

Are you ready for the property tax?

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Abstract: The property tax has always been in the center of topic. Being the main content of the new round of tax revolution, it has been exposed to us formally. The government, as the department which can do the macro-control, has regarded the property tax imposing as a crucial instrument to short the poor-rich gap and to adjust the estate market. Shanghai and Chongqing, as the 2 pilot cities of property tax, have the monumental meaning in our housing policy. Unfortunately, in the last 3 years, the result was not satisfying. Being bounded by the effect of legislation, policy design and imposing condition, there are still several problems and obstacles existing in the property tax system in our country. Therefore, we have to take foreign countries' lessons to make the tax function as it was supposed to.

Keywords: property tax, imposing, transformation, pilot cities, obstacles.

INTRODUCTION

The property tax has contributed a lot to the economy in China since the reform and opening-up policy. Accompanied by the housing commercialization in 2000, the housing prices in the whole land have surges significantly among different sizes of cities. From 2001 to 2008, the big and medium cities, such as Shanghai, Guangzhou and Chongqing, the average increasing rate of housing prices have gone beyond 10%. From 2004, which in Beijing, Shenzhen, Tianjin and Chongqing has gone beyond 20%. Although the increasing trend of the rate has been relieved somewhat, the unshaken high housing price has been more than the most people can afford. In order to keep the estate market work orderly, it is the high time imposed the property tax. With the start of the property tax in ten principles and cities in 2006 and the pilot plan of property tax in Shanghai and Chongqing [19]. It is the first time in the history that non-operating housing is classified into the range of property tax imposing. All above has shown the determination of the government to implement the property tax policy. However, from the current situation, the personal transfer property tax project does not have the promoting value. Unless there is better property tax reform, it will not function as it was designed for. The passage aims at locating the obstacles and flaws of the current property policy and offering optimizing suggestion to the reform by analyzing the foreign lessons combined with the situation of the two pilot cities: Shanghai and Chongqing. Optimizing suggestion to the reform by analyzing the foreign

lessons combined with the situation of the two pilot cities: Shanghai and Chongqing [4].

The international practice and experience

The international practice

The house property tax is a kind of specific property tax, most countries in the world have taken it seriously and begun to widely collect it. All countries are taking their own financial system, legal environment, system design, the collection and management conditions and economic development situation into consideration to set up a suitable standard for their own property tax [5].

The international experience

We can't copy the experience of other countries or regions, but it will be ideal if we can correct their problems in the processes of analysis and application, which will help us to optimize the design of the property tax system in the development of the tax in our country. Lessons drawn from international experience are explained in following several aspects:

Good fiscal functions

From the experience of other countries, the property tax has traditionally been an important part of the tax system of their local governments [20]. According to different national conditions and culture, the property tax's backgrounds and aims are also different though, the tax principles are almost following "wide tax base, less tax, low tax rate".

The market effective adjustment

According to the international experience, the property tax will effectively raise the cost of house holding. The increased cost of house holding will help the stock housing get into the market circulation easier, therefore to achieve the goal to optimize the distribution of property, which can also help to control the real estate market better [3].

To support the social welfare

The international experience indicates that the Property tax itself aims to meet the various areas' need of public services and infrastructure. The mechanism of the country's property tax expenditure mostly has embodied the principle of "tax revenue". The graph below is one of the California Sacramento's property tax bill samples, which can help us comprehensively understand how does the real estate tax reflect the principles of "tax revenue" [18].

