
China's Property Tax Reform

Urbanizing China
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The larger context

Real property tax reform should consider the following matters:

- Intergovernmental fiscal relations
- Local fiscal systems as a whole
- Public accounting procedures and regulations
- Cooperation among different central and local public agencies
- Public attitude toward property taxation
- Impacts of the proposed property tax on land allocation and utilization
- **The integration of the property tax with the current public land leasing system**

Outline

- Background information
 - The current property tax system and the proposed changes
 - The public leasehold system
- Issues of imposing a property tax on publicly owned land
- Possible impacts on leasing fees (or land rents) and real estate development charges after the imposition of the property tax

Real Estate Related Levies in China

Structure Before The Proposed Tax Reform

Urban and Township Land Use Tax

Urban Real Estate Tax

Building (or House) Tax

Land Value Increment Tax

City Maintenance and Construction Tax

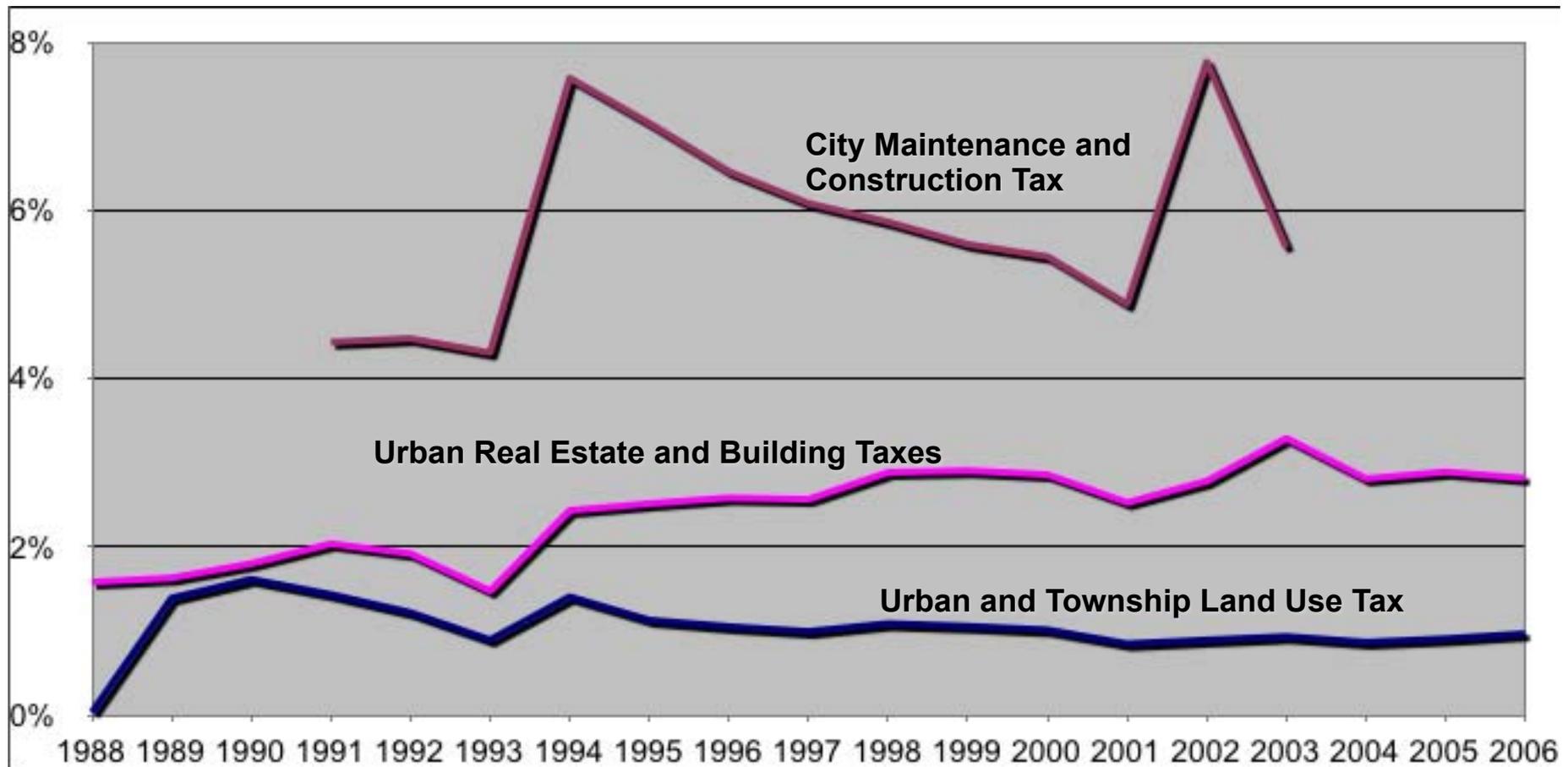
Real estate development fees

Farmland Occupancy Tax

Deed Tax and Stamp Duties

Business Tax on Real Estate Transaction

Major Land Revenue Sources



Sources: China's Statistical Yearbook, various years.

Real Property Related Taxes Per Capita

Graph removed due to copyright restrictions.

Source: Joyce Man. 2008. Presentation made at the Lincoln Institute of Land Policy's China Annual conference.

Property Taxes as Percent of Total Tax Revenue

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Source: Joyce Man. 2008. Presentation made at the Lincoln Institute of Land Policy's China Annual conference.

Real Estate Related Levies

Structure After The Proposed Reform

~~Urban and Township Land Use Tax~~

~~Urban Real Estate Tax~~

~~Building Tax~~

Unified
Property
Tax

Land Value Increment Tax

City Maintenance and Construction Tax

~~Real estate development fees~~ (Selected items only)

Farmland Occupancy Tax

Deed Tax and Stamp Duties

Business Tax on Real Estate Transaction

The Public Leasehold System

- The State owns all urban land; collectives own rural land.
- In the urban areas, land Use rights are leased to private individuals.
 - Commercial land – 40 years
 - Industrial land – 50 years
 - Residential land – 70 years
- Assignment methods:
