

The Influence of Real Estate Tax in China and the Countermeasures of Auditors

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Abstract: As a pillar industry of the national economy, the development of real estate industry has an important impact on economic development. However, in recent years, the soaring housing prices and the widening gap between the rich and the poor have seriously restricted the healthy development of the economy. To this end, the state has carried out real estate regulation all the year round, requiring all kinds of real estate enterprises to implement the "three red lines", and the local government's real estate policies are constantly increasing. This paper analyzes and forecasts the pilot scheme of real estate tax from five aspects: the object of real estate tax collection, the pilot city, the basis of tax collection, the tax rate and the tax period, and then discusses the impact of the implementation of real estate tax and the measures to be taken after the implementation of real estate tax, hoping to provide some help for the next step of real estate tax collection in China, reduce the difficulty of tax collection, and provide enlightenment for the future audit work.

Keywords: Real Estate Tax; Reform Pilot; Economic Consequences

1. The background of real estate tax

Since the third plenary session of the 16th CPC Central Committee in 2003 first proposed the taxation of self-occupied housing, the real estate tax has been receiving much attention. Its development process has been explored for a long time. Shanghai and Chongqing are the first batch of real estate tax reform pilots. Since the Third Plenary Session of the 18th CPC Central Committee, China has been carrying out legislation and reform on real estate tax. However, the interest relationship of real estate tax is complicated, so it has been controversial. After years of development, a certain consensus has been reached. On October 23rd, 2021, the 13th the National People's Congress Standing Committee (NPCSC) Conference decided that the reform of real estate tax will be carried out in some areas. And the pilot tax object is defined as residential housing, but it does not include rural housing. The pilot regional governments shall formulate specific implementation rules. This decision even announces that the real estate tax is getting closer and closer to people.

2. The necessity of real estate tax pilot

As an important industry of China's national economy, real estate is closely related to the overall running state of social and economic development. Therefore, it is necessary to levy real estate tax, whether from the future development of the real estate industry or the overall situation of the current social and economic operation.

2.1 Promoting the policy of common prosperity

In the process of realizing common prosperity, tax policy plays an important role in regulation. After 40 years of reform and opening-up, China's national economy has developed rapidly. At the same time, house prices have risen rapidly, completely exceeding the purchasing power of ordinary wage earners. For a long time, the real estate industry has been seriously polarized. Many working-class people struggle all their lives and can't afford a suite; There are also rich people with several or even dozens of houses in their hands. As a socialist country, how to narrow the gap between the rich and the poor and let most people enjoy the fruits of social

and economic development has become the focus of attention. Therefore, in this context, the real estate tax pilot is conducive to promoting the steady and healthy development of the real estate industry, narrowing the gap between the rich and the poor, and promoting common prosperity.

2.2 Relieve local finance

In 2020, China's wide-caliber urbanization rate has reached about 75%, which indicates that China's rapid urbanization stage is coming to an end, and the land finance is unsustainable. With the arrival of the stock housing era, the transition from land finance to real estate tax is inevitable. In addition, due to the tightening of the government's implicit debt supervision and the sluggish real estate market environment, the local fiscal revenue is facing enormous pressure. Therefore, carrying out the real estate pilot is conducive to speeding up the process of the government's transition to real estate tax and alleviating the local financial pressure.

2.3 The implementation of the "room to live without speculation"

In China, housing is not only a residence for residents, but also an investment product superior to any other financial products. Real estate investment is the main cause of soaring housing prices. Excessive housing prices will affect residents' daily spending power. According to the survey in 2019, mortgage is an important reason for the high household debt ratio of urban residents in China. And Liang Meijian and Ma Yakun's (2020) research proved that increasing the tax burden cost during the housing holding period has a significant impact on the suppression of housing prices, narrowing the gap between the rich and the poor and promoting social equity.

3. The real estate tax pilot program

3.1 The object of real estate tax collection

Real estate owners are real estate taxpayers defined by most countries, such as the United States, Mexico, Canada, etc. Some countries also define taxpayers as users and occupiers of real estate. For example, Turkish municipal authorities levy property tax and land tax on buildings and land owners, beneficial owners and beneficiaries in Turkey. In China, however, land users and house owners are taxpayers of real estate tax.

3.2 Pilot cities for real estate tax

We predict the cities and regions where real estate reform will be carried out according to different ways: First, the core cities where housing prices are rising rapidly or facing greater housing price pressure mainly include Shanghai, Shenzhen, Xi 'an and so on; Second, the hot-spot first-and second-tier cities interviewed by the Ministry of Housing and Urban-Rural Development this year include Shanghai, Beijing, Ningbo, etc. Third, cities that have established "second-hand housing guiding price mechanism" at present, such as Shenzhen, Guangzhou, Jinhua, etc. Fourthly, if the pilot work is carried out in Zhejiang, it may be carried out in the whole province, because Zhejiang is a demonstration area for common prosperity.

