

Research on the Historical Evolution and Development Trends of Property Tax in China

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Abstract: The reform of property tax, as a focal point of our country's tax reform, is closely intertwined with the development of the national economy and the well-being of the people. Based on the background and progress of property tax reform, this paper conducts an in-depth analysis of relevant literature and policy documents, studying the evolution of property tax in different historical periods. It also provides an evaluation of the current property tax system and suggestions for future development. The paper will further explore existing issues in the implementation of property tax, analyze potential solutions, and put forward recommendations and directions for property tax reform.

Keywords: Property tax; Reform; Pilot.

1. Development Overview and Literature Review

1.1. Development Overview

Tracing back to the 1980s, the concept of property tax was first introduced in 1986 when the national government issued the "Interim Regulations of the People's Republic of China on Property Tax." Due to the difficulties in implementation, there was little action following the release, and formal collection did not commence. In October 2003, during the Third Plenary Session of the 16th Party Congress, the idea of levying property tax under certain conditions was initially proposed, drawing widespread attention from society. In 2010, the national government decided to gradually advance the reform of property tax. In 2011, pilot programs for property tax reform were initiated in Shanghai and Chongqing. In the 10th meeting of the Central Finance and Economic Affairs Commission in 2021, it was emphasized to "actively and prudently promote legislation and reform of real estate tax and carry out pilot work effectively." On March 16, 2023, Xinhua News Agency conducted an interview with relevant officials from the Ministry of Finance regarding the pilot work on the real estate tax system. According to insiders, based on the authorization of the Standing Committee of the National People's Congress, some cities have conducted investigations and preliminary studies on the reform pilot of property tax. However, after a comprehensive analysis of various aspects, the scope of the pilot cities for real estate tax reform cannot be expanded within this year.

1.2. Literature Review

Currently, research on the pilot reform of property tax in China is primarily focused on the following five aspects: First, analyzing the impact of the implementation of the property tax policy on the overall economic trends; Second, examining the influence of property tax as a local tax on the fiscal revenue of the collecting regions; Third, studying the changes in housing prices in pilot cities after the implementation of property tax; Fourth, analyzing the variations in disposable income of residents in pilot cities after the implementation of property tax; Fifth, assessing the impact of the reform on local

basic public services.

After reviewing the literature on property tax reform, we have summarized and distilled the research processes and results of various scholars. Duan Shou'an (2014) argues that as a local tax with a relatively low tax rate, property tax has an unclear impact on the improvement of local fiscal revenue and has a limited scope in redistributing social wealth. Zhan Peng and Li Shi (2015), through analyzing data from 16 provincial urban residents, found that property tax could effectively narrow income gaps. Li Yonggang (2015), by simulating the economic effects of levying property tax, concludes that property tax not only can curb the growth of housing prices but also effectively increase local fiscal revenue and social welfare. Hu Yijian and Fan Yannan (2016) believe that property tax, levied on immovable properties such as land and buildings, compared to land transfer income and transfer payments, possesses sustainability and autonomy. It also has advantages such as abundant tax sources, broad tax base, and stable income, making it the optimal choice for local taxation. Huang Hong et al. (2017) argue that property tax reform may initially lead to a downturn in the real estate market, causing a decline in local fiscal revenue and subsequently impacting the overall macroeconomic downturn, creating a "domino effect." Duan Meng and Lou Feng (2021) employ a dynamic stochastic general equilibrium model to demonstrate that property tax reform can adjust the urban-rural income gap.

2. Current Status and Problem Analysis

2.1. Current Status

2.1.1. Shanghai Pilot Policy

Shanghai imposes property tax on newly purchased second or subsequent residential properties throughout the city, including newly purchased second-hand properties and newly constructed commercial housing (referred to as "taxable housing"). The tax also applies to newly purchased properties for non-residents of the city (referred to as "taxable housing"). The calculation is based on the market value of the property, using the assessed value of the property as a reference, and the property is revalued within the specified timeframe. In the

initial years, the tax may be temporarily levied based on 70% of the market value of the property. Currently, the property tax is temporarily set at a differential tax rate ranging from 0.4% to 0.6%. The applicable tax rate is temporarily set at 0.6%, but if the market transaction price per square meter of the taxable housing is less than twice the average selling price of newly constructed commercial housing in the city in the previous year (inclusive of twice that value), the tax rate can be temporarily reduced to 0.4%[2].