 - Auction and tender (9%); in the past mostly administrative allocation (70%) and negotiated contracts (21%)
 - Leasing fees are usually paid in a lump sum.

Land Leasing and Local Public Finance

Leasing public land has been a viable and attractive revenue source for city governments.

Reasons:

- Lease revenues for leasing existing urban land are not shared with the central government.
- In-kind contributions are not recorded in local budgets and thus not under the surveillance of the central government.
- This revenue source is flexibility for financing local infrastructure and social services.

Question 1

“The people in China do not own land, why should we pay a property tax on land to the government?”

Question 2

“Developers had already paid the leasing fees when leasing the land use rights, why do they need to pay additional tax on land?”

Question 3

“If the government imposes a property tax on land, lease revenues will decrease due to the discounting of future property tax liabilities of holding land. So, the net fiscal effect of creating a new tax instrument could be zero. Why should the government go through this trouble?”

Answers for Question 1

- Conceive leasehold rights as private possession of several attributes of the bundle of rights for a period as stipulated in the land lease.
- Separate the tax on land from the tax on the buildings and rename the former as a land use tax.
- A very unlikely scenario would be to grant freehold to all leaseholders.

Question 2

“Developers had already paid the leasing fees when leasing the land use rights, why do they need to pay additional tax on land?”

Answer for Question 2

Definitions:

- **Leasing fees** (or land rents) are payments to the landowner— the government in the case of China—for leasing the land use rights to a private individual.
- **The property tax** should be considered as payments for local services and infrastructure provided by the government.
- **Real estate development charges** are payments for receiving certain types of government services. Some of these charges may have to be eliminated after adopting the proposed new property tax.

Question 3

“If the government imposes a property tax on land, lease revenues will decrease due to the discounting of future property tax liabilities of holding land. So, the net fiscal effect of creating a new tax instrument could be zero. Why should the government go through this trouble?”