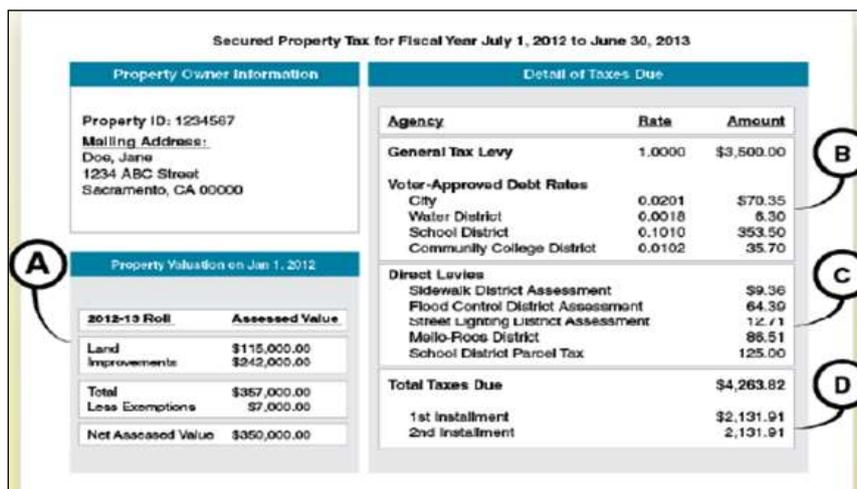


Fig-1: property tax bill samples of California Sacramento

Part A shows the evaluation value of housing and land; Part B includes different tax rates respectively, the benchmark rate is 1%. According to the constitution of the United States, real estate tax can be used for any public spending. Other tax rates after were confirmed by voters. 0.0201% for city, 0.0018% for water district, 0.1010% for school district, 0.0102% for community college district ; Part C contains projects voted by voters: Sidewalk District Assessment ,Flood Control District Assessment, Street Light Lighting District Assessment; Mello-Roos District; School District Parcel Tax; part D is the sum of the tax payable of part B and part C, a total of \$4263.82.

To rely on the effective evaluate system

Evaluate system of the real estate market value is the most important and difficult part. The countries and regions with comparatively complete tax system will embrace a property tax base value according to the evaluated final housing tax base value [2]. The experts with specialized experience were employed to evaluate the value of the property by the countries with developed market economy.

Deal with the real estate bubble effectively

Singapore government effectively made use of property tax to inhibit the appearance of the real estate bubble. Singapore has uphold the principle of small

family model and low prices, proposed the preferential policies and subsidies for personal housing purchase tax or offered Low-rent housing to 10% of the vulnerable groups. For the large family with more than 100 square meters houses, the government charged the high land transfer tax. Before 2010, personal property tax rate had always kept steady at 4%. But with the economic recovery in 2010, Singapore began to emerge the sign of the real estate bubble. Starting from 2011, the government turned the real estate tax to progressive base, it also reflected the more caring for the vulnerable groups. Singapore officially enact the new property tax in 2013, increased the progressive levels in personal property tax [17]. Details are as the table-1.

For nearly 30 years, the government has been using the economic leverage of property tax to adjust and control the price fluctuations. During the recession, implementing the property tax is favorable to reduce the financial burden on residents and to promote economic recovery [21]. In the tide of economic, once the real estate produced some bubbles, the government was resolute to crack down the property speculation. This kind of behavior allowed the government to have the initiative in the real estate market, at the same time; it didn't only solve the housing problem, but also effectively controlled the housing prices [1].

Table-1: progressive levels in Singapore

The Property Value	Executive Rate In 2014	Executive Rate In 2015
≤8000	0%	0%
8001—55000	4%	4%
55001—60000	5%	6%
60001—70000	6%	6%
70001—85000	7%	8%
85001—100000	9%	10%
100001—115000	11%	12%
115001—130000	13%	14%
≥130001	15%	16%

Chinese characteristics' property tax**China's commissioning mode of real estate tax**

With the 30 years of continuous development since the reform and opening up in China, people's living standard is being increased day by day. As the commercial housing reform deepening, real estate has gradually changed from national plan products to some trade goods can be bought freely [22]. And real estate with zero tax burden makes the housing become the speculator's preferable choice. It also becomes one of the drivers of high housing prices, so scholars are calling for a property tax reform.

