

Research on the design and legislation of China's real estate tax system

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Abstract. In the context of the socialist economic system in the new era, real estate tax has become the focus of attention from all walks of life. For a long time, China's real estate tax has been unbalanced in structure, the scope of collection is limited, and the initiative of local governments is insufficient, which has become a problem that needs to be solved in an all-round way to promote real estate tax. With the promotion of the pilot real estate tax in the two places, we can learn lessons from it to pave the way for the comprehensive promotion in the future, and at the same time, we can see that the real estate tax has a direct impact on the stability of local government revenue sources and the stability of real estate market prices, and also has important significance for the improvement of China's tax system and income redistribution.

Keywords: Real estate; tax fiscal revenue; Pilot exploration; tax system design.

1. Brief introduction to the current status of China's tax system

The country's tax system consists of three major taxes: income tax, tax on goods and services, and property tax, of which real estate tax is the main source of property tax. From 1994 when the tax system was reformed to the present, tax revenue has been proportional to the growth of GDP, and the total amount has changed relatively steadily. The tax system exists to regulate the income inequality of people's wealth. Comparing the three down, income tax is progressive with high mobility, accounting for a large proportion of tax revenue, and is a direct tax. Goods and services tax is regressive because it is determined by the proportion of consumption to income, the larger the income, the lower this proportion, the result is not conducive to narrowing the gap between the rich and the poor, it is an indirect tax with high liquidity. Both of them are not suitable for grassroots governments to collect, which is more conducive to the regulation of the general environment, the formation of a unified large market, and avoid the formation of local protectionism.

The first two of the three tax systems have been determined in our country, while the design of real estate tax is lacking in our country, and its nature is still controversial whether it is regressive or progressive. If the real estate is divided into two parts, one is a place for living only, the higher the income the higher the demand for it, the more the house covers, the better the location is, so that the tax on it is neither progressive nor regressive; the other part is seen as an investment, and the tax should be progressive like other investment goods, because the rich will invest more. Most scholars believe that real estate tax is not regressive, but is not progressive and should be less progressive than income tax. The poor mobility of the real estate tax base means it a direct tax, it is fixed and can be collected by the grassroots government. Real estate tax needs to be assessed and the value of the house needs to be known, while the local government knows more specific information and it is convenient to carry out the assessment work, which is also suitable for the grassroots government to collect.

2. The significance of real estate tax

The reasons of why it's essential to levy the real estate tax in China are listed as follows:

1. Indirect taxes are levied according to the amount of people's consumption expenditure, not according to the level of people's income, and are regressive in nature, which is a tax that can improve the efficiency of taxation. People's consumption does not increase with the increase of income, on the contrary, the more income people consume a smaller proportion, so the role of indirect taxes to widen the gap between the rich and the poor is obvious. The increase of the gap between the rich and the poor will seriously affect the motivation of social production and cause social conflicts. At present, the proportion of indirect tax is high in China, and income tax is an indirect tax, while the proportion of direct tax is low. Indirect tax is regressive, which is not good for narrowing the gap between the rich and the poor, and real estate tax can help regulate it.

2. The meaning of taxation is to achieve a balance between equity and efficiency, and to conform to the theory of optimal power sharing. Since the implementation of property tax division, the central government has shown a trend of centralized and strengthened revenue and power, and local governments have insufficient financial resources to solve local problems. And the difference of regional development has given rise to many problems such as local debts and illegal financing platforms. After the business reform, the contradiction between affairs and

financial rights is highlighted out the former two major tax revenues can ensure that the central government has a stable source of income to ensure that it fulfills its obligations, while the grassroots government is now mainly dependent on the central transfer payments, without its own source of income. To solve the root cause of the problem, to Fangzheng Fu should have their own stable sources of income, tax support. And real estate tax can be used as the main tax to balance the grassroots government, replacing the unsustainable revenue from land concessions.

3. Since the reform and opening-up policy was issued, the economy has developed rapidly, but it has also brought about the problems of income distribution patterns such as regional development differences and uneven income distribution in industries. Since 2000, China's Gini coefficient has been higher than the warning line of 0.4. The distribution of property held by Chinese residents is very uneven, and real estate tax is an important means of income redistribution. Property is an important form of household wealth, accounting for 60% to 70% of total household wealth. Generally speaking, property is positively correlated with the ability to pay taxes; the more and stronger the property, the higher the income level and the stronger the ability to pay taxes. To promote common wealth, taxing real estate, which accounts for the largest share, can alleviate the widening gap between the rich and the poor, realize wealth redistribution, and strengthen the regulation and adjustment of the stock of wealth.

