

Reflections from Property Tax: from the Pilot in Chongqing and Shanghai

¹Xuan Shan, ²Yingjun Sun

¹University of Shanghai for science and technology, Shanghai, China

²University of Shanghai for science and technology, Shanghai, China

Email: gdshanxuan@126.com

Abstract –Property tax levy in Shanghai and Chongqing is a tentative reform of the state's macro regulation and control China's real estate market. While in the past more than six months, landing Shanghai and Chongqing's property taxes does not show the “mass execution”, the housing prices are still “steady rise”, but to some extent, reflecting the more symbolic meaning. Property tax levy is one of a number of real estate market regulation measures “combined-policy” of the government, and only the “combined-policy” full play, can play a greater effect. This paper describes the goal of property tax, and from the economic point of view analyse the reasons of property tax can reduce the housing price, and finally give suggestions on how to improve the property tax.

Keywords –Property tax; Macro regulation and control; Reduce housing price

In early 2011, Shanghai and Chongqing announced the implementation of the residential property tax reform pilot program, which become another important measure of China's real estate market regulation, and has attracted wide attention in the country. Although the property tax in the past concerning the taxes, but once just a tax on operating real estate, residential housing is exempt. The cities of Chongqing and Shanghai, the reform of property tax levy on the residents, so that once the outstanding property taxes if necessary levy, how to levy debate was finally settled when the levy. However, how the real estate tax reform pilot work put in place, to obtain the real estate tax collection and management experience to promote the smooth implementation of the property tax reform and steady implementation, there are still some worthy of deep thinking and a unified understanding of the problem.

1. Real estate tax target

1.1 Adjust the direction of the capital investment and curb speculative buying

The existence of the phenomenon of speculative real estate is an important reason for China's commercial housing high. Deformity investment boost high-risk bubble, and the bubble burst would have a huge impact in the entire socio-economic. In recent years as a result of loose monetary policy in the United States and other developed countries, caused by the pressure of RMB appreciation, a large number of international hot money flowing into the mainland China through various

channels into the housing market, and our hot real estate speculation in the market again abnormal rise in temperature close to the boiling point. The initial results of the secondary real estate regulation probably will come to naught. To buy a house, and so the appreciation of this vicious circle, and then sell the house will attract a lot of capital into this market, all the way to promote the development of real estate market malformations directions, making China's property market more than the stock market to become the first major capital reservoir [1]. One of the purposes is to levy a property tax gradually reduce property as a speculative value of the goods, because the face of uncertainty in future market conditions, property tax and the speculators to directly face to determine the tax burden, so the housing speculative property greatly reduced private capital and lead to renewed focus on the development of the commercial market, guide capital into the production areas and high-tech manufacturing, which gradually adjusting the industrial structure, so that the road to sustainable development of the national economy.

1.2 Promote national secondary distribution of personal income

"Harmonious society" makes every citizen has the right of abode, before the arrival of communism, the gap between the rich and the poor is certainly there. Therefore, to ensure the basic living needs, wealthy families can purchase a larger, better housing environment. Through the scientific design of the tax rate, tax relief, tax base, etc. you can make the housing

area, the family housing cycle of songs more tax. Small area, the first suites of households pay less tax or no tax. Such, it has played an important role in regulation of personal income, secondary distribution [2].

property taxes in Chongqing and Shanghai pilot program fully reflects the low-income the ordinary family housing consumer rights protection, in appropriate changes to the wealthy family of high-end housing consumption and curb real estate behavior policy orientation, the design with the collection and managements of a harmonious taxes architecture. Therefore, the levy of property taxes in Chongqing and Shanghai pilot, no doubt in the secondary distribution system sound perfect personal income has taken a new step, to contribute to the promotion of social justice and social harmony. Therefore, the pilot of the levy of property taxes in Chongqing and Shanghai has its extraordinary significance.

1.3 Adjust the structure of local fiscal revenues, expand the local fiscal revenue.

In general, the annual property tax pays by the maintainer is dynamic, and will increase with the appreciation of the value of the property, and the government can take part in the continued appreciation of the redistribution of property. This helps to open up new sources of income for local governments, but also can reduce the running costs of local financial dependence on transfer payments, and financial funds. Fischel, Oates, Mckenzie(1992), think real estate property tax is an important source of income for local governments. Some foreign countries, especially the practice of developed countries, those who implement the central and local governments to share the tax system of the country, real estate taxes are basically placed under the local tax system, and constitute the main source of local government revenue. Part of the national real estate tax accounted for the proportion of local government revenue, as shown in Table 1.

