IPTI Xtracts

Property Tax and Assessment News from Around the World

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Right now is a 'really hard time' for China to introduce a property tax

Zhang Xin of commercial property developer Soho China told CNBC's Eunice Yoon that she had doubts about whether this was the "right time" to introduce the law.

"In today's market, when the economy is so soft ... this would just be a really hard time to introduce something so impactful," Zhang told CNBC.

At this year's National People's Congress, senior officials said work on a draft for the tax was "steadily advancing."

For years, China has toyed with the idea of a property tax, but at least one developer doesn't think now's the right time.

Zhang Xin, chief executive of real estate developer Soho China, said on Saturday that the country's economy is too "soft" for such a tax.

"In today's market, when the economy is so soft ... this would just be a really hard time to introduce something so impactful," said Zhang, who spoke with CNBC's Eunice Yoon at the China Development Forum in Beijing.

Local governments have also opposed the idea of a tax, because they rely on land sales for revenue. Pilot schemes were rolled out in cities such as Shanghai, but China has been slow to introduce the tax nationwide.

At this year's annual National People's Congress in Beijing, senior officials said work on a draft for the tax was "steadily advancing."

Authorities also announced that local governments would have autonomy over the actual rate of the tax in order to minimize its effect on house prices.

Soho's Zhang, however, argued that the tax could hurt the country's already-slowing economy.

Property-related industries, such as the steel and cement sectors, account for about 35 percent of the economy, according to Zhang. As a result, implementing the new tax would have a "huge impact" on both the real estate market and the wider economy, she said.

"I doubt ... this time would be the right time to introduce the property tax, knowing that they've already eased the credit to boost the economy," she said.

"If this sector gets taxed regularly, repeated and heavily," Zhang said, "it will surely have a strong impact."

Will China roll out nationwide property tax in 2019?

China's real estate market seems to have cooled down after years of boom, with growth of housing prices dipping to its lowest in nearly a year in the first two months of 2019, according to official data.

As potential home buyers adopt a “wait-and-see” attitude, a key issue they are concerned with is when China will roll out a nationwide property tax system, which will be a crucial factor impacting the country's massive property market.

The country has mulled over property taxes for over a decade, with speculations of its implementation surfacing every few years. So will the wolf finally come in 2019?

During the just-concluded Two Sessions, China's annual political season, property tax has been one of the hottest issues concerning the public, as clearer signals were sent out by several high-ranking officials.

On March 8, Li Zhanshu, chairman of the Standing Committee of the National People's Congress (NPC), China's legislature, said in a work report that the country will “focus energy” on effectively implementing major legislative items this year, including a property tax.

He said the NPC will ensure that all legislative plans are completed on schedule, without giving a detailed timetable.

In this year's government work report delivered by Chinese Premier Li Keqiang on March 5, the property tax was mentioned for the third time after 2014 and 2018, and in stronger words.

It said that China will “steadily push forward property tax legislation,” while the wording in the 2018 report was “prudently.” Analysts have interpreted it as a signal for the acceleration of the property tax legislation.

A draft law “steadily advancing”

On March 9, deputy director of the NPC's Legislative Affairs Commission Liu Junchen confirmed at a news conference that work had started on the property tax law.

"The relevant side is now studying the drafting of the real estate tax law, and relevant work is steadily advancing," Liu said.

Deputy director of the NPC's Finance and Economic Committee Uzhitu added that the tax was being drafted by the NPC's budget committee and the Finance Ministry.

At present, relevant departments are perfecting the draft law and discussing "important issues" related to it, he said.

"When the conditions are ripe, it will be submitted to the Standing Committee of the National People's Congress for initial review," he added.

Some experts predicted that a draft law would be completed and submitted to the Standing Committee of the NPC for review in 2019, which means its implementation may come sooner than expected.

Local governments to have great say

Besides when the tax will be rolled out, another key issue is how it will be levied.

In one of the latest and most detailed official comments on how the long-mooted tax could be implemented, Yin Zhongqing, deputy director of the financial and economic affairs committee of the NPC, said on March 14 that local governments would be allowed a large degree of autonomy regarding when it is levied and at what rate, as "property tax is a local tax."

