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Analysis of the existing basic situation of China real estate tax system and application of the ability to pay principle

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ABSTRACT

China real estate has gained unprecedented rapid development with the accelerated process of market economic system. On the one hand, with the development of urbanization, the real estate boom has brought rapid growth to the national economy. But in order to solve the big problems and pressures existing in the real estate market, there is new requirement for China real estate tax system as real estate tax system is the most important means that are frequently used in the real estate regulation. The ability to pay principle originated in economics, which plays a very good role on measures of tax system. Its basic significance is to levy taxes based on the ability of the taxpayers. Its basic principle status in the property tax system in China is analyzed. In this study, it begins from the concept and theoretical basis of the real estate tax system and the ability to pay principle, then analyzes the basic situation of the real estate tax system in China, discusses the existing problems in and development trend of China real estate tax system, and puts forward some countermeasures. The study also discusses how to solve the current problems in China real estate tax system from the principles of how to use the ability to pay principle. It also analyzes how to combine the real estate tax system and the ability to pay principle to make the real estate tax system better meet the needs of the rapid development of China. Based on these contents, it also proposes some suggestions for the real estate tax reform in China.

KEYWORDS

Real estate tax system; National economy; Ability to pay principle; Taxpayers; Tax levy.



INTRODUCTION

Since the 90s of last century, China has established a relatively complete real estate system, which requires adjustment of measures to local conditions all over the country to reduce the potential risks in the future development of real estate market and prevent factors not conducive to the construction of socialist harmonious society and fair stability. The main function of the real estate tax system is help the local government raise funds and obtain financial income, which has good significance for raising the level of tax services and is conducive to the construction of Chinese whole public finance. There are many auxiliary functions, such as adjusting the distribution of income and the operation of the real estate market and fighting against real estate market speculative forces etc.. As a long-term stable system, the real estate tax should be well adapted to various fluctuations on the economic market to stabilize the real estate market, but housing prices regulation cannot rely too much on the real estate tax system.

There still exist a lot of controversies regarding the reform of the real estate tax reform. In addition to pilot reform, there is need to verify whether it can be promoted nationwide. This study suggests that the most important item in China tax reform is the reform of the real estate tax system, and takes it as an effective regulatory mechanism^[1]. The core thought and content of the ability to pay principle, which is a kind of tax thought based on the ability to pay, is to achieve revenue balance and fairness^[2] which has very effective guidance for the real estate tax system. Next in addition to the interpretations of basic situation of China real estate tax system, we also discuss the application of the ability to pay principle and how the ability to pay principle can better guide China real estate tax system so that the real estate tax system can fully play a regulating role.

INTRODUCTION OF BASIC THEORY AND SITUATIONS

Introduction of the China real estate tax system

The levy object of the real estate tax system is the housing. The taxation basis is the residual taxation value or rental income of housing and the tax object is the property owner or operating personnel. As a kind of property tax in China, the current real estate tax has the following characteristics:

(1) The real estate tax belongs to the individual property tax in China, and its classification is of two kinds: general property tax and individual property tax. General property tax is to collect tax after calculation of taxpayers' all property; individual property tax is to levy tax on taxpayers' owned land, housing, etc.. The levy object of Chinese property tax is the residents who own housing and it belongs to the individual property tax.

(2) Its levy scope includes cities, industrial and mining areas, the counties and towns, and the levy on operating housing. Considering the low income of rural residents and the slow pace of economic development, levy of the property tax will increase no small burden on rural residents, so the rural housing is not included in China real estate tax system. Of course, housing owned by the institutions or units with defense funds and without the ability to pay is also not included in the levy range of property tax.

(3) China real estate tax system features stable tax source and gradual change in levy, which is mainly because the levy objects belong to the immovable property which will bring a stable source of revenue; the real estate tax system is calculated based on the residual value and rental income of housing, so it is very convenient to manage, and also it is very easy to implement the control and simple levy.

(4) Finally, taxation of China tax system is differently regulated and the corresponding tax is levied according to the specific characteristics of the taxation objects. According to general provisions, for self-owned operating housing, property tax is levied according to the residual value; for rental and pawn housing, property tax is levied according to the rental income. Through the different operating modes, the tax burden can be balanced to better carry out reasonable tax levy.