4. Real estate tax is a necessary system to build a long-term mechanism for real estate regulation and control. Most of our residents' main assets are concentrated in real estate, which has strong speculative and savings attributes and has a great impact on the macro economy. Real estate market stability is conducive to the stability of residents' lives and social psychological stability, on the contrary, the development of real estate market vanity will cause economic bubbles, resulting in social injustice, causing social unrest and bringing substantial fluctuations to the macroeconomy. At present, the real estate market degree of stability, the government mostly uses administrative means to intervene, administrative means in the short term to bring obvious results, but not conducive to long-term sustainable and healthy development of the economy. As an economic tool, taxation can be an important tool for the regulation of the real estate market, and the taxation of real estate tenure is conducive to the long-term healthy development of real estate.

3. Exploration of real estate tax

The exploration of real estate tax has been started since the founding of the People's Republic of China, and the property tax was promulgated in 1986 based on the Provisional Regulations of the People's Republic of China on Property Tax. The tax was levied on the properties owned by enterprises and personal properties used for business purposes, but not on the most common residential housing. This is irrelevant and unsustainable to the real estate tax that other countries are talking about.

The pilot experiment of real estate tax reform was carried out in Shanghai and Chongqing in 2011. The pilot in Shanghai is only for new houses bought after the reform point, and the area beyond the exempted area is taxed at a 70% discount of the market price at 0.6%, taking care of the basic needs of most residents. Chongqing's tax system is designed to target high-end houses for locals, villas and second and above ordinary houses for foreigners, in addition to giving a large tax-free area, compared to Shanghai whose tax base is narrower, aiming to curb people's consumption demand for real estate. At first, the two pilot sites were expected to have a lot of functions, but in the end, they did not achieve the expected results. For stabilizing the housing

price market, after the reform, the commodity housing price dropped slightly but resumed a steady upward trend two years later. For fiscal revenue, property tax revenue has increased slightly after 11 years, with Chongqing's increase being better than Shanghai's, but by 18 years, property tax revenue in both places only accounted for 3% of local fiscal revenue, which could not play the role of supporting the main tax of local government revenue and had little effect on stabilizing fiscal revenue. For regulating income distribution, the tax bases of the two places are very narrow, targeting at the incremental amount but not the stock, which is against the principle of fairness, and they both set a lot of tax concessions and low tax rates, which cannot make it play the role of regulating the gap between the rich and the poor. For the two pilot total features are narrow tax base, low tax rate, the tax did not give much help to the grassroots revenue, its main role is only for the future real estate tax collection and management to do a good test, and to sum up the lessons learned, to popularize the good knowledge of real estate tax to the public and help psychological construction.

Based on the results of these 11 years of piloting in Shanghai and Chongqing, the following lessons can be drawn.

The first is that the scope of taxation should be expanded. During the pilot program, the tax base in both places is narrow, the tax rate is low, and the real estate tax revenue accounts for no more than 3% of the total revenue, which cannot play a role in supporting local finance. The design of the programs in both places violated the basic principle of tax system design, the principle of fairness. According to the principle of fairness, both existing properties and newly purchased properties should be taxed in the tax base, while both places are targeting new properties, which not only violates the principle of fairness but also makes the tax collected not work as it should. Secondly, the tax policies of the two places are different in terms of whether the household registration is local or not, and the tax policies are different, which is against the principle of fairness and justice. All properties should be included in the tax base, and no distinction should be made between mainlanders and foreigners to achieve fairness in order to increase public acceptance of the policy.

The second is to improve the property assessment system. To be able to reasonably levy taxes, we must first have a reasonable assessment system as the basis, which is also well reflected in the two pilot sites. At different times, the facilities around the house will gradually change, some houses increase in value, some houses decrease in value, so it is necessary to assess the value of the house with the times and consider the impact of time on the value of the house, the current assessment system in China is not perfect and needs to be strengthened. We should train professional appraisers, follow

reasonable appraisal principles, have a scientific, artistic, open and empirical appraisal process, establish an independent appraisal agency, set up relevant legislation, follow the basic paths of appraisal : cost path, market path and revenue path, and determine a reasonable appraisal cycle.

Finally, the formulation of tax exemption policy should be reasonable. Tax exemption policies are more difficult to modify once they are formulated, and they tend to cause strong social reactions. The tax exemption area is too large in the design of the tax systems of both places. Shanghai's housing area does not reach 60 square meters per capita, and the difference in housing area per capita between urban centers and urban fringes is also relatively large.