The central government will set a few tax rate brackets for local governments to choose from, Yin was quoted as saying, with the tax to be levied at current property values.

All in all, there seems to be a consensus that China is stepping up efforts on the introduction of the property tax. However, it's still difficult to tell how soon it will come out.

In a few days, experts and market insiders attending this year's Boao Forum for Asia in south China's Hainan province will further discuss the future of China's real estate market.

Property Tax Law Needs Open-Door Approach

This year's "Two Sessions" have confirmed that China's legislation on property tax is picking up speed. The government's work report calls for "steady promotion of property tax legislation," a step up from last year's "stable promotion." The work report of the Standing Committee of the National People's Congress (NPC) says that in 2019, China must concentrate on implementing more than 10 major pieces of legislation, including the property tax law. A number of signs indicate that the situation of property tax legislation has improved over the years, and that the drafting process has made substantial progress.

This is a difficult law to draft, not only because it touches on the major assets of every household, but also because it is closely related to the real estate market and land-based public finances. Every aspect of the law will have enormous consequences, which is why it faces resistance from all quarters. Legislators must now solve the problem of how to formulate a property tax law that will withstand the test of time, instead of simply reflecting the concerns of some groups or vested interests. Open-door legislation that allows all parties sufficient channels to express their concerns, before using the NPC-led mechanism to coordinate the interests of all parties, is the best way to solve this problem. The ultimate goal of open-door legislation is rational legislation and the use of procedural fairness to promote actual justice.

All major reforms must have a legal basis. According to the Legislation Law of China, the country's basic taxation system, which includes the tax categories, tax rates and collection, must be based on law. The success of property tax collection depends on a fair and principled legislative procedure that tackles difficult problems. Additionally, the relationship between legislative speed and quality should not be ignored. One is often pursued at the expense of the other.

While there are different interpretations of what the goal of "realizing tax law by 2020" means, it's clear that there's an urgent need for property tax legislation. But paying too much attention to speed could mean sacrificing quality. Working around or avoiding major points of controversy in order to pass legislation quickly could easily result in empty legislation. Legislators must confront major issues such as the relationship between a property tax and land transfer fees, how to define housing and land categories, how to tax homes built on rural collective land, and so on. The more controversial an issue, the more public discussion there should be. Citizens have an inalienable right to express their positions on a major law such as this. Public discussion may appear initially to "interfere" with the legislative process, but it will help point legislators in the right direction, and make the process go faster than it appears. Even if the input from some well-known market participants isn't completely sufficient, they may still raise valid questions.

The specific progress of the draft law is still not publicly known. Property tax legislation must be carefully prepared and coordinated. It is not difficult to draft a law, but it is difficult to guarantee its quality. Over the years, there have been more detailed discussions on the scope of real estate tax collection, exemption conditions and tax rates. Previously, the heads of relevant departments have also revealed some ideas, such as taxation based on assessed value and taxation to meet basic public service expenditures, such as local education. It's clear that there is already a basic framework for approaching many issues.

We would like to make three suggestions, at the methodological level.

First, give full play to the principles of the NPC's legislative leadership. "Leadership" involves organizing, coordinating and guiding legislation. For some major issues, the NPC needs maintain basic rules in disputes between departments. The current property tax legislation is being organized by the budget working committee of the NPC Standing Committee, in conjunction with the Ministry of Finance. The property tax law also involves the Ministry of Housing and Urban-Rural Development, the Ministry of Land and Resources, the State Administration of Taxation and local governments at all levels. When the NPC leads legislation, it should systematically prevent the most dominant departments from monopolizing the process. It's worth considering further strengthening legislative openness when it comes to property tax legislation. The current information disclosure at the legislative review and voting level are insufficient. Even the dissenting opinions of some members of the NPC Standing Committee are not revealed to the public. Since the real estate tax legislation is of great importance, it is necessary to expand the scope of publicly available information. The opinions of various departments and local governments, especially on controversial issues, should also be disclosed. Public debate is the way legal knowledge of the property tax can be disseminated. The opinions of ordinary homeowners who face potential taxes should be treated with utmost care.