3.3 The basis of real estate tax collection

Worldwide, the tax base of real estate tax varies from country to country, and many countries define it as market evaluation value, such as the United States, Britain, Germany, Singapore, etc. Some countries are also defined as the annual income of paid rent (such as France), the registered price of houses or land (such as Russia, Switzerland, Spain), and the land area (such as Poland). Drawing on the experience of developed countries, Shanghai and Chongqing, it is expected that China's property tax pilot will be based on the market evaluation value, and tax concessions will be given according to some conditions. From the perspective of tax incentives, rigid demand and special groups are less levied or even exempted. The high probability is that the exemption area of first-and second-tier cities is smaller and that of small cities is larger. Moreover, the real estate tax is levied on all houses including small property houses, except rural houses.

3.4 Tax rate of real estate tax

Worldwide, the whole range of real estate tax in all countries and regions is 0.15%-5%. According to the experience of developed countries, Shanghai and Chongqing, the real estate tax rate mainly adopts progressive tax rate and average tax rate. Previously, Shanghai and Chongqing adopted two tax rates of 0.4% and 0.6% and three tax rates of 0.5%, 1% and 1.2% respectively. It is expected that the pilot cities will adopt city-specific policies. At first, the tax rate will not be too high, and the estimated pilot value should be

about 1%.

3.5 The real estate tax collection period

Real estate tax is generally paid annually rather than once.

4. Impact of real estate tax pilot

4.1 The impact of real estate tax on the price of commercial housing

It points out the original intention of the real estate tax pilot: to guide the rational consumption of housing and the economical and intensive use of land resources, and to promote the stable and healthy development of the real estate market. In the short term, real estate tax has an impact on psychological expectations, and the degree of impact depends on policies; In the long run, the real estate tax is only a regulating factor, and its influence on the market mainly depends on the relationship between supply and demand.

4.1.1 The real estate market itself will gradually return to rationality and residential essence

On October 16,2021, the Qiushi News published a speech delivered by General Secretary Xi Jinping at the 10th Meeting of the Financial and Economic Commission of the CPC Central Committee on August 17,2021, making solid efforts to promote common prosperity. What released this signal? First, it shows that the country's determination to carry out the real estate tax reform has been established. Any reform will always touch the interests of all parties, but the tide of historical development rolls in. If we want to move from the primary stage of socialism to common prosperity, we must cut the cake again and mobilize the enthusiasm of the whole society. Second, the state's attitude towards real estate tax reform is extremely cautious. As early as ten years ago, Shanghai and Chongqing conducted a pilot project on real estate tax. This expanded pilot project completely handed over the autonomy to the local government, and gave a five-year pilot period. It can be seen that the attitude of real estate tax reform is quite cautious. Third, it is conducive to promoting relative fairness. Our country's tax revenue is usually indirect tax, although it is simple and easy, it is easy to lead to the gap between the rich and the poor, which is actually unfair. Turnover tax will be changed to direct tax, and the rich will be taxed directly, and whoever has more houses will receive it. If you want to be a flat land rent class, it will be impossible in the future. Fourth, it is conducive to promoting common prosperity. At present, every household in China owns 1.5 houses. In fact, many families can't buy a suite at all, but many people can own many suites. After the implementation of the real estate tax reform, it will help narrow the gap between the rich and the poor and promote common prosperity.

4.1.2 The real estate market will have a correction in the short term

In order to avoid market turbulence, all the pilot cities will adopt a deferred period or an exemption period, and it is an over-progressive system to ensure that the market reaction is within a controllable range. In the past twenty years, the real estate industry has been an important industry in China's national economy and the mother of all trades. Up to now, the land transfer fee is still the most important local money bag. Because the huge industry of real estate is not only related to itself, but also has hundreds of downstream industries behind it. Steel, cement, coal, nonferrous metals and engineering machinery are a series of supporting facilities, ranging from decoration to building materials, household appliances and home textiles, and all kinds of soft clothes. More importantly, the real estate industry is the most important carrier of credit creation in China and plays an irreplaceable role. Mortgage or sell land to developers for financing-build infrastructure to improve urban appearance-increase land price-continue to mortgage land or sell it to developers for financing-developers build houses to drive downstream industries-buyers borrow money from banks with houses as collateral. It can be said that the essence of land sales is to transfer residents' future income to local governments through banks. When local governments have money, they can build infrastructure, repair roads and build various industrial parks, and then attract investment to expand tax sources. After entering the industrial park, enterprises can hire local people to work. Everyone who has money to go to work will continue to borrow money to buy a house if they want to improve their living conditions. This is a positive cycle, and the two promote each other. In this process, real estate and finance are closely linked. Land and real estate are the anchors of credit amplification. The price of this anchor cannot be lowered easily, otherwise the positive cycle will be broken.