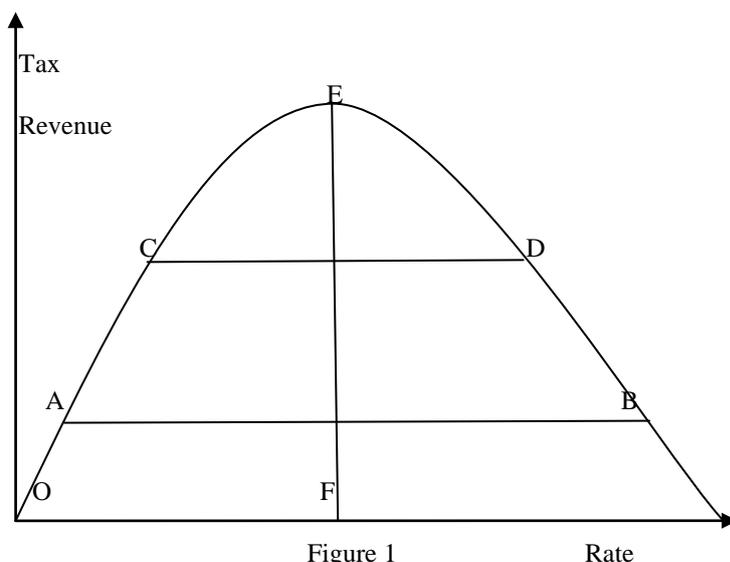
Table 1 in some countries property taxes accounted for local financial ratio

nation	US	FRANC E	CANADA	JAPAN
Proportion(%)	100	50-80	85	32

As can be seen from Table 1, in a foreign country in the local fiscal revenue, property taxes (or property tax) constitutes one of the main part of this the taxed behavior ,given the estate a long-term government financial resources, thereby regulating local government from the short-term changes in behavior to the long-term sustainable development. With the expansion of the area of residential housing, the real estate tax base will gradually expand to meet the financial needs of the local. This can reduce the dependence of local government revenue land premium, but also to reduce the degree of dependence of the local fiscal transfer payments, and financial fund operating costs completely extricating

itself from the cycle of land finance, can truly become a referee on the market.

In addition, we should learn from the example of property tax reform in Estonia and Poland, and through a series of measures, property taxes became important source of local fiscal revenue. Normal circumstances, in the case of lower real estate tax rate, can stabilize local government revenue. American economist Arthur Laffer use mathematical methods to establish a model of a function in a representation between tax rates and tax revenues, to reflect the impact of tax changes on the economy. The horizontal axis represents the rate, the vertical axis represents the tax revenue, Lovell curve in the coordinate system on an upwardly convex curve, (see Figure 1).



As can be seen from Figure 1, on the abscissa represents the rate, from point A to point F, the upward-sloping curve, the slope is positive, the vertical axis represents the tax with the increase in the rate of increase. When the tax rate is greater than the F curve slopes downward slope is negative, that tax is reduced with the increase of the tax rate. Endpoint, that is, the tax rate is 0 or 100, the government taxes are zero. When the tax rate for the Laffer curves corresponding to the A or B on the horizontal axis value, the same as the government's tax revenue. When the tax rate stay on the F, the vertex corresponds curve E, when the government's tax revenue reached the maximum. Economics inside the supply-siders to the right of the point E, the Laffer curve with the horizontal axis and EF siege area Laffer restricted area ", when the tax rate to enter the restricted area after tax income and tax rate are negatively correlated. Relative aspects of real estate holdings, turnover tax and income taxes to many of China's real estate transaction, the overall tax burden of about 23% of the sales revenue, the tax rates and tax revenue linear growth relationship, tax revenue and economic growth than to enter restricted area of the Laffer the available point B said.

At this time, through science merge a number of real estate transaction the confused taxes, the real estate tax reform, instead maintain links with real estate property taxes (equivalent to the property tax), moderately reducing tax rates, tax improvement of overall income.

Theory and Practice has proved that maintain links as a real estate property taxes levied, not into the low tax rates and scope of tax exemption. Shanghai real estate tax rate of only 0.6%, Chongqing up to 1.2%, in line with the theoretical explanation of the Laffer curve stable tax increases [3]. Illiquid real estate concealing the property is quite difficult, and property taxes as the real estate taxing homeowners generally do not lead to flow between the area of the property, so the perspective of development, stable and reliable tax revenues of local government property taxes .