Secondly, real estate tax is a systemwide project. At the moment, the tax collection management law is also being revised. From the tax collection system for natural persons to tax-related information sharing, the provisions of the law directly determine the implementation of property tax collection, especially in terms of determining if taxation is fair or not. The revision of the tax collection management law helps to standardize the taxable entity law, and the property tax law will also aid the revision process of the tax collection management law. Additionally, real estate registration, the housing information network and other supporting systems are all necessary "hardware" for the property tax.

The smooth implementation of the property tax is also dependent on active initiative from local governments. Although the property tax has been clarified as a local tax, with revenue going to local governments, there still appears to be little enthusiasm for it. Compared with land-sale financing, the real estate tax provides smaller revenues, within tighter constraints. The new law must be clear when it comes to defining and regulating local powers and responsibilities.

Finally, the property tax law should not increase taxpayers' overall tax burden. Tax reduction and fee reduction are currently seen as major tools for boosting China's economic vitality. The current relevant taxes and fees are mainly concentrated in real estate development and trading, and they are already relatively high. As a related category of taxation, the basic principle of property tax is that it should not be higher than the existing tax level. Scientific analysis and calculation is needed in order to clear or merge other taxes and fees with the property tax. The finance and taxation department has noticed this problem. Experience shows that the details will determine the outcome.

Any law is the result of the interplay between different interests. Respecting the rights of all parties, especially the right of expression, is a prerequisite. The property tax law is so important that it should be a model for future open-door legislation. In addition, as a property tax is a direct tax, taxpayers will truly feel the whole tax burden, and will be more concerned about tax base, tax rates and tax revenue usage. This may help promote the modernization of China's national governance.

China will allow cities to set their own property taxes

Huge price differences between top and hinterland cities make it hard to create one tax regime that can apply to all markets

CHINA will allow cities to set their own property taxes instead of requiring them to conform to one tax regime, said a senior lawmaker, in one of the most detailed official comments on how the long-mooted tax could be implemented.

China's residential property market is deeply segmented and polarised, with prices many times higher in so-called tier-one cities such as Beijing and Shanghai compared with markets in hinterland cities. The huge price variations make it hard to create one tax regime that can apply to all markets.

Allowing local governments to decide their own property tax rates will also minimise their potential impact on housing prices, said Yin Zhongqing, deputy director of the financial and economic affairs committee at the National People's Congress.

China has considered a property tax for more than a decade, with market speculation of its implementation rearing its head every few years. But the idea of a tax has run into resistance, with stakeholders fearing it would erode property values, trigger a sell-off in the market, or cause a correction resulting in systemic risks.

Work on a draft property tax in China is "steadily advancing", senior Chinese parliamentary officials said last week during the country's annual parliament meeting. The comment sparked speculation that Beijing may be looking at submitting a draft tax proposal for review this year, triggering a drop in the share prices of Chinese property developers. Mr Yin gave no indication on when such a tax could be implemented. He also did not say if all cities in China would implement the tax at the same time, or it would be rolled out in certain cities in phases.

The central government will set a few tax rate brackets for local governments to choose from, Mr Yin was quoted as saying by state media, with the tax to be levied at the current prices of the properties. "Property tax is a local tax. . .so when it is introduced, local governments should have a large degree of autonomy regarding to when it is levied and at what rate," he told the 21st Century Business Herald in an interview. Mr Yin stressed that the tax was not aimed at adjusting property prices, and when it would be implemented was key as it "certainly has a considerable impact on the real estate market and people's expectations".

Chinese policymakers have vowed to maintain the stability of the property market and avoid sharp price fluctuations. Mr Yin said that the tax, like income tax, will set a minimum tax-free threshold to protect the interests of average home owners. It should serve the purpose of deterring speculators, prompting them to sell homes that are not occupied instead of holding them in the hope of ever-rising prices. "Whoever has a larger house will pay more taxes, and whoever lives in the major cities, or in central areas in a city will pay more taxes," he said, adding the tax-free threshold could be set at 40 to 60 square metres per person.