The purposes of imposing property tax in our country

The main purpose of a property tax in foreign countries is to take the property tax as the main fiscal tax to adjust the market effectively, to support the social welfare, to respond effectively to the real estate bubble and so on [16]. Under the effective reference to international experience, the author thinks that it is necessary to levy the property tax in the way of Chinese characteristics. The purposes of a property tax in our country mainly include the following several points:

Rational positioning of the real estate market

Real estate is the pillar industry in the national economic development. The soaring house price in recent years has led to the growth of investment from the related upstream and downstream industries. This is the blasting fuse of the real estate bubble. The property tax in our country is based on optimizing the allocation of housing resources and regulating the real estate prices, which means that we cannot ignore that it plays a role of economic adjustment. The reality of high housing prices in our country needs various policy

combinations to adjust and promote the effective allocation of resources of the real estate market [23].

The property tax aims at inhibiting house prices in the short term may not be obvious, however, as the property tax levied every year, the longer you hold the property tax, the burden is heavier, that is to say that the cost to keep the house will be higher too. This situation will affect the real estate market's expectations in the next 10 to 20 years. With the tax rate is gradually higher than the price, it can effectively stimulate more inventory to get into the circulation market, alleviate the contradiction between supply and demand and make the housing Prices tend to be more reasonable. In the long run, this can ease public housing demand more effectively, inhibit the real estate developers from adversing publicity and therefore, promote the release of more inventory [15].

Narrowing the gap between the rich and the poor

In the current given tax system, the individual income tax adjusts the income distribution. The housing property tax, as a kind of property, is a complement to the individual income tax. Following the income adjustment from the income tax, the property tax does further adjustment for the property of the taxpayers.

Since the reform and opening, the improvement of people's living standards is great, but the income distribution gap is also expanded larger and larger. Internationally, we usually use "Gini coefficient" to comprehensively count residents' income distribution difference. At the beginning of 2013, the national bureau of statistics released the Gini coefficient in China since 2003, as shown in the Figure-1 below:

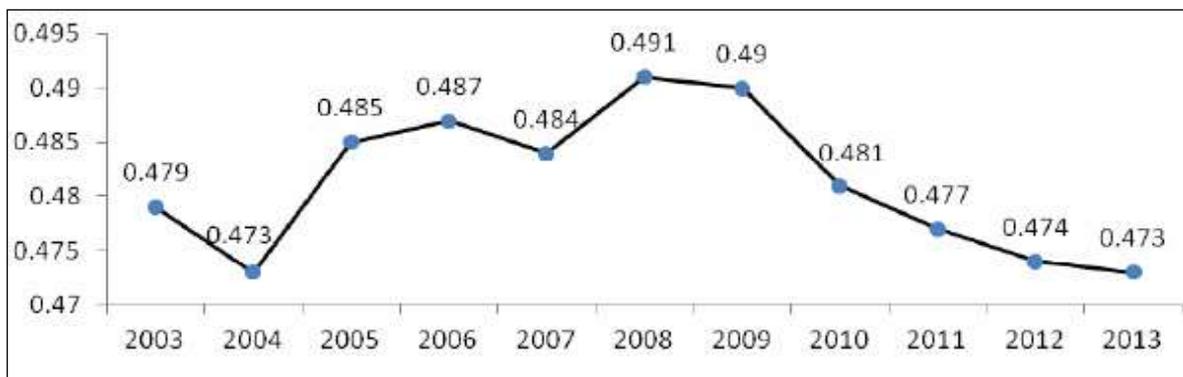


Fig-2: “Gini coefficient” in China (2003-2013)

According to the UN organizations, the Gini coefficient from 0.4 to 0.5 indicates that the income gap is large. We can see from the above graph, China's Gini coefficient is above the edge of the international warning line of 0.473 in nearly a decade, this shows that China's income gap needs to be settled as soon as possible [24].

Under the condition of the current tax system, real estate tax can be used as an effective means to adjust the gap between the rich and the poor. The property tax should be differentiated, the focus adjustment object are the wealthy, to levy the houses beyond the free tax standards. This reflects the principle of ability-to-pay of taxation and fair taxation, and prevents the rich from taking up more land and housing resources, and gives some tax breaks to the vulnerable groups. So that, in a certain extent, it regulates the income distribution, narrows the gap between the rich and the poor and ease the social contradictions.