1.4 Improve the tax system, to optimize the real estate allocation of resources

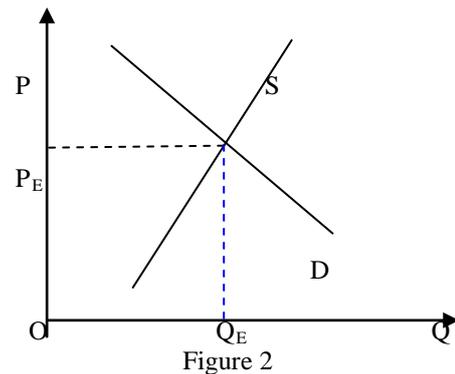
Our current tax systems, in terms of commodity tax and income tax class contribution. Comparison, the property tax system construction is still lagging behind, which is an important reason that property tax class more representative of the estate tax in our tax system in a weak position. With economic development and people's living standards improve, the amount of personal property owned by a sharp growth [4].

In this case, as to retain the tax, real estate tax reflects the wealth of functions in the regulation on the basis of the provision of government revenue. The important features of the property tax is the allocation of resources, the costs and benefits of the automatic balancing mechanism embedded in property taxes, the tax system is also proved that the level of economic operation of the implicit rules of the market in resource allocation function in property taxes as property taxes species, the introduction of the real estate tax conducive to reasonably adjust income distribution. Investment incomes, property taxes will investors weigh In addition, due to increased housing cost of ownership, holds more suites or sell or rent, you can increase the housing supply, not only to curb housing prices, but also to some extent reduce rent real estate resources, thus more optimized configuration.

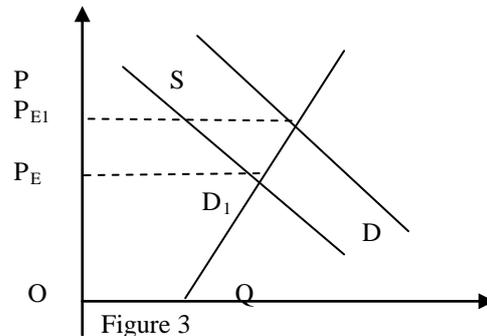
2. Economic Analysis of Property taxes can reduce the prices

The property tax impact on house prices depends on many factors, the price depends mainly on the relationship between supply and demand. Economics price number of issues, they can be used in the most classic supply and demand model, prices here are no exception. We can to explain the number of price curve, the horizontal axis represents the number of D represents the vertical axis represents the real estate prices, the straight-line demand curve, S represents the supply curve. PE and QE, respectively corresponding to the equilibrium price and quantity in the real estate demand and supply are equal. Economics can reduce the price of the real

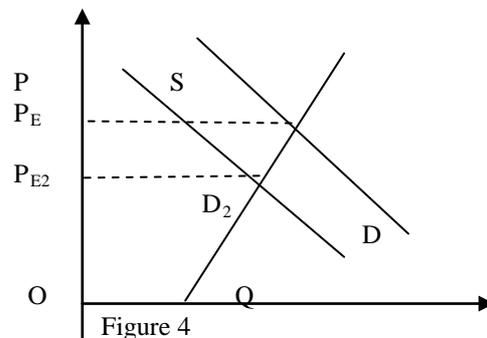
estate tax below analysis can use this figure to evolution. (Figure 2)



1,for investment real estate market, the property tax levy will increase the uncertainty of the real estate investment income for investment interests or security of funds, part of the investors will have to opt out of the real estate market and reduce the demand for investment, which lower prices (see Figure 3) [5].



2, the property tax levy, will make the cost of repayment of the mortgage to buy a house rose sharply, and make some people temporarily reduce the demand for the purchase, select rational purchase. Similarly, the property tax levy, will largely affect people's psychological expectations of buyers, and the impact of the multiple sets of real estate held even more. That demand curve corresponding the left, lower equilibrium price (see Figure 4) [6].



3, the housing market, although the supply can not meet demand, but there are still a large number of stock room. Property tax levy, is conducive to increasing the use of the stock of housing. No housing cost of ownership, and even vacant it does not matter, but the tax will increase the cost of hoarding property, held by

multiple sets of real estate or to sell or rent, this will increase the housing supply, so that the supply curve pan right, will reduce housing prices [7].

3. The proposal of how to further improve the property tax proposal

Property tax pilot provides a new tool for China's real estate market regulation. Levy property taxes in Shanghai and Chongqing as an integral part of real estate regulation "combination punches", the macro-control goals they want to achieve is to promote housing prices return to the rational, real estate prices continue to rise rapidly, but also to prevent house prices slump. At the same time, property tax reform is to promote the tax the public and propulsion meet the requirements of the market economy, public finances institution-building as a good opportunity. How to further improve the property tax, the following recommendations can be given.