2.1.2. Pilot Policy in Chongqing

In Chongqing, property tax pilot programs are being implemented in nine main urban districts, including Yuzhong, Yubei, Jiangbei, Dadukou, Beibei, Jiulongpo, Nan'an, Shapingba, and other districts. The property tax in Chongqing targets standalone self-used commercial properties and high-end commercial properties purchased by individuals without household registration, unit affiliation, or employment. Additionally, it applies to second or subsequent ordinary residential properties purchased. Under specified conditions, the tax can be calculated based on the appraisal value of real estate. For residents in Chongqing without household registration, unit affiliation, or employment, who purchase second or subsequent ordinary residential properties, the tax rate is set at 0.5%. For standalone commercial residences and high-end housing, the tax rate is 0.5% for properties with a transaction unit price per square meter below three times the average transaction unit price of newly constructed commercial housing in the main urban districts of the previous two years. For properties with a unit price three times (inclusive) to four times, the tax rate is 1%, and for properties with a unit price four times (inclusive) or above, the tax rate is 1.2%[2].

2.1.3. Comparative Analysis of Policies in Two Locations

2.1.3.1 Scope of Applicability and Price Determination

The implementation scope of property tax in Shanghai covers the entire administrative divisions of the city, with the 'new house selling price' being the selling price of new houses in Shanghai from the previous year. In Chongqing, the pilot program is conducted in the nine main urban districts of Chongqing. The 'new house selling price' is calculated as the average of the selling prices of commercial housing in the main urban districts from the two years prior.

2.1.3.2 Whether the existing property has been expropriated

All properties in Shanghai are exempt, while existing standalone residential properties in Chongqing will be subject to the tax.

2.1.3.3 Chongqing relaxes restrictions on newly purchased general residential properties

For local residents in Shanghai: Property tax will be uniformly levied based on the original price for non-local residents' first-time purchases of second or subsequent residential properties (both new and second-hand). In Chongqing, property tax will be imposed on local residents for self-use properties (both existing and new properties) and newly constructed high-end housing (priced more than twice the transaction price of new housing in the urban area). Additionally, property tax will be applied to non-local residents (without household registration, employment, or unit affiliation) purchasing a second property.

2.1.3.4 Applicable Tax Rates

Shanghai has two tax brackets with rates of 0.4% and 0.6%, while Chongqing has three tax brackets with rates of 0.5%, 1%, and 1.2% respectively.

2.1.3.5 In Shanghai, a 30% discount is applied in the calculation of property tax

In Shanghai, property tax is levied based on the residual value of the property (70% of the original value).

2.2. Analysis of Issues

The pilot property tax reforms in Chongqing and Shanghai serve as important explorations by the country in reforming housing taxes. The differences in the two tax reform models have posed a series of challenges. Due to a lack of comprehensive considerations, these models are not universally applicable in the short term. While they have played a role in adjusting the supply and demand relationship in the real estate market, they have not been highly effective in restraining the rise of property prices. Moreover, as China is still in the process of urbanization, many new first-tier and second-tier cities are experiencing rapid expansion and high-speed development in the residential market. Therefore, the country currently lacks the necessary prerequisites and conditions for the widespread implementation of property taxes. In summary:

(I) Difficulty in determining the taxable basis

The clarity, transparency, and openness of the taxable basis for property tax directly impact its fairness and the feasibility of future tax collection. This issue is crucial for the fairness of property tax and the feasibility of its future collection.

China has diverse types of real estate, including commercial properties, resettlement housing, and residential land, making it challenging to define the valuation basis for property taxes. The assessment process incurs high costs. During the valuation of properties for taxation purposes, relying on real estate transaction prices as the calculation basis may lead to an imbalance in property tax revenue in a region, lacking fairness. At the same time, as a form of property tax, property tax targets assets, and assets lack liquidity. They represent the accumulated value of social wealth over the years rather than the market price at a specific moment. In the process of real estate transactions, treating the value of immovable property as equivalent to movable property would diminish the property tax nature of real estate taxation, making it more akin to a commodity tax. To emphasize the property tax nature of property taxes better, taxing existing real estate is necessary. However, accurate data on existing real estate, including its nature and value, require significant resources and efforts, making it challenging to achieve in the short term in China.