The effective influence of the property tax

It is no doubt that imposing the property tax will inevitably leave a large impact on Chinese real estate market. For the every subjects in the market: the local government, the housing buyers, the real estate developers, the property tax is necessarily a tool to redistribute their interests, which will produce influential effect on their market behavior choice too.

The evaluation of the implement of the property tax pilot cities

On January 28th, 2011, "the personal property new policy" in Shanghai and Chongqing was started officially, which open a new chapter of China's real

estate tax. Firstly, to promote the pilot cities, we should strive to set up a suitable system framework. After that, we should consider about how to optimize and gradually improve the system [14].

From Shanghai and Chongqing becoming the pilot cities for property tax, it's only more than three years. Whether the property tax has reached the expected effect or not, it is too early to draw a conclusion. But the analysis and research of the effect of the property tax pilot cities and the existing problems are helping us to optimize the new round of tax reform in the future [25].

Until December 31st, 2012, the stock and new purchasing houses that are supposed to be collected in Chongqing are 11027 sets. The commodity houses in stock are 3605 sets, new bought luxury houses are 7352 sets, and 70 sets for the people without identification papers, a normal residence permit, and a source of income. And Chongqing real estate tax uses fixed rate calculations, which will no longer change as soon as it is confirmed. Considering the number of new taxable houses in 2013, accumulated property tax in Chongqing should not be more than 400 million Yuan in recent three years. In addition, according to the estimation from some department, in 2012 and 2013, Shanghai individual housing property tax revenue will be from 200 million RMB to 300 million RMB. Currently, the taxable housing are 70000 sets, it is predicted that the personal housing property tax will reach about 600 million RMB in recent three years. In 2012, the main financial tax revenue shown in the following table in Shanghai and Chongqing.



Fig-3: Shanghai and Chongqing financial tax revenue in 2012

From the above Fig-2, the property tax in the main financial total tax ratio is very low. The property tax is not enough to replace the land transfer tax. In 2012, the tax revenue in Shanghai is about 1 trillion RMB, but the real estate tax is only about 9 billion RMB; and in 2012, the tax revenue in Chongqing is about 168 billion RMB, but the real estate tax is only 2.7 billion RMB. The property tax's proportion accounted for only 0.9% and 1.6% of the total tax revenue respectively in Shanghai

and Chongqing. The local fiscal contribution rate is even lower. For the moment, the property tax should not become the government's main revenue.

The construction of residential area, the new residential area, the completion of residential area, the sales of residential area and the housing price per square meter in Shanghai and Chongqing in recent three years are as shown in the Fig-3 below:

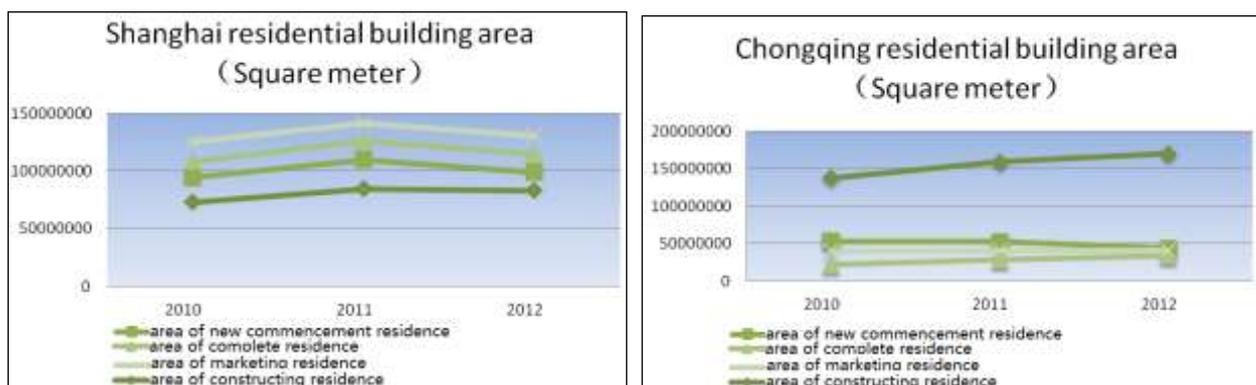


Fig-4: Shanghai and Chongqing residential building area

From the above Fig-3, At the beginning of 2011 real estate tax is imposed in the two pilot cities, no matter the construction of residential area, the new residential area, the completion of residential area, the sales of residential area or the housing price per square meter all keep basic flat or slight declining comparing with the previous year [13]. Therefore we can say that the property tax can delay buyers' plan to buy a house and slightly reduce the excess demand of housing. But the author thinks that, in the long run, the property tax mode for the readjustment of prices will be very limited.