4.1.3 The real estate market depends on the relationship between supply and demand for a long time

In order to avoid market turbulence, all the pilot cities will adopt a deferred period or an exemption period, and it is an over-progressive system to ensure that the market reaction is within a controllable range. Because the huge industry of real estate is not only related to itself, but also has hundreds of downstream industries behind it. Steel, cement, coal, nonferrous metals and engineering machinery are a series of supporting facilities, ranging from decoration to building materials, household appliances and home textiles, and all kinds of soft clothes. More importantly, the real estate industry is the most important carrier of credit creation in China and plays an irreplaceable role. Mortgage or sell land to developers for financing-build infrastructure to improve urban appearance-increase land price-continue to mortgage land or sell it to developers for financing-developers build houses to drive downstream industries-buyers borrow money from banks with houses as collateral. It can be said that the essence of land sales is to transfer residents' future income to local governments through banks. When local governments have money, they can build infrastructure, repair roads and build various industrial parks, and then attract investment to expand tax sources. After entering the industrial park, enterprises can hire local people to work. Everyone who has money to go to work will continue to borrow money to buy a house if they want to improve their living conditions. This is a positive cycle, and the two promote each other. In this process, real estate and finance are closely linked. Land and real estate are the anchors of credit amplification. The price of this anchor cannot be lowered easily, otherwise the positive cycle will be broken.

4.2 The impact of real estate tax on rent

Real estate tax plays a positive role in stabilizing rent. First of all, the real estate tax will probably reduce the house price and the purchase cost by increasing the cost of house holders. The reduction of house purchase cost will indirectly affect the price of rent, thus playing a positive role in the stability of rent. Secondly, compared with some real estate speculators, the houses are not rented in the market, but are in an idle state. Therefore, when the real estate tax increases the holding cost of real estate speculators, in order to make up for the holding cost, the vacant houses on hand will be rented out, which will increase the supply and demand of housing rental in a short time. In addition, in the past few years, the state has prepared a lot of low-rent housing and public rental housing, and then more houses will be built for rent, to some extent, to avoid a sharp increase in rent.

5. Real estate tax pilot response

5.1 Adjusting the structure of family assets

Families will take various measures to actively respond to the levy of real estate tax. First of all, in terms of real estate allocation, for families with real estate in first-and second-tier cities, they will comprehensively consider various factors to determine whether to hold or sell the surplus real estate, including but not limited to population density, land supply, plot ratio of houses, location, quality of residential quarters, surrounding industries, etc. For families in third-and fourth-tier cities, they will choose to sell their surplus property. The demand for public houses lies in buying fine but not many, and the requirements for housing habitability are further improved. Secondly, in terms of investment choices, real estate investment has become an unwise choice. They are more inclined to buy private equity funds, set up investment companies, invest directly abroad by individuals, invest in high-quality stocks, buy bonds, etc., and their investments are developing in a diversified direction.

5.2 Pay attention to tax risks

State Taxation Administration of The People's Republic of China issued an announcement to further clarify the functional deployment of the fourth phase of Golden Tax. At the same time, a channel for information sharing and verification has been set up, which realizes three functions: the mobile phone number of the relevant personnel of the enterprise, the tax payment status of the enterprise and the verification of the enterprise registration information. And with the establishment of tax identification number of natural person, the income and expenditure of individual assets will be more transparent. Therefore, enterprises must standardize accounting and pay taxes according to law, and do a good job in tax planning. The more standardized the behavior of enterprises, the more tax savings, the lower the risk; Otherwise, it is suicide. Meanwhile. Enterprises should actively and reasonably deal with the negative impact of the new policy on enterprises, do a good job in tax planning and take every step to realize the sustainable

development of enterprises.

5.3 To improve the quality of audit professionals and ensure the implementation of the work

According to the characteristics of real estate tax, government departments and firms should not only pay attention to the professional competence, but also have the political quality and comprehensive ability level suitable for their work, so as to meet the basic requirements of real estate audit in the new era, fully adapt to the new situation after the reform of real estate tax, achieve the goal of sufficient audit talents, and finally ensure the smooth development of the reformed real estate tax audit.

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