(II) Controversial Policy Objectives

Tax revenue is a crucial component of national fiscal income. According to the principle of tax neutrality, after taxation, it should not impact the optimal allocation of social resources formed under the self-regulating function of the market, nor should it create an excessive burden beyond the tax burden. However, in the context of the rapid expansion of the real estate market and the persistent enthusiasm for property speculation, the limitations of the market economy become increasingly apparent in the face of the experimental property tax reform policies. At this juncture, the theory of tax neutrality is not readily applicable.

Therefore, it is necessary to integrate tax policies with national policies, leveraging the regulatory function of taxation to conduct macroeconomic control on the market. The primary objective for taxable entities is to control real estate prices. However, in experiments with real estate price controls conducted in areas like Shanghai and Chongqing, the

anticipated effects of controlling real estate prices were not achieved, and public expectations were not met. This has led to a series of issues, including a general lack of enthusiasm for taxpayers. On one hand, for wealthy individuals, real estate constitutes a small proportion of their total assets, and the imposition of property tax may not have a significant impact. On the other hand, for individuals who have taken out loans to purchase homes for essential needs, they bear higher loan interest and greater loan pressure, making the imposition of property tax only further exacerbate their economic burden. Consequently, the regulatory effect of property tax on residents' income is significantly constrained, and how to enhance its effectiveness becomes a substantial issue.

The reform of property tax based on individual residences, overall, has reduced residents' disposable income, leading to a decrease in consumption expenditure and a decline in residents' lifetime utility. However, from an overall perspective, local government revenue has increased to some extent. Therefore, property tax reform may have a restraining effect on property prices, but the impact of this restraint is smaller than the growth effect on local government revenue. At the same time, for regions such as Shanghai and Chongqing currently, property tax accounts for a small proportion of local taxation, contributing insignificantly to tax revenue. Compared to its high taxation costs, considering the perspective of maximizing revenue, property tax is challenging to effectively promote in the short term.

(III) Limited Tax Coverage

In cities where property tax pilot programs are implemented, the tax coverage for property tax is relatively narrow, with broad exemptions and a limited coverage of the population. Property tax involves taxing the ownership of residential properties, and in China, there are various types of property rights, such as affordable housing, public rental housing, commercial housing, resettlement housing, military housing, etc. These properties have significant legal differences in terms of their sources of income and usage. Therefore, it is challenging to unify their valuation, definition, and management. In the pilot cities, the scope of exemptions is extensive, covering the majority of the population. With the rapid development of the market economy, housing provided by public institutions has gradually shifted from being non-profit to profit-oriented. This change in nature has directly led to the loss of national tax revenue.

Moreover, as a socialist country, China's property ownership is limited to a finite number of years rather than full ownership when purchasing real estate. Taxing incomplete property rights itself raises a series of controversies. Since China has not yet achieved nationwide networking of real estate registration, how to utilize big data to analyze the scope of tax collection, and scientifically design the standards and range of taxation, will be an urgent problem that needs to be addressed in our next steps.

3. Development Directions

3.1. Improving China's Real Estate Registration System

A well-established real estate registration system in China is the fundamental guarantee for clarifying the taxpayer's main body and an essential condition for smooth tax collection. To better promote the nationwide implementation of property tax and facilitate the enactment of relevant laws, it is essential to fundamentally address the

issue of the tax basis for property tax.

The rapid development of the internet has driven the digital transformation of national administration, providing a real-time resource-sharing platform for tax authorities, land bureaus, developers, and other key departments. This breaks down information barriers, achieving interoperability and sharing of information. Promoting the categorization and valuation of houses across the country, conducting online networking and recording, and creating individual files for each property are beneficial for conducting tax collection work systematically. Through the valuation of different properties, it is conducive to scientifically formulating a comprehensive set of collection standards, providing people with a clearer understanding of the ownership of their residential properties. Simultaneously, a clear distinction needs to be made between fully paid and mortgage-financed homes. Fully paid homes may incur higher tax payments, while those purchased with a mortgage may have lower or no tax payments. This approach helps to avoid placing a greater economic burden on taxpayers facing significant life pressures. Subsequently, it becomes possible to achieve a secondary distribution of property taxes, regulate social wealth disparities, and promote social equity.