4. Tax design suggestions

4.1 Sound relevant laws and give localities certain freedom

At present, there are few laws related to real estate tax in China, and most of them are based on administrative regulations with low legislative rank and low rigidity. The implementation process is easy to be interfered by administrative orders, and the old legislation makes the real estate tax cannot keep up with the development of the time. The tax law is second only to the constitution in the field of taxation and plays the role of command the overall situation. In other countries where the real estate tax system has been developed for a long time, there are tax laws on real estate, such as the Property Act of the United States, the Real Property Act and the Real Property Tax Act of the United Kingdom, etc. These laws provide a solid guarantee for the implementation of tax.

In addition, the real estate tax is eventually levied by the local grassroots government, as the main pillar of local finance, the local government holds the right to levy, the local government should have a certain degree of legislative freedom. What's more the local government has more specific information, and can better adjust to the level of residents' preferences. Local governments can adjust their policies according to regional development differences, make fluctuations in the real estate market and other factors, which can fully mobilize the enthusiasm of local governments, and also make the balance of financial and administrative powers.

Specifically, a certain amount of legislative power at the local level does not mean that uniform legislation should be left aside, and that decentralized legislation should follow the parent law in general and have its own characteristics. In both federal and constitutional states, there should be a balance between centralization and decentralization, and excessive centralization and decentralization can cause unrest. The larger the country, the greater the disparity which exist between the customs and customs of different regions and the level of development, and the greater the need to devolve power to localities. Real estate is an unequal property, and its tax benefits are limited to a region, which is a regional public good. It is more efficient for local governments to provide regional public goods. Considering the differences in local environmental conditions, economic level and industrial structure, it is very difficult for the central government to legislate directly and to fully grasp the local situation in order to get a perfect law, so it is necessary to grant legislative power to localities.

The local government can also set a suitable window period according to the local economic affordability to give the public proper preparation time, and start the levy when the condition is ripe and the public is well prepared psychologically.

4.2 The whole process of tax design, collection and use should be open

Taxation is related to the happiness of all people's life, and the public, as the main body of taxation, naturally has the right to participate in the whole process of real estate tax from design to the whole. The legislative link is to widely accept the suggestions of the public, solve the real social problems, better increase the acceptance of the public, reduce the antagonism and gain the support of the public. Firstly, the tax base will be open to the public, so that it will be easy to be monitored by the public throughout the year and the public will know which houses are within the scope of the tax. The second is the transparency of the tax collection process, the time and progress of all the links are open to the public, so that it is also convenient for the public to monitor each other. Furthermore, the use of tax revenue link the public should also know the destination of these revenues, whether it is really used to provide public goods, provide public services, which helps to enhance the residents' motivation and responsibility. In order to achieve openness and transparency, what we need is a national property network, preventing multiple

places to buy a house posing as the first suite free of rent, etc.; also we need local government plan a good budget, the public future budget and tell public the specific use of tax revenue; each region should do a good job of property registration statistics, make sure that each person's name on the property has a clear record. Only when local governments are truly clean and fair can taxpayers follow the system they build and be convinced of the government's arrangements. 3. Keep a balance between the increase the real estate tax revenue and others

To become the backbone of local government revenue, it must be reasonable for real estate tax must account for the largest share of revenue. Drawing on other countries that have implemented real estate tax for a long time, the proportion of real estate tax revenue in the United States accounts for 24%, while China's real estate tax only accounts for less than 3%. The higher the proportion of tax revenue, the more it can play a role in stabilizing local fiscal revenue. And real estate tax can be collected every year, which is a sustainable tax source. In addition, considering the regional development differences, there will be a disequilibrium situation in real estate taxation income among various regions in the future, which will lead to local development differences. To alleviate this situation, local governments can establish a sharing platform where neighboring regions can help each other, which will facilitate the coordinated development of each region and reduce regional fragmentation.

5. Conclusion

In China, today's economic develops rapidly, our national conditions have also undergone major changes, and the implementation of real estate tax is an inevitable trend, whether for the fair distribution of wealth or for the enhancement of local financial resources or for the stability of the real estate market itself is of great significance. The process of setting up the tax system in China can learn from the lessons learned from other countries, combine with the actual situation of our socialism to make adjustments, take the long and shortcomings to scientifically design our real estate tax system, and set up an asset appraisal department to assist in tax calculation. Even after the completion of the legislation, it is necessary to adjust the relevant policy provisions with the times, devolve power to localities, plan the tax system in more details, and deal with disputes of all sizes.

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