

Research on the Improvement of China's Property Tax System

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Abstract: Property tax is not only a necessary supplement to income and commodity taxes, but also can play a unique role in equitable social wealth and raising local revenue. This paper argues that at present, China's property tax system is not sound enough, the supporting system is not complete, the scale of revenue is small, and only property tax and urban land use tax are levied on the real estate tenure link thus making the tax burden on the real estate tenure link low and the regulation effect is poor.

Keywords: Tax Reform; Property Tax; Real Estate Tax; Vehicle Tax; Estate Tax

1. Introduction

The 20th Party Congress report pointed out that: China's next major goals and tasks are to achieve new breakthroughs in high-quality economic development, significantly improve the ability of scientific and technological self-sufficiency and self-improvement, improve the socialist market economy system, basically form a new system of higher-level open economy, and basically synchronize the growth of residents' income and economic growth.^[1] Property tax has a positive effect on regulating the gap between the rich and the poor. However, because there are still many problems in our current property tax system, property tax does not play a good role in narrowing the gap between the rich and the poor. In order to be able to narrow the gap between the rich and the poor and solve the relative poverty, the property tax system should be reformed and improved to give full play to the property tax to regulate the gap between the rich and the poor and make it work as it should, so as to add a force to the road of common prosperity.

2. Literature Review

2.1 Review of foreign literature

Adam Smith(1768) was the first to propose real estate taxes as local revenue, and he believed that they could be a sustainable source of revenue.^[2] Fischer William(1992) argues that the better educational resources and safer policing environment a community can provide will also be factored into the value of local property as a cost of public services. Kelly Roy, White Roland, Anand Aanchal(2020) argues that the higher goal of property taxation is to support increasingly equitable and stable tax systems in low- and middle-income countries, with the potential for sustainable improvements in achieving key revenue, equity, and efficiency goals.^[3]

2.2 Domestic Literature Review

Yang Zhiyong(2019) It is very important to propose legislation to levy real estate tax on the tenure segment, and more importantly, to improve the operating environment of the real estate industry by introducing it is more important to improve the operating environment of the real estate industry by imposing a real estate tax on the tenure segment.^[4](2012). Yu Guangyuan(2018) argues that the transformation of the main contradictions in society since the 18th Party Congress indicates that we need to pay more attention to the livelihood of the masses^[5]

3. Current status of China's property tax system

As for the current status of China's property tax system, property tax includes property tax, vehicle tax and deed tax, and also includes several smaller taxes such as arable land occupation tax, urban land use tax and land value-added tax. These taxes can be divided into property ownership tax and property transfer tax according to the link of taxation, and general property tax and individual

property tax according to the object of taxation. These property taxes play an important role in protecting arable land, improving land use efficiency, regulating the real estate market, etc.^[6]

The total tax revenue and property tax related taxes and the statistics of the taxes that account for a larger share in the last five years in China. This shows that property tax accounts for a very small proportion in China, compared with VAT, corporate income tax and consumption tax, which do not play a good role in regulating the income disparity among residents. Under such circumstances, it is difficult for the property tax to perform its proper regulatory function.

4. Problems of our property tax system

4.1 Lack of corresponding legal effect

The existing taxes that have been introduced are relatively weak in terms of the legal effect of taxation. It is worth mentioning that the deed tax will come into effect on September 1, 2021, which will push the legislative process of property tax one step further. As property tax and land value-added tax have not yet been implemented as tax laws, the legislative process has a great impact on the effectiveness of the law, and it is necessary to continue to promote the legislative process for each type of property tax.

4.2 The tax rate system needs to be improved

In terms of property taxation, there are currently two types of taxation in China, one is ad valorem and the other is rent-based. The ad valorem tax is calculated at a rate of 1.2 percent of the original value of the house after deducting a certain percentage, while the ad valorem tax is applied at a rate of 12 percent of the rental income. Generally speaking, according to the ad valorem levy, some properties may have a large gap between the original value and the market price due to their age, which is not in line with the reality and leads to a narrowing of the tax base and divergence between fairness and efficiency; according to the taxation method of ad valorem levy, the tax burden may be too heavy, which may make the taxpayers feel that the tax burden is too heavy and transfer part of the tax burden to the consumers by increasing the rent, which makes the burden borne by the consumers heavier and is not conducive to the normal development of the market.

4.3 Loophole in tax basis

Currently, in our property tax system, the original value of the property is mainly used as the basis for taxation. The biggest disadvantage of this method of taxation, which is based on historical cost, is its serious disconnect from the market. This taxation basis is not relevant enough to the existing market situation and does not truly reflect the current situation of our property. Over the years, the real estate market has been very hot and prices have remained high resulting in a large difference between the original and current value of the property. In particular, some of the more rapid development of first-tier cities, housing prices have even doubled several times, more than ten times. Therefore, using the original value of the property as the basis for taxation greatly reduces tax revenue and is contrary to the principle of equity. The other type of property tax is based on the rent of the house. As China's levy and control of the rental market is not strict enough, the information is too complicated, which makes it too difficult to levy and control, so that taxpayers do not declare the rent according to the facts, and it is difficult to calculate the levy. But it ignores the fact that property taxation itself tends to be more about assessing and taxing its current value. For land use tax, China currently adopts a fixed rate, for example, the urban land use tax rate is 0.6 to 30 RMB per square meter per year.^[7] Obviously, with the development of the economy, the utilization and development of land resources have led to a significant increase in the value of land, and therefore the basis for such taxation also has the problem of reducing the utilization and optimal allocation of resources.

5. Ideas of China's property tax system reform

5.1 Insist on legislation first

In China's current tax system, the 12 types of taxes to achieve legislation, the Deeds Tax Law added last year was passed in the Standing Committee of the 13th National People's Congress of the People's Republic of China, and the Stamp Duty Law was added this year.^[8] However, for property tax, property tax, land value-added tax and urban land use tax have not yet been legislated, while for estate tax China's legal provisions are still blank. Comparing with the estate tax system in the United States and other countries, the rapid development of our economy, the accumulation of wealth of the rich and the growth of the Gini coefficient, the process of establishing and legislating the estate tax system should be accelerated.^[9]

5.2 Full local empowerment

Property tax is a very important part of local tax revenue, and in some developed countries such as the United States, the United Kingdom and Canada, property tax revenue exceeds 80% of local tax revenue, while comparing with China, it is only less than 5%. Nowadays, with the management of information and the application of big data making some revenues transparent, and for the real estate category, it is easier and more accurate for local governments to manage and supervise them, so the central government should give sufficient authorization to localities to gradually manage the property tax collection according to the actual local conditions.^[10]

5.3 Pilot step-by-step progress

Any reform is full of challenges and risks, and the reform of the property tax system should not be too rapid and should be steadily promoted. At present, most of the reforms in China adopt the method of "piloting first, then promoting", for example, the reform of property tax, Chongqing and Shanghai as a pilot reform, which provides a valuable reference experience for the new property tax to be levied nationwide, and also takes an important step on the road of improving the property tax and adjusting the fiscal tax structure. The implementation of step-by-step advancement mainly takes into account that taxpayers need a process to learn and accept new tax policies, and if the pursuit of rapidity may make taxpayers resist, steady advancement not only gives taxpayers a buffer time, but also allows them to improve the policies continuously in practice. In addition, the reform of real estate tax can also accumulate the experience for the introduction of estate tax in the future, and the solution and improvement of the tax system of real estate tax can also lay a solid foundation for the introduction of estate tax.

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