3.1 To levy property taxes real estate "vacancy tax" and "progressive"

Some of China's major cities housing vacancy rate is close to or more than the international warning line of vacant flats and a waste of scarce land resources, the resources enjoy unfair, increasing the gap between the rich and the poor. Since March 2010, there are 64.5 million vacant housing units "data on China's media widely quoted [8]. Therefore, the property vacant tax is necessary to vacant real estate developers, have to decide what is reasonable inventory or protected disk reluctant sellers, has idle housing owners in the case of the latter the property vacant tax should be levied, and long-term, due to excessive occupy public land resources and their consumption behavior of social negative effects, should also have to pay the corresponding costs;, can levy a progressive property taxes. Shanghai, Chongqing's property tax levy only for the newly acquired real estate levy, does not involve stock limited effect. Using "personal progressive income tax, that differential tax reform as a progressive property taxes, the first tranche of a low tax rate set a little, neither to self-housing homeowners add more tax burden, but also on the profits of the real estate transaction levy suppress the desire of some people speculating on real estate, can effectively curb speculative demand for real estate.

3.2 Establish a combination of affordable housing and low-rent housing system

The government proposed the construction of 35 million units of affordable housing within five years. Through a family of four as calculated, the country can only solve the housing problem of the 140 million people. And the wave of urbanization in China, and that China's 230 million rural migrant workers and urban housing needs in the huge population base, there is a clear gap. Therefore, we recommend that the government at the same time to strengthen the construction of low-rent housing. Investment in construction of affordable accommodation on the central and local finances

allocated to local governments to use property taxes as the financial support, the central government need to subsidize part of. At the same time, we can introduce civilian forces. Encourage enterprises to participate in the construction of affordable housing. To protect a basic corporate income rate of return on the basis of approved housing costs. Singapore Government Home Ownership Scheme (HOS), "The successful implementation of the plan can provide us with some reference.

3.3 The tax basis should change the original value to market value or assessed value

The past 20 years, the rapid growth of real estate prices, the difference between the market value and the original value of housing up to several times or even ten times still unreasonable real estate at cost as the tax basis of the property taxes such as housing reform before the 1998 welfare housing, the original value is two to three million, now the second-hand housing market, valued at several hundred thousand dollars, taxes not turned his hand by two to three million, and turned his hand to collect taxes by several hundred thousand dollars, is clearly unreasonable even with commercial housing, the price now is 2003 times. So, the tax basis of the property taxes should be replaced by the original value of the market value or assessed value. Country now levying property taxes are almost always taxed at market value or assessed value is recommended to set up a department in the city and county Housing Authority, responsible for the urban real estate valuation. Assessment agencies all of the city's real estate valuation, announced to local residents through newspapers, websites, television and other media in the stipulated time. The assessed value of real estate, can be revised based on the recent second-hand housing transaction price changes and changes in the environment around, can be amended according to the situation a year or two years time [9].

The levying of property taxes in Shanghai and Chongqing, China from a planned economy to a market economic system transition "test the water" ,is a step in the road to the "harmonious society" practical and steady pace. However, the control of prices, to protect the livelihood of the people is not easy. As soon as possible based on the perfect property taxes, along with other market regulation measures, I believe that in the near future, "Everyone Has Home" will be really implemented.

References

- [1] Yu Jingzhong, Yang Wei of China's real estate tax reform impasse with the idea of [J]. Contemporary economy, 2011 (3).
- [2] Yang Jirui real estate tax collection and management systems to improve grasp and display: the pilot from Chongqing and Shanghai [J]. A professional perspective economic 2011 (3).

- [3] Liu Jie, Li Wen. Levy a property tax on real estate market - based on the inter-provincial panel data analysis [J]. *Taxation and Economy*, 2010 (1): 85-91.
- [4] Zhang Deyong several issues to further improve the property tax [R].
- [5] Magnitude. Levy property tax impact on house prices [J] *technology and market*, 2006 (01).
- [6] Xu Kaibin property taxes the price suppression powerful weapons [N] *Guangzhou Daily*, 2010 (02).
- [7] Lu Guofang property tax on the price analysis [J]. *Foreign trade*, 2010, (14).
- [8] Liu Xiuling, He Ting of individual housing property tax reform and practice to explore [J]., *Times Financial* [4]; Chen Jian. We really to believe that 65 million units of vacant housing [N]. *Investor Report* 2010.
- [9] Study of Tat, Zuo-where as soon as possible to reform the property tax [J]. *Operation and Management*, 2011 (2).

Vitae

Shan xuan, was born in Shandong province. He obtained a bachelor in 2010 from Qingdao University of Science and Technology. He is studying at Business College of University of Shanghai for science and technology with the major is finance as a graduate student.

Sun Yingjun, was born in Heilongjiang province. Professor of University of Shanghai for Science and Technology, postgraduate supervisor; research interests: finance.