



## CHINA – March 2019

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### China may step up introduction of property tax

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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*

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### *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.

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“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.

### China to 'focus energy' on real estate tax this year

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All the legislative items need to be expedited so that they are completed on schedule, he said, without giving details.

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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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