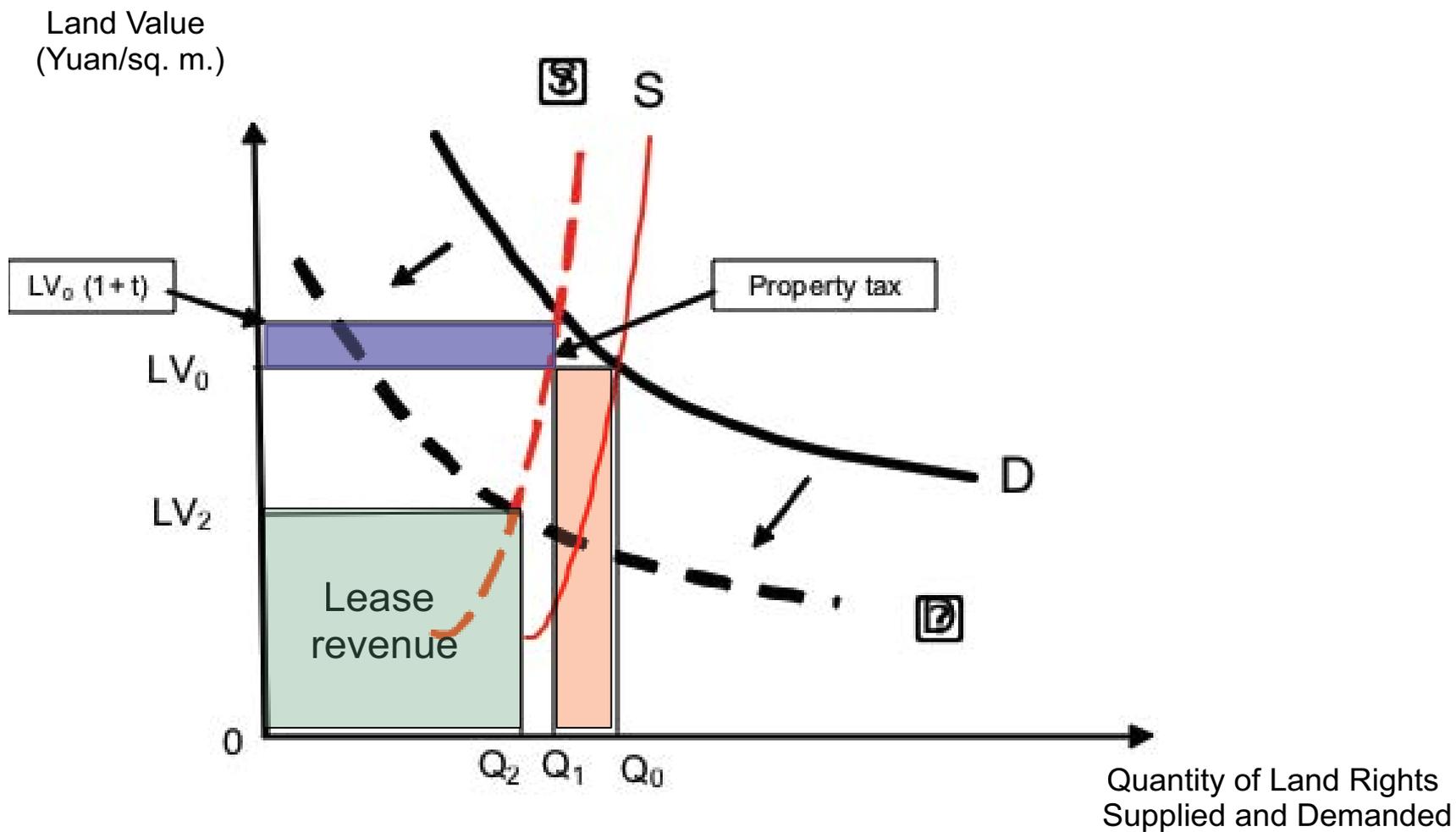
Answers for Question 3

SCENARIO 1

Assumptions

- Property tax collections are not invested in public infrastructure and local services (or infrastructure investment is constrained by one or more fixed inputs in the short run).
- Property tax liabilities are fully capitalized in land value.