Before the property tax pilot policy, our country has carried out a series of real estate tax policy, but it didn't effectively curb the trend of the price to hike in some cities in our country. So the personal property tax pilot cities must continue to bear the realistic consideration of squeezing the real estate bubbles and controlling the housing prices.

From the practice, property tax makes the housing buyers produce the wait-and-see attitude in the short term indeed and cool off the housing demand. Shanghai and Chongqing's housing sales price of every square meter are as shown in the chart below in recent three years:



Fig-5: Housing sales price in Shang Hai and Chong Qing

Compared with the national real estate prices, Shanghai and Chongqing housing prices does not show obvious different growth trajectories. In 2012, Shanghai housing sales price rises 2.2% while Chongqing housing sales price rises 6.5%. The property tax doesn't play a proper role to control the housing prices.

China's property tax suggestions

The author thinks that this round of real estate tax reform can't be completed if it only depends on the reform of tax system structure. If we want to achieve the goal of regulating the real estate market and control the housing prices, we must carry out the property tax with many other facilities. We should insist on some beneficial attempt in the pilot cities, at the same time, we'd better implement the following reforms to allow the real estate tax reform in our country achieve a better result.

Optimize the tax design

Firstly, we need to gradually improve the legal system of the property tax levy to provide legal basis for real estate tax in our country. To improve the property tax legislative level, the property tax should be issued in the form of law under the National People's Congress; we must reflect the tax authority and seriousness, which can also guarantee the efficiency of the collection.

Secondly, the local government has to be assigned the corresponding legislative power. Considering the special property tax situation with the imbalance of regional economy development in China, it is suggested that the preferential tax rate selection, interval and property evaluation should be adjusted to adapt to the local conditions such as empowerment. This is not only helpful to the central government's macroeconomic control, but also advantageous to the flexible use of local government tax levers to control the economy operation. So that can automatically keep the central and local tax steady grow with the economic development.

Set up perfect evaluation system of property law

If we want to achieve the tax reform of property tax, we must adhere to the planning of tax basis for property assessment value. Countries should enact the related laws for the real estate assessment as soon as possible; the local government should follow the basis of the law to formulate the detailed rules for the implementation. We need to enact provisions in detail for personnel evaluation, appraisal institution, assessment methods, assessment period, which to make sure that there are laws to follow.

The efficiency of property assessment should also have advanced technology as a guarantee. Real estate assessment workload is huge so that what most countries have adopted is the batch estimation method which cannot function without advanced technology. In the United States, Canada, Hong Kong, Computer Mass Appraisal Method (CAMA) has been widely used. This not only can reduce a lot of work, but also can update assess value effectively on a regular basis to ensure the fairness of property tax.

In order to guarantee the perfection of the evaluation system, we also should establish a set of perfect tax dispute resolution mechanism [12]. The government should fully protect the right of taxpayers to know and appeal the result of evaluation. Real estate assessment agencies should regularly make the assessment results public, what's more, the government should set up specialized agencies to deal with the review of the matters related, once there are disputes from the taxpayers, they shall have the right to provide the relevant certificates for reconsideration.

Perfect the real estate registration information

The first problem to be solved is how to know the information of the taxpayers, and the perfect real estate registration system is the precondition of the smooth imposing of the property tax [11]. A complete share of

the country's real estate registration information system is a basic work for the early period of pushing forward the reform of property tax. China's current real estate report and registration system are not sound: the Property Law, the Urban Real Estate Administration Law which are about the registration of property ownership in China is relatively simple, even worse, the private property system of report and registration doesn't have clear legal provisions. Therefore, we must firstly build system of housing level through legislation, in accordance with the request that it must be declared to the tax authorities when one build, buy or demolish a house. At the same time, we should fully carry out real-name registration, establish property information repository and provide guarantee for the system of report and registration legally and legal protection for property tax. At the same time, to use the computer to manage the real estate information effectively and avoid private information transaction and loss of tax resources [6].