Since the taxation reform in the 90s of last century, China real estate tax is divided into local tax, and the income tax is also be responsible by the local finance^[3]. So far, the tax categories of China real estate tax system are as shown in TABLE 1.

TABLE 1 : Settings of tax categories of China real estate tax system

Levy Beginning Year	Name of the Tax Category	Taxation Basis
1951	Urban Real Estate Tax	Urban Real Estate Provisional Regulations
1986	Real Estate Tax	PRC Real Estate Tax Provisional Regulations
1987	Tax on Cultivated Land	PRC Tax on Cultivated Land Provisional Regulations
1988	City and Town Land Use Tax	PRC City and Town Land Use Tax Provisional Regulations
1993	Land Value Increment Tax	PRC Land Value Increment Tax Provisional Regulations
1997	Deed Tax	PRC Deed Tax Provisional Regulations

China's economy has seen rapid development in recent years, which accelerates the real estate market heating up, drives the constant rising of the total real estate tax revenue and plays a significant role in local governments' fiscal revenue. In TABLE 2, the five kinds of the real estate tax revenue during the 2000-2003 are listed.

TABLE 2 : The five kinds of the real estate tax revenue statistics Unit: 100 million

Year	Real Estate Tax	Deed Tax	City and Town Land Use Tax	Tax on Cultivated Land	Land Value Increment Tax	Total
2000	209.84	131.08	64.76	35.32	9.39	450.39
2001	228.42	157.08	66.15	38.33	10.33	500.32
2002	282.38	239.07	76.83	57.34	20.51	676.14
2003	323.86	358.04	91.56	89.90	37.28	900.64

In addition, there have also occurred significant changes in the real estate tax structure in the past few years. With the introduction of deed tax, the original structure featuring retained tax as the main and circulation tax as the supplementary was reversed. In these years, deed tax income has increased 10.2 times, becoming the fastest growing type of taxes. For the specific trends, see Figure 1.

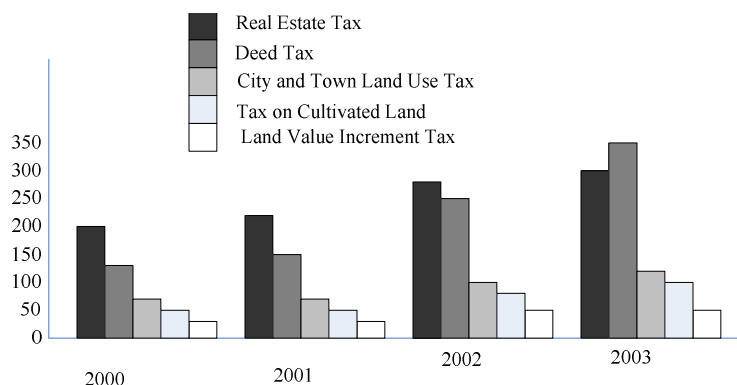


Figure 1 : China real estate tax income change map

Concept of the ability to pay principle

Under any conditions of economic development, the opportunity provided for people to create and gain wealth is not equal, but people still continue to pursue and explore the regulation of equality, so whether the tax policy of "from the people, giving back to people" is fair has attracted wide attention^[4]. To establish reasonable and feasible tax system is the social responsibility for tax, which of course, is its own requirements. It can be said that the ability to pay principle can better show tax fairness and measure the fairness of the tax burden. The structure is shown in Figure 2.

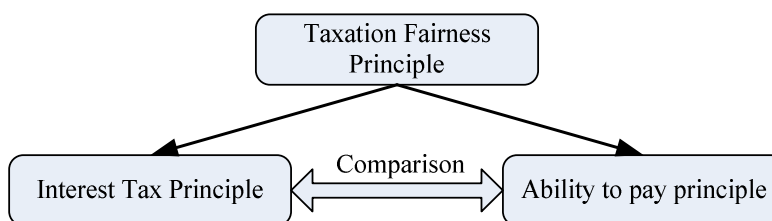


Figure 2 : There search background of the ability to pay principle

The general understanding of the ability to pay principle is that tax levy must be based on the actual work situation, i.e. different taxpayers can afford different tax levy. So the taxpayers with heavier tax burden must have ability to withhold the tax, and those with weak ability bear light tax burden. As a result, to achieve tax fairness, the most important is to measure and distinguish the tax affordability of taxpayers^[5].