Pilot property tax schemes were introduced in cities such as Shanghai and Chongqing a few years ago, but the glacial progress to roll it out nationwide has drawn criticism as home prices continued to rise.

But analysts say Beijing may be accelerating the process now as it just pledged to slash trillions in taxes and fees to spur growth in the economy, and as it enters the third year of its war on property speculation.

Such a tax would boost local governments' coffers as a much-needed new source of revenue.

An official close to the Ministry of Finance said that China will "definitely" introduce the tax within the tenure of the current administration, which began its current five-year term last year. It is unclear whether China would pass the property tax at the full session of parliament, which meets every March, or at one of parliament's standing committee meetings which take place at regular intervals throughout the year. REUTERS

China's Property Taxman Cometh, Someday

Developers can rest easy for now. Practical hurdles mean that any levy will be implemented farther down the road.

The swell of talk about China implementing a property tax has resurfaced – again. But unlike past years, there's growing certainty that it's actually coming. Just not anytime soon.

Late last week, shares of Chinese real-estate developers tanked after Li Zhanshu, chairman of the National People's Congress standing committee, said delegates will "focus energy" on drafting a property-tax law, among more than a dozen pieces of major legislation. Premier Li Keqiang also raised the issue recently, echoing President Xi Jinping's now-famous maxim that housing is for investment, not speculation.

Investors were right to brush this off quickly, and shares have largely recovered since. A property tax, while sorely needed, faces serious practical hurdles.

First, there's little incentive for local governments to comply. Municipalities rake in 4 trillion yuan ($596 billion) annually from land sales, according to Citigroup Inc. Property-tax revenues will hardly make up the difference: A levy of 0.5 percent on property values would raise just 874 billion yuan, the bank estimates. Even at 1 percent, the government would be lucky to get 1 trillion yuan in revenue, says David Hong, research director at E-House (China) Enterprise Holdings Ltd. That would make property purchases increasingly unaffordable for people in third- and fourth-tier cities, where apartments tend to be bigger.

Logistically speaking, it could take years to get assessments on more than 100 million homes, assuming records can be found for thousands of ancestral residences. Of the roughly 5,000 valuation firms registered in China, just about 300 are qualified to work in tier-1 cities, according to Citi. Local governments would also have to shell out for tax collectors and accountants. Why go through all this trouble when municipalities can simply pocket 50 percent to 60 percent of the proceeds from land sales?

Then there are personal disincentives. Many local-government officials are reputed to own multiple properties. If and when the tax proposal gets passed, it's broadly expected that second (and third, and fourth) homes would face a higher levy than primary residences.

Needless to say, raising taxes in a slowing economy is a tricky maneuver: A slump in 2014 derailed a previous iteration of this plan. Chinese citizens put nearly three-quarters of their savings toward housing, compared with 35 percent in the U.S., so any increase will pinch. With capital controls making it tougher to move wealth overseas, property remains one of the few appealing investment options.

Real estate accounts for as much as a quarter of GDP, once you throw in construction and furniture sales, and the sector is showing signs of strain. While prices are rising overall, some cities have posted declines. Developers are struggling, with China Evergrande Group, one of the country's biggest, posting a 43 percent slump in sales in the first two months of the year, and China Jinmao Holdings Group Ltd. a drop of 40 percent, E-House's Hong estimates.

Given all the hurdles, the slow progress makes sense. Despite coming up consistently at Communist Party conclaves since 2015, proposals to implement a property tax have never passed the draft stage or gone up for a vote, according to analysts at China International Capital Corp.

There is nevertheless a sound argument for imposing a property levy, particularly now that the government faces a $300 billion hole from a slew of recent tax cuts. China doesn't currently tax owners on the value of their properties, except in Shanghai and Chongqing – and even there, it's limited to luxury homes or multiple properties. Encouraging municipalities to diversify their revenue bases is also a good idea. Their overreliance on land sales only adds helium to an already lofty property market.

