

## Housing Property Tax Reform

Hou Jinduo

School of Public Finance and Economics, Shanxi University of Finance and Economics, Wucheng Road 56,  
Taiyuan, China

316houjinduo@163.com

**Keywords:** Housing property tax, Property tax, Tax reform

**Abstract:** Since the 19th National Congress, the improvement and promotion of property tax legislation have become one of the core contents of the tax reform. As a property tax, property tax is also a stock tax; unlike flow taxes, it will inevitably affect residents' willingness to consume. With the impact of the reform of the "business tax changed to VAT" on local fiscal revenue, and the slowdown in economic growth and downward pressure have become the primary problems facing local governments, the introduction of property tax not only contributes to the construction of local tax systems but also gradually increase the proportion of direct taxes. As far as the domestic situation is concerned, it is not necessary to clarify the legislative purpose and functional orientation of the property tax. It is clear that the property tax should be based on the adjustment of income distribution as a core function, taking into account the tasks of raising fiscal revenue, promote social equity, clearly regulating the boundaries of functions, and adjusting the collection scope of the property tax. This paper considers the collection and management costs and tax compliance from the perspective of tax administration and concludes that the real estate registration is completed. We should promote the property housing approval gradually, and carry out the real estate evaluation committee. The tax rate should be based on progressive tax rates, and income and expenditure are closely related.

Since the 19th National Congress, deepening the tax reform and improving the local tax system has become the focus of attention in the field of finance and taxation. The goal of the tax reform is to propose a unified tax law, a fair tax burden, and a degree of adjustment. From the perspective of tax burden fairness, the measurement of the wealth of individuals and households helps to demonstrate integrity. As one of the internationally accepted taxes, property tax embodies the role of taxation and local taxation.

The property tax is not only to conducive and sorts out the relationship between rent and tax, but also help to reflect the structural rationality of direct tax such as property tax in the tax system. Therefore, the setting of property tax needs to follow the statutory tax principle and quantitative energy taxation principle, that is, the setting of "wide tax base and narrow tax rate."

### 1. The status quo of housing property tax

The property tax, as defined in this article, is only the housing property tax. China's housing market has experienced the process of welfare housing to marketization, which has resulted in the coexistence of public housing, commercial housing, affordable housing, and small property housing.

Property tax is a broad concept, which is based on the tax levied on real estate. The taxable objects include land and above-ground buildings and tax the owner or user according to the market value or rental income of the house. It is criticized that the taxes related to real estate include: property tax, land use tax, farmland occupation tax, stamp duty, land value added Tax, deed tax. The property tax is the tax generated by the house holding process, and the land transfer fee has been paid at the time of purchase, and it can be passed on to the consumer, that is, the holder of the house. For taxpayers, the tax base of the property tax is based on the assessed price or market price

of the home, that is, the land transfer fee included in the house price needs to be charged repeatedly.

Furthermore, due to the different types of housing property rights, the phenomenon of the unfair tax burden, that is, the difference in the value of the house, causes a severe difference in tax burden even if the tax rate is the same. This has created a large proportion of the tax burden in the development and trading of the house, and the current situation of holding the link taxation is relatively lighter, thus widening the gap between the rich and the poor. Taxation from the real estate holding link not only helps China to carry out the imposition of the inventory tax but also helps the state to plan the proportion of direct and indirect taxes rationally.

At the same time, based on international practice, property tax not only helps to clarify the relationship between tax and fees but also helps local governments to achieve income and adjust income distribution. Foreign property tax is established based on private ownership of land. From the perspective of property tax, property rights do not only include ownership, but also including use rights, income rights, and transfer rights. That is to say, based on the right to use, the legal basis for taxation is acceptable.

## **2. The mechanism of the role of property tax**

### **2.1. The motivation of demand for real estate**

The holding of real estate mainly has the following motives: housing motivation, prevention motivation, and speculative motivation. Housing motivation refers to the purposes of people holding housing to cope with the daily housing needs. Prevention motivation refers to the motive to keep the house in case of unforeseen needs, that is, housing helps to hedge inflation, easy to enter the flow of the secondary market which can also generate value-added. The speculative motion refers to the need for people to hold real estate to meet the motives of profit based on changes in market interest rates.

$$D=D1+D2=L1(Y)+L2(R)$$

$L1(Y)$  represents housing demand related to income  $Y$ , and  $L2(r)$  represents interest rate-related speculative demand.

In China's capital market, with the improvement of technical barriers, economic development relies entirely on technological innovation, and the return on capital presents an inverted “U” curve. The reduction of the total factor productivity of enterprises means that the capital re-enters the housing market, thereby further widening the gap between the rich and the poor. Therefore, the collection of property tax will help curb the speculative holding of the house, thereby reducing the vacancy rate of the house, making the supply of the house increase, and achieving the effect of “the need for the owner to have a place to live.”