According to the theory of the new benefit principle, state laws and regulations serve as guarantee of personal wealth, so there is not much difference in measure of personal wealth, status, and measure of the personal interests gained from the government^[6]. However, according to the new benefit principle, there exist problems of how to determine the contribution of the government to the personal wealth and how to determine what the government has contributed to personal wealth. But for the ability to pay principle, there would not be this problem as it is based on the idea of burden rather than considerations of the causes of the burden. It can be said that the ability to pay principle can solve the standard problems of tax fairness rather than as a solution to the problem of tax base. As Marshall - Harberger excess burden theory (shown in Figure 3), the tax levy will bring a variety of distortion, generating excess burden for the taxpayer group and resulting in taxpayers' more tax burden outside tax. But for the ability to pay principle, the lowest cost of living will be deducted, which means that the lowest cost of living for taxpayers' making a living does not require taxation.

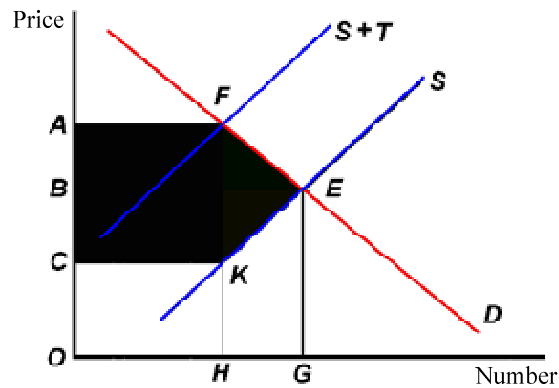


Figure 3 : Marshall - harberger excess burden theory

CHINESE REAL ESTATE TAX SYSTEM REFORM AND THE APPLICATION OF THE ABILITY TO PAY PRINCIPLE

The main problem existing in China real estate tax system and reform measures

China's current real estate tax system has become a major source of state revenue, but it has also become an important means to maintain equilibrium in the market, a favorable lever that maintains the China real estate regulation^[7]. China has carried out relevant real estate system reform in 1994, gradually improving the tax item, tax rates, and unified internal and external tax regime. However, China real estate tax system is set based on the economic system, lacking good overall design and considerations. There are many problems, such as the irrational structures, overlapping tax categories and imperfect matching sets^[8]. Currently there mainly exist the following problems in China real estate tax system:

(1) The design of tax category is extremely unreasonable, and there are even many overlapping taxes such as the real estate taxes and the urban real estate tax;

(2) Tax conditions are unfair and there are many models of slaughter tax bases which will cause serious unfair tax burden, like there are many tax categories in real estate transaction links, but lack taxes during the real estate holding period even with a great range of tax exemption.

(3) There exists not unified internal and external real estate tax system. The two differentiated approaches are adopted in the existing real estate tax. For example, there are two sets of income tax system, and foreign companies only need to pay urban real estate tax but not real estate tax;

(4) There lacks a comprehensive tax supporting facilities such as a serious lack of strict property registration system, which will seriously affect the tax levy efforts. There are also problems of lack of sound real estate assessment, professional assessment agencies and assessors, resulting in a serious loss of revenue.

For the above situations existing in China real estate tax system, we need to combine the development of China's real estate market in analysis in order to determine the reasonable and feasible real estate tax reform proposals. The specific operations are shown in Figure 3.

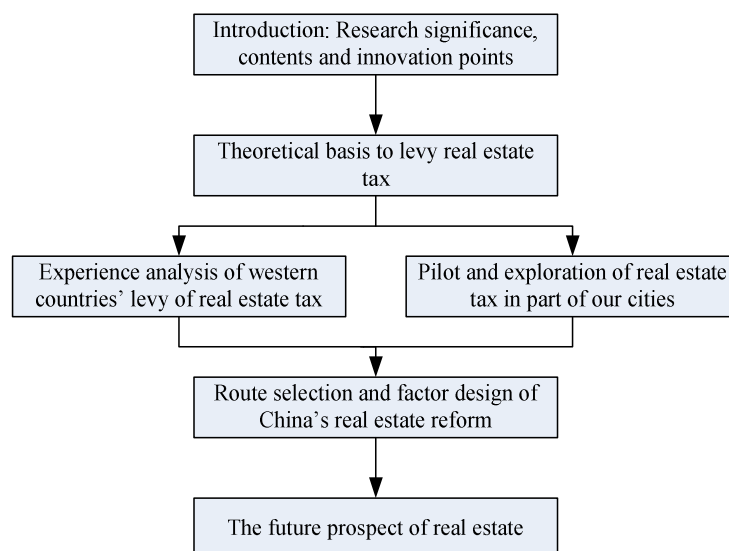


Figure 3 : China tax reform technical research directions

The basic reform proposals are as follows:

(1) Establish perfect real estate tax system to maximize the tax function. In main, the land use tax and the real estate tax should be combined to establish unified real estate tax system. Meanwhile according to the basic idea of "who benefits, who pays", leveling tax rates should be implemented;

(2) Implement the principle of unified internal and external real estate tax. Combination of foreign funded enterprises' income tax and corporate income tax should also apply to domestic enterprises; land value incremental tax should no longer be levied. Currently, there exist many problems in land value incremental tax, such as large levying resistance, cumbersome levy work and not effective actual levy. Therefore, this dilemma can be changed by other policies;

(3) Standardize management style and expand the tax base, in order to better enrich the local finance. In main, improve and strengthen the real estate registration system; and establish unified real estate appraisal system.

In short, there should be targeted changes in China real estate tax system reform with the development of market conditions and a streamlined and efficient unified real estate management constitution is needed. Only by accumulating rich experiences in the process of reform can we better promote the development of the real estate market.

The application of the ability to pay principle in the real estate tax system

Tax is one way for the government to obtain income. It is an effective method to promote economic development, realize the economic benefit and social justice. The real estate tax also plays an extremely important role. According to the ability to pay principle, pure profit and economic value can be all rejected, realizing the fair tax system. Under the ability to pay principle, allocation principle of real estate is based on ability, but there is no absolute fairness in the society with still great gap between the rich and the poor.

Some people have a lot of housing land, and make it as an investment object to obtain great wealth. But more people have houses only for residential use, and even need to lease the government or others' buildings, which is the wealth gap. The tax is to regulate the balance of the gap^[9]. Under the ability to pay principle, the taxation policy of the real estate tax is based on different income level, which can realize the substantive fairness with its adjustment function. For example, for real estate speculators or room storing persons, the tax rate is often very high, but for those for living requirements, the tax rate is very low or is deducted, which can adjust imbalanced wealth and realize the fair distribution of social burden.

To maximize the overall interests of society is the largest law value for adoption of the ability to pay principle in the real estate tax. For example, the downturn social economy can be eased through the legal resource allocation. Under China's current real estate tax system, after people buy houses, as long as the one-time payment of the corresponding property taxes is made, no other costs need to be paid to achieve personal wealth change. But the society will not gain benefits from real estate appreciation, resulting social benefits less than the individual benefits. Then the real estate resources can only bring benefits to property buyers, but these benefits cannot be provided to vulnerable groups and social economy, which means that it needs to complete the economic adjustment under the guidance of the ability to pay principle. Here, the law value of the ability to pay principle is shown, which is to optimize the allocation of the real estate resources, redistribute the economic value-added income of housing through appropriate tax burden, so that both individual and social interest group interests can be combined to maximize the social interests.

CONCLUSION

At present, China real estate tax system is comparatively perfect, but there are still many unreasonable situations which requires the application of the ability to pay and similar principles to the establish and develop China's more advanced real estate tax system. Many problems in China's current society can be solved through the reform of the real estate tax system, which is conducive to the long-term stable economic development and fair social conditions. The ability to pay principle plays vital guidance and support role in the reform of the real estate tax system, playing a very big role in maximizing the social and economic benefit and realizing fair taxation environment and free economic conditions. Although there currently lacks perfect laws and regulations to define the ability to pay principles in China, it still plays a great role in various fields of the tax system. It can even be said that the ability to pay principle will lead a new development direction for China's tax system reform, so we can use it as a basic principle to guide China's real estate tax reform, thus realizing the fair tax environment. To further promote the development of China real estate tax system, a reasonable tax system and perfect supporting facilities need to be established, to achieve stable prices and ensure the people's legal rights.

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