With Beijing keen to get this done, it's looking like legislation could get passed by 2023. But that's just the first step. Rolling out a property tax could be a decade away. The tax man cometh, in his own sweet time.

China may step up introduction of property tax

Insiders were quoted as saying that it reflected the government's intention to step up the process

China might step up the process of introducing property tax as it was mentioned for the third time in the government work report, ThePaper reported.

According to China's government work report for this year, the authorities will "steadily push forward property tax legislation," while the wording in the 2018 report was "prudently," it said.

Unidentified industry insiders were quoted as saying that it reflected the government's intention to step up the process.

Liu Jianwen, a professor of law in Peking University, forecasted in January that the property tax legislation proposal may be submitted to the Standing Committee of the National People's Congress for review in 2019, the report said.

However, Centaline Property's chief analyst, Zhang Dawei, was quoted as saying, given the long legislation process, there's a relatively small possibility for property tax to be formally introduced within the next three years.

China sounds a clarion call for a property tax, causing real estate stocks to slump, even if the legal basis for the tax is years away

The legislation for property taxes has been listed on NPC work agenda since 2015, but so far no draft has been proposed, thus little detail is known

Detail matters because a property tax could be toothless if a large exemption area is set, and the tax rate is low, analysts said

Falling home sales in smaller China cities hint at longer term troubles

A clarion call by China's legislature to implement a tax on the nation's property holdings scared investors into dumping real estate developers' shares, even if the legal foundation for enacting a nationwide levy is at least five years away.

The Shanghai Property Index, which tracks 25 real estate developers on the Shanghai Composite Index, slumped 4.3 per cent on Friday in its biggest one-day percentage decline since October 11, causing at least two of the stocks to fall by their 10 per cent daily limit.

The scare was sparked when Li Zhanshu, the chairman of the National People's Congress Standing Committee said on Friday that the legislature would focus its energy on drafting several pieces of law this year, including the legal foundations for a property tax.

Chinese Premier Li Keqiang said during his annual report earlier last week that the government would "steadily push forward" the legislation, without elaborating.

A tax on real estate holdings, the largest store of wealth for Chinese citizens, would offer local authorities a new revenue source and wean them off the land sales that contribute to the upwards spiralling of home prices. It would also affect hundreds of millions of property owners in a market where sales topped 15 trillion yuan (US$2.23 trillion) last year, surpassing the United States.

Still, details are sketchy, and the timing and content of the tax has become a recurring guessing game every March when the Chinese legislature meets in Beijing for its annual deliberations.

"It is meaningless to assess the impact of the tax because even a draft of the law that underpins the levy is missing," said Zhang Bin, a fiscal and tax research at the Chinese Academy of Social Sciences, a state-run think tank.

"We don't know whether the tax will be levied on all homeowners, or just those with the third or fourth home. We don't know the tax rate, or even whether there will be a unified, national rate."

For one thing, the process of drafting a law must go through several readings in the Chinese legislature, before it goes for public feedback.

Even after the bill is enacted into law, local authorities may ultimately have the discretion on how it is implemented, or how levies are collected.

Already, local authorities in Shandong, Guangzhou and Shenzhen have taken the discretion in recent months to loosen some of the market-cooling measures imposed since 2017 on China's property prices and sales.

The best guess is that legislation will be in place by 2023 when the current legislature ends its term, before the enactment of the levy follows, according to a report by Citic Securities.

Even if there is legal basis for collecting the tax, its roll-out may come in phases, as some provinces, municipalities or cities are selected as test cases, said Zhang Hongwei, research director of TopSur, a property consultancy. Shanghai and Chongqing, two of China's four municipalities, have already introduced pilot programmes on property taxes.

That would mean another four to six years before the levy is rolled out nationwide.

“They may also consider the property market sentiment, avoiding to publish it in a down cycle like now,” Zhang said.

For now, the guessing game continues. A mere 26.3 per cent of existing homes could be subject to tax if an exemption rate of 30 square metres (322 square feet) per head is set, according to an estimate by the research firm under China Evergrande Group, one of the country’s biggest property developers, owned by an entrepreneur who’s also an adviser to the legislature.