Relationships Between Leasing Fees and Property Tax (Scenario 1)

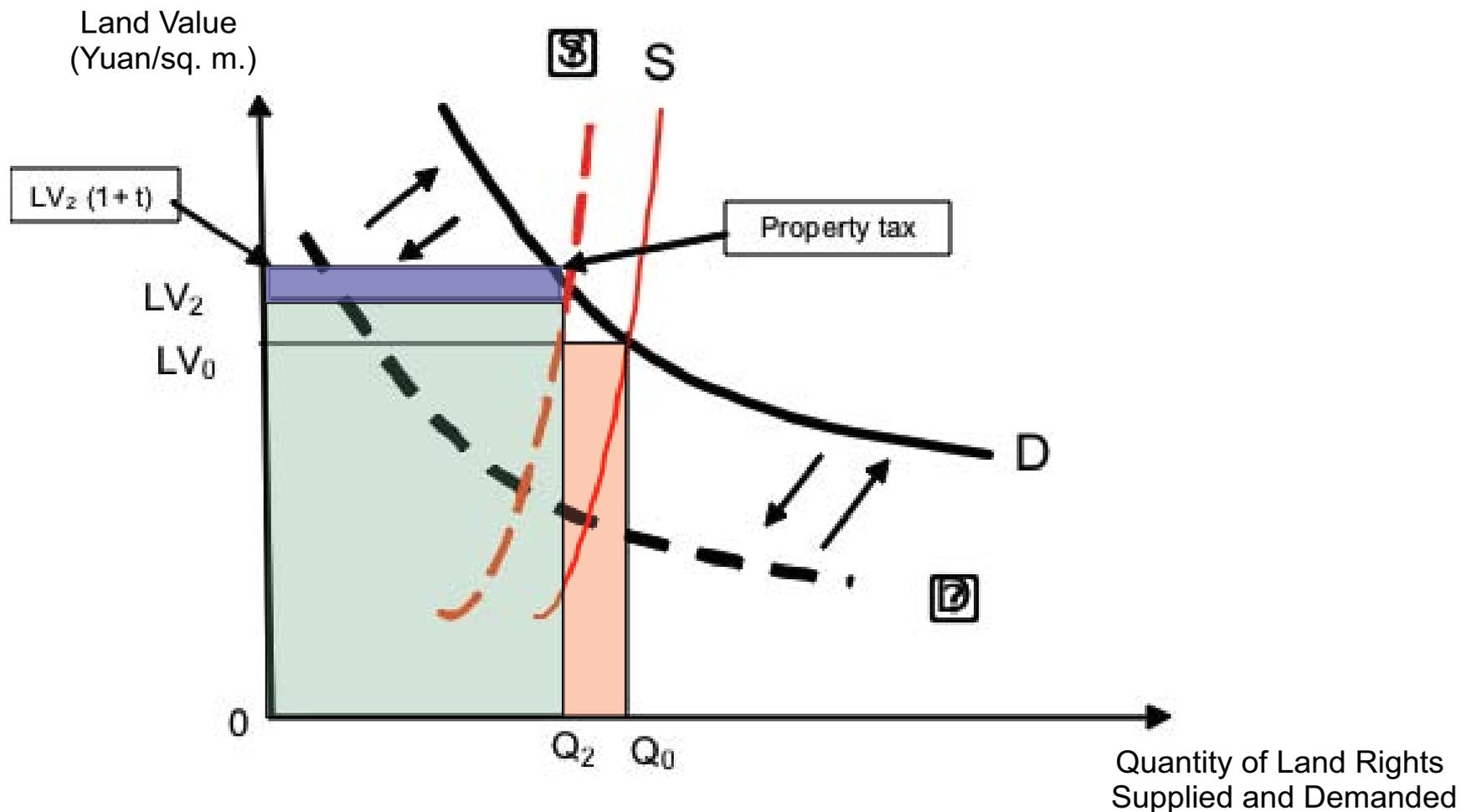


SCENARIO 2

Assumptions

- Property tax collections are fully invested in public infrastructure and local services, and infrastructure investment is not constrained by any fixed inputs.
- Property tax liabilities and public spending are fully capitalized in land value.