### **2.2. Property tax effect**

The collection of property tax means that it is directly levied on taxpayers and is hard to transfer. It is both an income tax and a turnover tax; it has two corresponding effects. Under the impact of income tax, capital flows from the high tax zone to the low tax zone, which leads to change the real estate price. As a recipient of the overall tax burden, housing suppliers should think about the property tax has been capitalized into real estate price, which reducing the return of capital gain and resulting in a decreasing in the value of the real estate. Under the effect of turnover tax, capital spillovers in high-tax areas reduce production factor productivity and return rate, lowering property price; capital enters the low-tax area, increasing return on investment, and rising property price. The typical effect of the two is that the relative price of the real estate remains unchanged, and the tax burden is shared by the real estate holders and the demanders of the high tax zones. In China's real estate market, the effect of income tax plays a significant role, which is mainly borne by high-income groups such as capital owners, and therefore contributes to the reduction of the Gini coefficient.

Changes in property prices need to take into account the elasticity of the Real estate tax structure and the elasticity of demand for real estate. That is to say, the structural flexibility of the housing

property tax is easily passed on to the tenants of the house, making the burden more serious. Therefore, as long as the capital return of the house is higher than the cost of holding the house, the capital holder will continue to increase the holding of the house. Simultaneously, due to the different degrees of development of the region, tax collection is concentrated in the core area, which in turn leads to an increase in the stock of the overall housing.

### **2.3. Public service effect**

First of all, the development of the real estate industry depends on the development of the financial industry, and talent inflow is more magnificent than outflow. While the financial industry needs to return to the real economy, and the continued expansion of the population lacks sustainability, that is, “rigid demand” depends on the flow and stock of the population.

Secondly, behind the real estate is the provision of public resources such as “education,” “aging” and “traffic,” that is, the provision of public services has promoted the rise of real estate prices. Therefore, the government levies taxes based on the profitability of housing has its rationality to help achieve essential public services.

Finally, the regionalization of property taxes contributes to a virtuous circle of public services in wealthy regions: fertile regions – low tax rates – good public goods – real estate price appreciation; and in contrast to poverty regions, high tax rates are common to public services. Thus, the housing property tax will be gradually promoted to gather in the core of wealthy areas and support the development of the real estate industry.

Therefore, the provision of the property tax will help China to implement high-quality growth, implement the concept of “the house is used to live,” and promote the development of the real estate market.

### **3. The problem of property tax collection**

The purpose of property tax should be to adjust income distribution as a core function and also to raise fiscal revenue and promote social equity. Therefore, we should pay more attention to the property taxation of stock houses.

Based on the mixed property rights of the real estate, the legality of the housing property tax is insufficient. That is, minor-property-right house means a lack of construction or sales license, which is illegal. If it is taxed, it recognizes its legitimacy and is unfair to the purchasers of formal channels; if it is not taxed, it will encourage the purchase and use of small property houses, and further, undermine the stability of the housing market.

As far as the collection and management of property tax is concerned, it is necessary to consider the cost of collection and the taxpayer's willingness to comply. Thus, the administration department needs to find the setting of “wide tax base, narrow tax rate,” or the maximization of social welfare, and the design of tax burden fairness; hence, the property tax related levy ratio, assessable value, exemption measures become the top priority. In terms of compliance, the use of housing property taxation is fed back to the taxpayer's public services or infrastructure, giving taxpayers a sense of gain. The essence of housing property tax is to provide better public services. Therefore, the income and expenditure of housing property tax need to be open and transparent, thus increasing taxpayers' willingness to comply.

Pilots from Shanghai and Chongqing show that: First, property tax has little impact on house price changes. Only for the housing property tax concerned the newly-added houses, the existing stock houses were not collected, which made the effect unsatisfactory and failed to reflect the fairness of the tax burden. Second, property tax accounts for a lower proportion of local fiscal revenue. The “narrow tax base and low tax rate” led to the property tax not improving the local tax system. Third, the tax-related population is narrow. That is to say, the property tax pilot does not involve the collection of stock houses, mainly for luxury houses and villas, just like the “luxury tax.”

The appearance of the housing property tax means the improvement of the real estate registration system, the existence of full-time registration team construction, the lack of implementation of the

agency, and other issues. The taxation of the property tax needs to take into account the taxpayer's ability to pay, does not affect one's standard life maintenance needs; The value of real estate appraisal needs to be reasonably and adequately assessed by the organization to prevent "power rent-seeking."

