2 million yuan was paid. According to the standard of 60 square meters per person, the family does not need to be taxed. If the family purchases two sets of houses in 2011, the area of tax reduction is 20 square meters, and the taxable area is 20 square meters. Even at the maximum tax rate of 0.6%, the amount of tax payable is 2400 yuan. At the end of 2010, Shanghai has about 5.26 million housing units. Assuming that each family (all three households) has two 100 square meters of housing, a total of about 6.31 billion yuan of

property tax will be paid (the data is overestimated). Shanghai's GDP in 2010 totaled 1716.6 billion yuan, and the tax revenue in fiscal revenue totaled 270 billion yuan, of which the share of real estate tax was very small (0.37% and 2.34% respectively). It can be seen that in this case, it is not feasible to attempt to raise financial revenue through property tax. As for Chongqing, there are only 10,000 taxable housing units, accounting for less than 0.5% of the total. The contribution of real estate tax to fiscal revenue is far lower than expected.

As for the role of real estate tax in adjusting income gap, because personal income is affected by many factors, and the proportion of real estate tax in financial revenue is too low, it is not well appreciated in this regard. However, from the data from real estate agents, we can see the average price of housing prices in Shanghai and Chongqing from January 2010 to December 2011. Half a year after the property tax reform, house prices in both places have declined slightly, but prices have continued to rise and continue to this day. This shows that the new policy of property tax reform has affected housing prices to a certain extent, and the decline in house prices can also be understood as a relative increase in personal disposable income. But unfortunately, this downward trend does not last long.

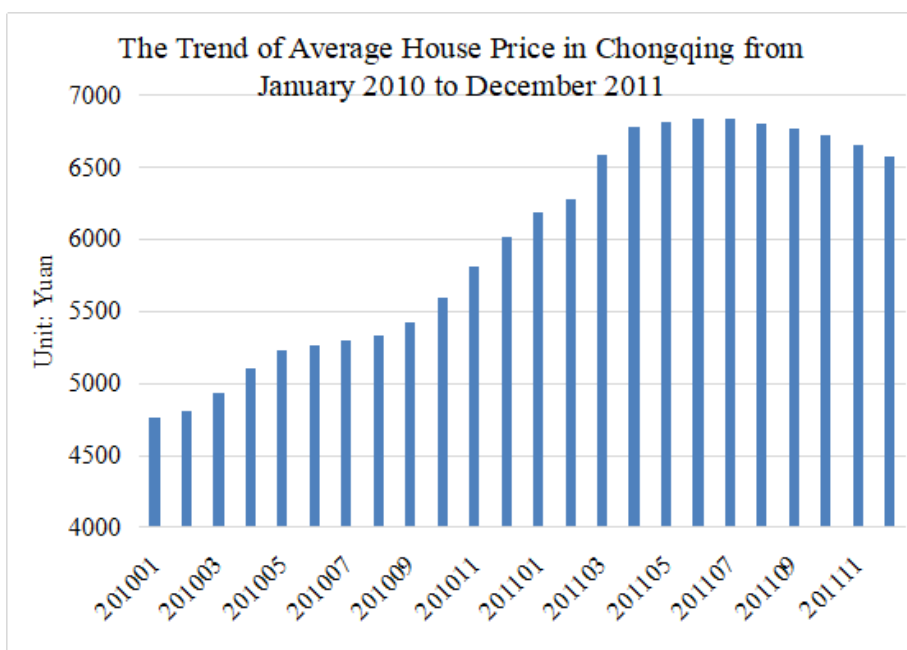


Figure 1 The trend of average house price in Chongqing from January 2010 to December 2011