If the tax rate is set at 1 per cent, the total revenue generated would amount to 1.96 trillion yuan, or 37.6 per cent of local government’s land sale receipt, the Evergrande researchers said.

“Legislation of a property law was listed on agenda for the first time in 2015, but year after year there had been no real draft submitted … which shows they have not reached consensus on lots of details,” said Eric Zhang of investment bank CICC. “Even if a law was enacted, it is miles away from implementation.”

China says drafting of property tax law 'steadily advancing'

Work on a draft property tax in China is “steadily advancing” and it will be submitted for review when conditions are right, senior Chinese parliamentary officials said on Saturday.

China has considered a property tax for more than a decade, with market speculation of its implementation rearing its head every few years.

China will “focus energy” on implementing major legislative items this year including a property tax, the head of the country’s largely rubber-stamp parliament said on Friday, though gave no details.

Deputy head of parliament’s Legislative Affairs Commission Liu Junchen confirmed at a news conference on Saturday on parliament’s sidelines that work had started on such a law.

“The relevant side is now studying the drafting of the real estate tax law, and relevant work is steadily advancing,” Liu said, without elaborating.

Deputy head of parliament’s Finance and Economic Committee Uzhitu, an ethnic Mongol who goes by only one name, added that the tax was being drafted by parliament’s budget committee and the Finance Ministry.

At present, relevant departments are perfecting the draft law and discussing “important issues” related to it, he added.

“When the conditions are ripe, it will be submitted to the Standing Committee of the National People’s Congress for initial review,” Uzhitu said, though did not give a timeframe.

The idea of a tax has met with push-back from stakeholders, including local governments that rely heavily on land sales as a key source of financing.

Pilot property tax schemes were introduced in cities such as Shanghai and Chongqing, but the glacial progress to roll it out nationwide has drawn criticism as home prices continued to rise.

In October last year, the official Xinhua news agency reported that a “long-term mechanism” for the property market - including the potential introduction of a nationwide property tax - is being studied.

Prices of homes in major Chinese cities have stabilized in the past year following several waves of purchase curbs to deter speculators.

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China housing stocks slump on revived talk of property tax law

Senior official unexpectedly makes work on the law a priority for the year

Stock prices of major Chinese property developers slumped up to 10% on Friday after a senior official unexpectedly revived talk of prioritizing a proposed property tax in this year's legislative work.

Li Zhanshu, chairman of the National People's Congress's standing committee, said the real estate tax was one of 18 items identified by the Central Committee of the Communist Party as a priority. "This year, we must move forward with formulating and revising urgently needed laws for deepening market-based reforms," Li said.

China's top five property developers all saw their stock prices tumble after Chinese media singled out the tax in reports on Li's speech around 3 p.m. local time.

Shares of Sunac China Holdings, the country's fourth largest developer by sales in 2018, fell 10.89% at the Hong Kong Stock Exchange. The top three -- Country Garden Holdings, China Vanke Co and China Evergrande Group -- dropped 5.18%, 4.85% and 3.97% respectively. Poly Property Group, the fifth largest, dipped 4.23%.

By comparison, Hong Kong's benchmark Hang Seng Index declined 1.91% on Friday.

The mention of the proposed tax shook investors as the sector has seen a substantial slowdown over the past year in line with China's decelerating economy.

Local governments in China depend heavily on proceeds from the sale of land for their revenues, and a recurrent property tax would boost their finances. Authorities are now stretched between the slowing real estate market and demands for greater spending, and edicts from Beijing to reduce business taxes and boost investments.

Many analysts believe a real estate tax would help prompt investors, who now commonly leave investment properties vacant, to lease them out, relieving pressure on urban housing costs.

A prerequisite for administering a property tax would be a clear registry of property ownership. Vested interests who prefer to keep their holdings obscured have slowed the development of the tax.

While property taxes are common in many other countries, China currently only applies such levies in a few pilot cities.

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