In April 2010, housing and urban-rural development in China has responded to an appeal by the relevant documents of the state council about the construction of the national real estate information network system. According to the original idea from the housing ministry in June of 2013, China will be able to complete the work of housing information networking in 500 cities. However, till today, the public has not received information about circumference of the network expansion yet [7]. The improvement of the real estate registration information is facing great technical difficulties and the comprehensive property tax levy is indispensable to the foundation work. Housing construction need continue efforts to improve the networking information work.

Follow up service for the tax collection

Whether the reform of the property tax can reach the expected effect or not relies heavily on the tax authorities if they have the management services for the collection [10]. In order to effectively promote the healthy and stable development of real estate, tax authorities should follow up the following collection measures:

First, establish an effective punishment mechanism. To make sure that the property tax can be levied in time and reduce the behavior like tax evasion, tax revolt. Eliminate the unfair and negative impact on the economy led by tax, which can be very important. We can make legislative provisions clear that one should be charged the fine for delaying payment for not paying the due property tax, and one cannot sell his houses until the property tax are fully paid, so that can ensure the collection efficiency of the property tax and to prevent the tax evasion.

Second, establish a system of transparency of information. Real estate tax may be resisted because people don't understand it at all. Therefore, the government should establish relevant information disclosure system to make people clear about the size of the property tax, tax rates, tax calculation basis, deduction or free provisions, tax flow, so that can enhance public support for the property tax[26]. Tax authorities should increase the transparency of tax management and promote the convenient service according to the needs of the society.

Third, execute correctly and understand the policy. Property relating to the people's livelihood involves many processes. Tax authorities should strengthen the propaganda about tax, especially support taxpayers reasonably and legally make the use of the affordable housing and other favorable policies [27]. At the same time, we must strictly implement the policy formulated by the state to inhibit investment housing and ensure the stability of the real estate market.

Perfect the real estate registration information

Once the property tax is collected formally, which will certainly reduce the relevant taxes and fees of corresponding land development and will make developers low their threshold and loose their capital chain. Property tax levy will change the current feature of "encouraging the maintenance and discouraging the flow", instead, it will lead to more inflows into real estate. Among the various current financial combination related to the tax levy, credit markets play a decisive role and have affected the supply and demand of the market [8].

The 2008 global financial crisis was due to the problems of the credit markets caused by the subprime crisis and evolution of the financial crisis. The credit markets do have great influence on both sides of supply and demand. On the one hand, the size of the credit determines the developers' fund chain and control the supply of developers; On the other hand, the credit market of personal loan scale limit the demands of the buyers. As a result, the property tax must cooperate with credit markets to strengthen effective adjustment to the housing market.

CONCLUSION

Our country is in period of economic transition, in which the current real estate taxes are multifarious, tax base is not reasonable, the defects such as Tax narrow Heavy light keep circulation does not conform to the international practice as it cannot adapt to the requirements of economic development. So we must optimize the tax system design. The government, as the main body of macroeconomic regulation and control, must be flexible and efficient for tax control. Two pilot cities for property tax also indicated that the single incremental room of a property tax is difficult to

achieve the desired effect. Optimizing the tax system reform and levying tax on stock are supposed to be the goals for the next stage.

Property tax system optimization design can not only be an important part of the local government's fiscal revenue, but can also adjust the prices' rise, narrow the gap between the rich and the poor and adjust the housing supply and demand and so on. However, tax reform is a long-term process; we don't only have to continue to explore practice, but also need to absorb advanced foreign experience selectively. Besides, we are supposed to effectively study the property tax system under the Chinese characteristics. Under the premise that the legislative level is still waiting to be improved, we need the supporting measures to establish and perfect to play its role. Therefore, real estate tax is still a long way to go [9].

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