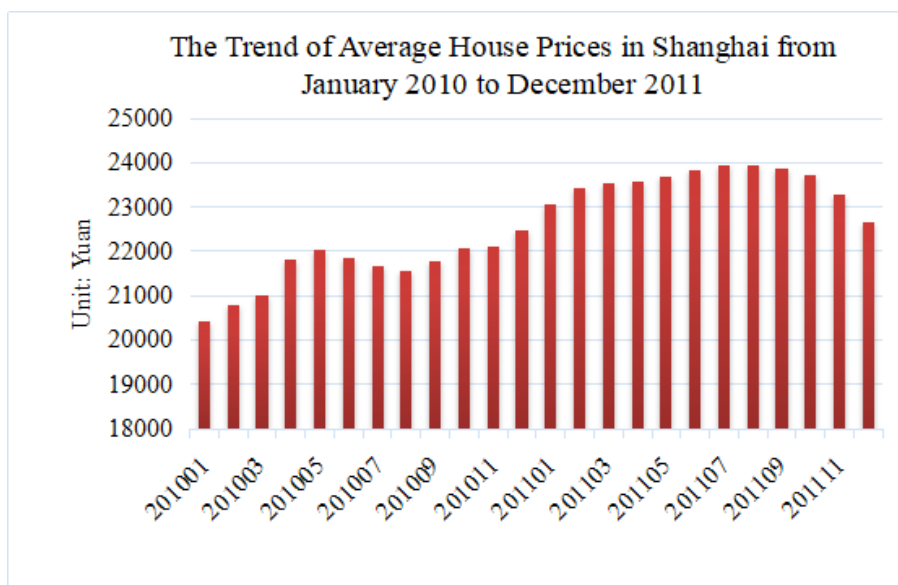


Figure 2 The trend of average house price in Chongqing from January 2010 to December 2011

### **3. Suggested Measures**

According to the above analysis, if we can formulate reasonable standards for real estate tax collection, comprehensively consider regional differences, income differences, market differences and other factors, and solve the related supporting problems, it will have a positive effect. Some suggestions are made as follows:

#### **3.1 Differentiation of property tax rates.**

Generally speaking, there should be some differences in tax rates between different regions of the same country or different grades of houses in the same region. This is because the demand for real estate, the distribution of resources and the degree of economic development are different in different regions. The Central Economic Work Conference in 2018 constructively put forward the policy of “implementing policies according to the city and guiding by classifications”, and no longer hoped that one method would be universally used throughout the country. Fully empowered local authorities, according to the actual situation of each urban area, to distinguish between the first, second, third and fourth lines and other different urban housing prices, and to formulate their own property tax rate line. Looking at the national real estate market, it shows a very significant trend of polarization. The first- and second-tier cities are “people chasing houses”, and the stars are holding the moon. The third and fourth line is the “house chasing people”, and the “destocking” task is difficult. Therefore, different regions, different cities, and even different districts and counties in the same city can adopt a specific property tax rate according to their specific circumstances to adapt to the changing needs of the market. In the past, the unified policy of “one pole to the bottom” has brought about its serious externalities [7].

#### **3.2 Assimilation of Property Tax on Owned Housing.**

According to the policies issued by the pilot cities, Shanghai's real estate tax is mainly levied on the second or more newly purchased houses. Chongqing is mainly for high-end and single-family housing, a large number of existing houses have not been affected, so the scope of tax sources is too small, the role is not obvious. Because of the property tax attribute of the real estate tax, it is a reasonable policy to levy tax on the stock housing. On the one hand, the role of tax is to promote social equity. Taxation on the stock housing generally owned by the public also reflects the principle of equity to a large extent, and can also play a beneficial role in regulating the distribution of social income. Housing is the main personal real estate, and the property held by individuals is one of the important manifestations of their possession of wealth and resources. Regulating income distribution requires not only focusing on the future income situation, but also an important aspect of the adjustment of individual wealth. In addition, it is important to note that Shanghai's property tax should be included in the taxation of property tax as in Chongqing. Of course, there is a key premise to define what is “high-end”. To a certain extent, high-end housing tax will increase the cost of holding real estate, so that people can more carefully consider the high-end housing held in their hands, and whether they will continue to purchase high-end housing in the future, so as to better play the role of tax adjustment. Reduce the income gap and achieve social equality [8].