Relationships Between Leasing Fees and Property Tax (Scenario 2)

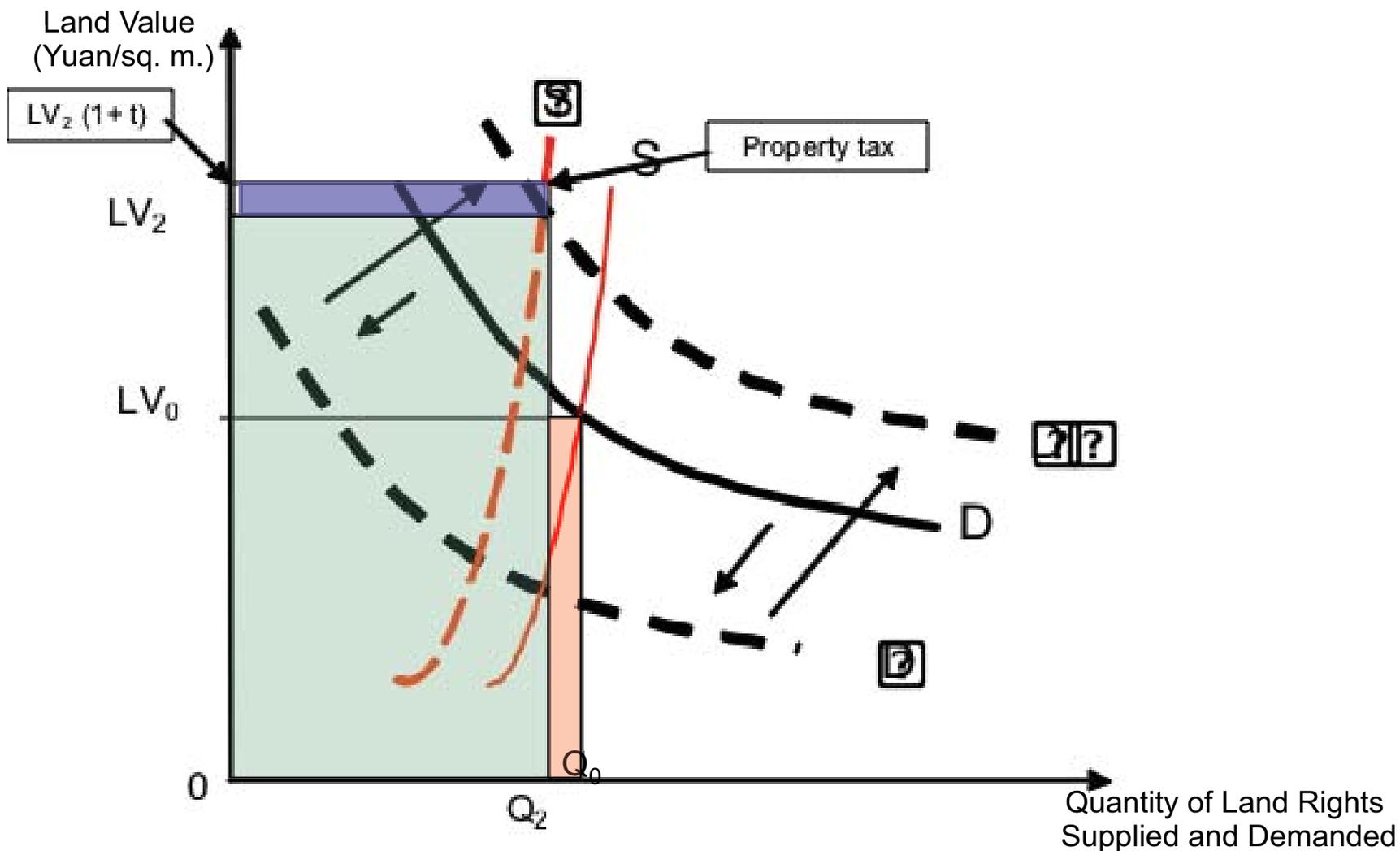


SCENARIO 3

Assumptions

- Property tax collections are fully invested in public infrastructure and local services. Public investment is experiencing an increasing returns to scale.
- Property tax liabilities and improvements in land caused by public infrastructure investment are fully capitalized in land value.

Relationships Between Leasing Fees and Property Tax (Scenario 3)



Key Factors To Consider

- The utilization of property tax collections
- Capitalization of public goods investment into housing and land prices
- Capitalization of property tax liabilities into housing and land prices

Implications

- Public leasehold and property taxation are not mutually exclusive.
- Establish a constitutional provision to recognize legally leasehold rights as conditional private property rights.
- Impose the property tax on land and buildings, but tax land more heavily than buildings.
- Use the annual land rent as a base for valuing land for tax purposes.

Implications

- The land leasing and property tax systems, if implemented properly, could provide additional revenues for local governments.

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