



## A Discussion on Relevant Issues about Levying Real Estate Tax in China

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### Abstract

This paper chiefly focuses on the name of taxes in constituting China's real estate tax system, its connection with former taxes, and tax payers. The author puts forward some personal opinions on these issues. For example, the tax should be named as real estate tax. Cancel the urban land-using tax and the land value-added tax. Combine the house tax and the urban house tax. Reform the farmland occupation tax and retain the land-contract tax.

**Keywords:** Real estate tax, Property tax

In the 3rd session of the 16th conference of the Communist Party of China, Decisions on Relevant Issues of Perfecting Socialist Market Economy System was initially put forward. "Reform the urban construction tax. Levy the generally-regulated property tax on the real property as conditions permit. Cancel other relevant taxes." At present, obeying the principle of "renting openly, regulating taxes, clearing fees", China has begun to set up several practice spots for the property tax in some provinces and cities. At the same time, the theoretical field pays more attentions on the development of China's property tax. This paper tends to discuss relevant issues of the property tax.

### 1. Property tax or real estate tax

The property tax that will be levied on people in China is based on the real estate. But concerning with its name, lots of disputations are aroused from the theoretical field.

The so-called property refers to sorts of houses that have been built up and used for living or non-living purposes, possessing the function of usage and the effect of economy, and equipped facilities, public services, land, affiliated ground and courtyard. This word was from the English word "property" or "estate", being introduced from Hongkong to eastern China, and inland. In abroad, especially in north-eastern area, this word was used as another name of real estate or was regarded as the same with the later.

However, most Chinese do not understand the meaning of property. What people know is the property fee that was paid by property owners periodically for services provided by property management companies according to relevant laws and regulations. Therefore, if the tax is named as property tax, people will fell confusion in front of property fee and property tax. In author's opinion, it is better to name this tax as real estate tax, which can avoid misunderstanding effectively, and make people understand that the tax is based on real estate. The real estate tax is not a re-taxation on property, which can decrease the rejection emotion of people in a sense.

### 2. The new real estate tax should has certain connection with former tax system, and some taxes should be canceled or united

In China, the real estate tax system includes house tax, city house tax, urban land-using tax, farmland occupation tax, land value-added tax, and land contract tax. Thereof, the first three are taxes paid in possessing the real estate. As a matter of fact, the country does not exert powerful effect on this part because of the narrow taxation in real estate field. But, levying taxes on the possession of real estate contributes to the economic and rational use of real estate resource (Junpei Wu, 2006). For the city house tax, the tax payer is foreign-funded company. Under the unified tax system, they should be integrated together. Unite the house tax and the city house tax together and levy the real estate tax generally. For the urban land-using tax, in a sense, it is not tax but rent. China has already set up the paid-using system for state-owned land. The land-remising cost is the land rent paid by user for the state. Therefore, in the process of holding the land, it is not proper to charge for land-using tax. And the urban land-using tax should be canceled.

The last three are paid in the circulation of real estate. In fact, during this process, taxes are relatively heavy, what stops the normal circulation of resources. To levy the farmland occupation tax is to restrain the excessive use of land sources. However, in China the farmland occupation tax is equal to the result of occupied farmland's real area multiplying fixed

tax rate. But the later is established based on the farmland area per capita in certain region, betraying the price of land. Therefore, it is a must to reform the farmland occupation tax. This tax should be determined by the evaluated value of farmland. And different regions can adopt different tax rates. Besides, the nominal rate of land value-added tax in China is too high. Higher taxes can effectively restrict the speculation action in real estate field. On the other hand, however, it affects the normal circulation of real estates. Moreover, China levies taxes on the added value of land that was sold, which leads to different taxes for vending land and holding land. As a result, it may enhance people's reference of holding the land, affecting the rational use of scarce land sources. The complicated calculation and the tough taxation of land value-added tax serve as high costs. It is not worth the candle (Zhiqiang Ren, 2006). The added value of land can be adjusted by income tax, avoiding repetitive taxation. Therefore, the land valued-added tax should be canceled.

Unite the house tax and the urban house tax. Cancel irrational urban land using tax and the land value added tax. Keep the land contract tax. Reform the farmland occupation tax, real estate tax, and the land contract tax. By this way, China's real estate tax system is accomplished, changing the "emphasizing on circulation and neglecting holding" fact in former real estate tax system (Huan Liu, 2005). Cancel the urban land-using tax, the house tax, and the urban house tax. All these measures should be taken into consideration as we design the property tax.

Besides, to levy the real estate tax should distinguish taxations on income of holding the real estate and income of renting it. The former belongs to the real estate tax. And the later belongs to the income tax.

### **3. At the very beginning, the rural area should be escaped from the real estate tax and the urban personal living house can bear less to certain degree**

Presently, taxes levied on real estate exist in cities, towns, counties, and industrial and mining regions in China. But in the world, this tax exists in all fields (Songdong Chen, 2005). If China learns from experiences in foreign countries, individuals and companies in China will have to face greater tax burdens due to the real estate tax, which will harm the development of national economy.

Firstly, the economic development in most rural areas of China is relatively lagged behind. And people in certain areas even do not dress warmly and ear their fill. Therefore, to levy the real estate tax on farmers in these areas will hurt the development of rural areas in China. Also, considering China's economic development, the distance between counties and cities will be shortened step by step. Farmers will become more capable of bearing higher taxes. Therefore, it is possible to levy the real estate tax in rural areas in future. Then, as we set up the real estate tax, we can take the rural area as tax payers. But at present, it is reasonable to make the rural area free from this tax.

Secondly, to buy a house is the largest expense of Chinese at present. The higher price of house adds more pressures on citizens. Although the real estate tax can restrain the speculation activity in the real estate field, it serves as higher cost for citizens buying houses. More citizens become incapable of buying houses. Therefore, it is reasonable to reduce the real estate tax for people who buy houses for living. In detail, we can take references from practices in foreign countries, where one family can buy one set of house that is free from the real estate tax.

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