3.2. Strengthening the Local Financial Information Disclosure System

Starting from the current tax functions and drawing on international research on property taxes, reinforcing the fiscal functions of property taxes is essential for establishing a systemic arrangement for long-term real estate market regulation. Enhancing the transparency of the local financial disclosure system, particularly in the collection and utilization processes of property tax revenues, contributes to the effective use of tax funds for taxpayers themselves. This can enhance the value of housing, providing property owners with a greater sense of acquisition. By making the property tax collection and usage processes transparent, the system aims to improve the value of housing, ensuring that the benefits of tax revenues are directly applied to the taxpayers. This approach not only boosts taxpayers' enthusiasm for tax payment but also fulfills the fiscal function of taxation, reflecting the socialist nature of taxation as "taking from the people and using it for the people." This model enables property tax to effectively regulate the growth rate of housing prices, prevent significant declines, positively impact government finances, and contribute to a virtuous cycle in housing prices.

3.3. Accelerating the Legislation of Property Tax

The legal framework for property tax has been proposed in our country for quite some time, and in the "14th Five-Year Plan," there is again an emphasis on improving the legal system for property tax. Despite some pilot cities implementing property tax trials, the lack of uniform legal documents for regulation and standardized tax assessment has resulted in less-than-ideal outcomes. Therefore, expediting the legislative process for property tax becomes a crucial pathway to deepen property tax reform.

Firstly, by enacting relevant laws and regulations, it is essential to standardize aspects such as property tax collection and the tax obligations of property owners. This

will ensure supervision and management throughout the entire property tax collection process, guaranteeing its rationality, fairness, and effectiveness. Secondly, gradually establishing a nationwide unified property tax system with standardized tax regulations is imperative. Due to differences in housing prices, urban economic development levels, and other factors among different cities, the tax standards in pilot cities have not achieved uniformity. Establishing a national property tax system, with unified regulations for taxpayer participation, taxable objects, and tax items, and differentiated adjustments in terms of tax rates and tax incentives, would contribute to broadening the coverage of property tax while achieving tax fairness. Additionally, the country should simultaneously establish a dedicated administrative body for property tax collection. Setting up a specialized property tax management institution responsible for overseeing and supervising property tax collection, promoting and educating taxpayers about property tax, and supervising and evaluating property assessments and valuations is essential.

As property tax is a local tax collected by local governments and closely related to the lives of every citizen, local governments should have the right to adjust their income distribution based on local economic development conditions. Therefore, citizens should participate in the formulation of property tax laws[8].

3.4. Improving the Pension System

In our country, for the majority of ordinary wage-earning families, the primary asset is real estate. However, in a China where the pension system is not yet fully developed, retirement pensions and elderly insurance benefits are relatively low, and the social welfare system is not comprehensive enough to support the daily lives of the elderly. If property tax is suddenly imposed, the disposable income of the elderly will be directly affected. To carry out property tax reform, it is necessary to reasonably tax various types of housing and develop a scientifically sound tax base based on the characteristics of different groups. Additionally, there is a need for a more profound improvement in the national pension system, making "support and care for the elderly" a reality.

4. Conclusion

Taking into account the current situation of property tax trials in Shanghai and Chongqing, it is evident that the specific implementation methods and tax scope of property tax trials need further clarification and improvement, and there is a considerable gap between actual effectiveness and public expectations.

Although Shanghai and Chongqing have introduced corresponding tax systems based on their respective characteristics, there are still many issues to be addressed. The unique attributes of these two directly-administered municipalities and their specific economic development characteristics determine that the current tax systems

cannot be universally extended nationwide. Moreover, the lack of a nationwide real estate registration and filing network, as well as clear distinctions between types, attributes, and prices of real estate, means that we lack the necessary conditions to establish a scientific tax base. Regarding the formulation of related preferential policies, the absence of corresponding investigations and big data as a foundation means that, at present, the cost of levying property tax exceeds the revenue generated. Looking at the implementation processes of related reforms and tax rules for other property taxes, the issue of duplicate taxation of properties often arises in the collection process. Therefore, property tax reform must take a comprehensive approach, considering the entire system, and streamline and integrate the taxation process and relevant legal foundations. Meanwhile, China is gradually progressing in promoting local financial transparency, national real estate filing, local financial disclosure, and the improvement of the pension insurance system. However, meeting the requirements for property tax reform in a short period remains challenging. Additionally, legislation should play a guiding role in the reform, ensuring the protection of citizens' legal rights while adhering to the principle of tax legality.

This paper believes that the construction of the property tax system is a formidable task, and in the medium to short term, the system is still in the stage of accelerating promotion and improvement, making it less likely to be implemented nationwide.

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