#### **4. The solution to the real estate tax**

This paper proposes the following countermeasures from the analysis of tax administration and the willingness to comply with the experience of US property tax:

In terms of tax collection and management,

(1) Improving the registration system for real estate. Gradually reducing the time for registration of real estate registration services, simplifying procedures, enhancing the transparency of land management, conducting inter-provincial communication, and promoting the establishment of big data platforms.

(2) Establishing a team to assess the value of the real estate market. The country creates a technical evaluation team and trains local tax authorities. The pricing model is revised considering the differences between regions; the evaluation of the real estate market value can be based on the assessment of different areas in each year of 1 year, three years, and five years.

(3) Simplifying the tax rate setting. The tax rate should be considered the progressive tax rate and has a gradual level, which is conducive to the simplification and implementation of the property tax. The central government sets the tax rate range, and the local government determines the tax rate based on the local conditions and the municipal level as the grassroots unit. In terms of the US tax rate, it is equivalent to the proportion of housing value, 60% of the county tax rate is 1%; 37% tax rate is 1%-2%; 3% property tax rate is more than 2%. And the annual increase in tax rate is not allowed to exceed a specific limit.

(4) Promoting the reform of the real estate system and housing system, and confirm the ownership, property rights, and price of housing property. Reasonable tax rates are determined for housing in different regions. Gradually promote the precise definition of property rights, think into the scope of collection and management, and ensure the fairness of taxation.

In terms of tax compliance,

(1) Establishing a system of individual exemption from housing and promoting social welfare. The taxpayer's housing-based relief measures need to be determined based on considering the value of the assessment; besides, the tax allowance can be selected by the taxpayer as the family, and also in the form of individuals. In actual operation, the economic status, development level, and per capita income of the provinces are different, so the regions need to set the situation reasonably.

(2) Introducing third-party supervision. The government has qualified and assessed industry norms and established a real estate appraisal committee, which is jointly organized by professionals and relevant community members to optimize publicity and enhance communication. At the same time, improve the evaluation of the dispute resolution mechanism, evaluate the information published in the public media, establish a 30-day appeal period, a 60-day reconsideration time.

(3) Promoting information interconnection. With the networking of housing information in the country, it can only query the property under the name of the individual, which is not conducive to the housing inquiry of the family; therefore, it is necessary to enhance the sharing of information resources between the taxation department, the civil affairs department and the public security department, and improve the efficiency of collection and management; Leakage has always been criticized, so attention is paid to the confidentiality of personal information.

(4) Explaining the expenditure of property tax. The role of property tax is to provide local public services and the construction of affordable housing, build a property tax collection status and expenditure detail platform, establish mutual trust between the government and taxpayers, and promote taxation more open and transparent.

Drawing on the development of property tax in European and American countries, the government explicitly applies the property tax to local infrastructure, environmental improvement, and education. At the same time, to prevent random purchases caused by speculative investment,

the owner's time of holding the house will result in the difference in the proportion of property tax; in turn, the measures in the property tax relief tax are more humane. In the calculation of personal income tax, the mortgage interest expense is allowed to deduct, so the taxpayer's overall tax burden is reduced, giving priority to the individual's ability to pay.

## 5. Conclusion

The proposal of property tax means the intersection with the original tax system and land transfer fees. Therefore, it is necessary to consider the gradual transfer of land transfer fees and effectively promote the continuous development of housing property tax. Meanwhile, the housing property tax will help to increase the proportion of the direct tax and reduce the gap between the rich and the poor. Therefore, the property tax is responsible for deepening the reform of the tax system and then responding to the promotion of public goods and services.

## References

- [1] Kuang W, Zhou H . Property Tax, Supply and Demand Elasticity and Housing Price[C]// International Conference on Information Management. IEEE, 2011.
- [2] Alm J, Buschman R D, Sjoquist D L. Rethinking local government reliance on the property tax[J]. Regional Science and Urban Economics, 2011, 41(4):320-331.
- [3] Bird R M, Slack E. Can property taxes be reformed? - Reflections on the Ontario experience[J]. Canadian Public Administration, 2010, 24(3):469-485.
- [4] Byrne M, Norris M. Procyclical Social Housing and the Crisis of Irish Housing Policy: Marketization, Social Housing, and the Property Boom and Bust[J]. Housing Policy Debate, 2018, 28(1):1-14.
- [5] Huang Jingwei, the experience of collecting foreign real estate tax and its enlightenment to China [J], Financial Research, 2013, (2): 66-71
- [6] Pang Fengxi, Yang Xue. Measurement and Comparison of Personal Housing Real Estate Tax Burden[J]. Tax Research, 2018(9): 46-51.
- [7] Zhu Weiqun, Xu Jianbiao, Tax Rate Choice in China's Real Estate Tax Reform——Based on a Fair Perspective[J]. Tax Research, 2019(4): 24-30