#### **3.3 Rationalization of the timing of universal Taxation.**

Generally levying real estate tax is a major social problem, involving various levels. We must choose a reasonable time and give priority to the interests of the majority, especially the middle and low income groups. The so-called reasonable time is implemented on the premise that the general public can accept. This “acceptable” is not a perceptual judgment, but a rational distinction. It can be considered by the affordability of individuals or families, such as the ratio of house price to income. This index measures the relative proportion of disposable income of households in real estate expenditure, and reflects the affordability of households. If we take Shanghai as an example, in 2010, we purchased a new 80-square-meter apartment with a unit price of 8,000 yuan per square meter, then the total expenditure on real estate would be 640,000 yuan. According to the per capita income level of 5,000 yuan at that time in Shanghai, the monthly income of the family was 10,000

yuan, and the annual income was 120,000 yuan. According to the general situation, a family of two without a child has a basic living consumption of about 40,000 yuan, and the family's disposable income for that year is 80,000 yuan. The calculated income ratio is 8 (total expenditure of property divided by annual disposable income), which is higher than the internationally accepted reasonable standard (reasonable range of 4 to 6) [9]. In fact, with reference to relevant data, the highest ratio of China's housing price to income in 2015 was 27.7 in Shenzhen, and Shanghai was 20.8, ranking second [10]. It can be seen that at present, the price-to-income ratio of major cities in China is relatively high, and it is not a reasonable opportunity to levy a property tax. Implementation should be considered when the value of this indicator falls to a reasonable range.

### **3.4 Expanding the scope of property tax pilot projects.**

The pilot reforms in Shanghai and Chongqing have achieved some results, but they are not significant and can not be implemented and popularized as universal experience. But the different directions of these two urban reform policies are also a positive attempt. Nevertheless, because there is not much past experience to follow, the pilot reform does not fully reflect or involve the scope and depth of real estate tax. The main reason is that the scope of the taxation objects of the two cities is too small, so that the functions of the property tax should not be well played and displayed. Both cities have only captured specific parts, one is the new purchase of two or more houses, the other is high-end residential and “three no” personnel. Regardless of the proportion of the number of people or the number of houses is too low, it has no impact on the other objects that have the exception of the stock room, and the space effect of the property tax is greatly suppressed. Therefore, only by continuing to deepen the reform of real estate tax system, through a wider range of regional and pilot projects, and further expand the scope of real estate tax collection, will the existing large stock of housing be included in the assessment. In addition, as a policy intended to be implemented universally, the national networking of personal information is also imminent. Only when the information is complete, can it be implemented objectively and impartially without omission.

## **4. Summary**

One of the key economic tasks in the future is to construct a long-term mechanism for the healthy development of the real estate market. To realize the healthy development of the real estate market, there must be a corresponding mechanism. Real estate tax is one of the important measures of fiscal policy, and we should persist as a long-term policy at the right time. With the persistence of the “long-term mechanism”, its role in regulating residents' income will inevitably become more and more obvious. As a kind of tax system, property tax must affect the “two-way adjustment of supply and demand” to a certain extent, and play a role in “containing speculative real estate.” By affecting the stability of supply and demand and adjusting housing prices, it is hoped that low- and middle-income groups will buy houses, thus promoting social welfare.

There is still a process of continuing exploration as to whether the property tax can affect the income distribution and the extent to which it can affect. At present, it seems that the effectiveness of the pilot reforms from Shanghai and Chongqing cannot be given a clearer answer due to various reasons such as scope and time. Despite this, it cannot be assumed that property taxes have no effect or even side effects on regulating income distribution. Under the new historical conditions, the real estate tax can be flexibly grasped by local governments to further build a more systematic and perfect real estate tax system. We should fully design and make good use of the reasonable progressive tax system and believe that it will play a more active role in the future.

As for the role of real estate tax in raising financial revenue, we can see from the analysis in this paper that real estate tax has brought about an increase in financial revenue. But its quantity is too narrow in absolute number and relative number, and it has the feeling of “tasteless food, regrettable abandonment”. Despite this, China's real estate market is still in the process of development and regulation, and the object of taxation, taxation basis and tax rate will continue to improve with the further disclosure of information in the real estate market.

In the process of China's economic intensification and development gradually moving towards a healthy and virtuous cycle, “householding and not speculation” must be a policy that will be adhered to for a long time now and in the future. Although China's economic growth has been in the past for a long time because the development of the situation has largely relied on the development of the real estate market, which led to its rude growth, it will gradually be replaced. The “better life” in China's current main contradiction is that people have a place to live and work in peace and contentment, thus realizing the construction of a “comprehensive well-off society”!

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