

Land Taxation in China: Current Status and Perspectives

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Outline

- Single tax vs. Henry George theorem: implications for China
- New urban land leasing vs. land rents taxation
- Existing urban land use and housing price appreciation
- Farm land conversion
- Prospective of land value taxation
- Alternative real estate taxation

Single tax theory

- Henry George: tax land rents by 100%; tax land only; use the revenue to finance public service
- Equity: landowners bear the tax burden; land rents are determined by nature and society, not by efforts of landowners
- Efficiency: no distortion; replacing improvement tax with land tax will increase total wealth

Single tax: problems of practicality

- market value of land becomes 0.
- no one will own land; government needs to decide land use
- hard to assess land value or rents since most land has structures or improvement
- Alternative partial land tax: tax land with less than 100%; two-rate property tax, used in Australia, New Zealand, Pennsylvania, south Africa, Jamaica... (Dye and England, 2009, Land value taxation)

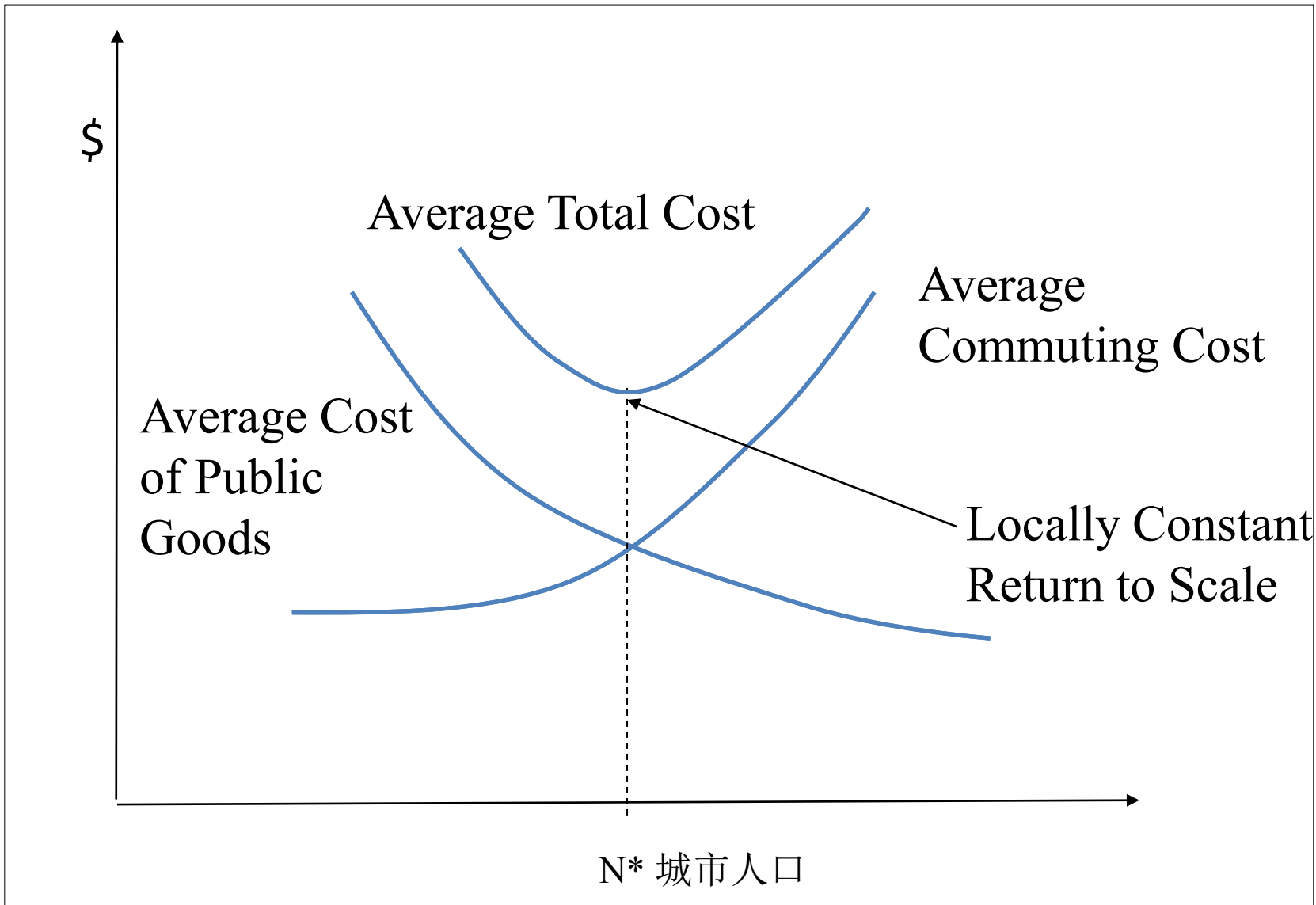
Henry George theorem

- Simplest version: when city size is optimal, total differential urban land rents = pure public goods expenditure
- General version: using marginal pricing, the profits from forces of decreasing returns to scale = the loss from forces of increasing returns to scale (Starrett, 1974; Arnott, 1979, 2004)

Henry George theorem

- Cities full of positive or negative externalities: agglomeration economies, congestion, commuting cost, pollution
- shadow value vs. market value of land
- when city size is optimal:

Aggregate differential land rents + toll revenues =
public goods expenditure + Pigouvian subsidies



Henry George theorem implications

- land tax revenue should (can) be used to finance local public services
- if city size is too large, total land rents $>$ public goods expenditure
- if city size is too small, total land rents $<$ public goods expenditure
- other revenue from taxing activities that generate negative externalities
- other expenditure that subsidize activities that generate positive externalities

Dual-track land use institutions

- before 1981, urban land use is free, no land market
- in 1981, Shenzhen city government started to charge land use fee (土地使用费) ; in 1987, transfer land use right for 50 years as residential use by negotiation
- track I: new urban land use right transfer:
price=present value of land rents for some years
- track II: existing land (with buildings): users enjoy land rents

Track I: new urban land use right transfer

- urban land owned by city government
- government transfer land use right for certain years through auction or public bidding

- land price is the present value of future land

rents :

$$p = \sum_{t=0}^T \frac{r(1+g)^t}{(1+i)^t}$$

- essentially, government taxes land rents by 100%

- land-leasing-based urban public finance: 土地财政

Track I: new urban land use right transfer

- for new home buyers, they have paid the full land rents for 70 years; as owners of apartments or housing units, they should not pay land value taxation or land rent tax any more.
- land taxation is not feasible for newly transferred land, unless the land use right lease expires, or unless the actual growth rate of land rent is greater than the expected growth rate

Track I: new urban land use right transfer, tax on capital gain

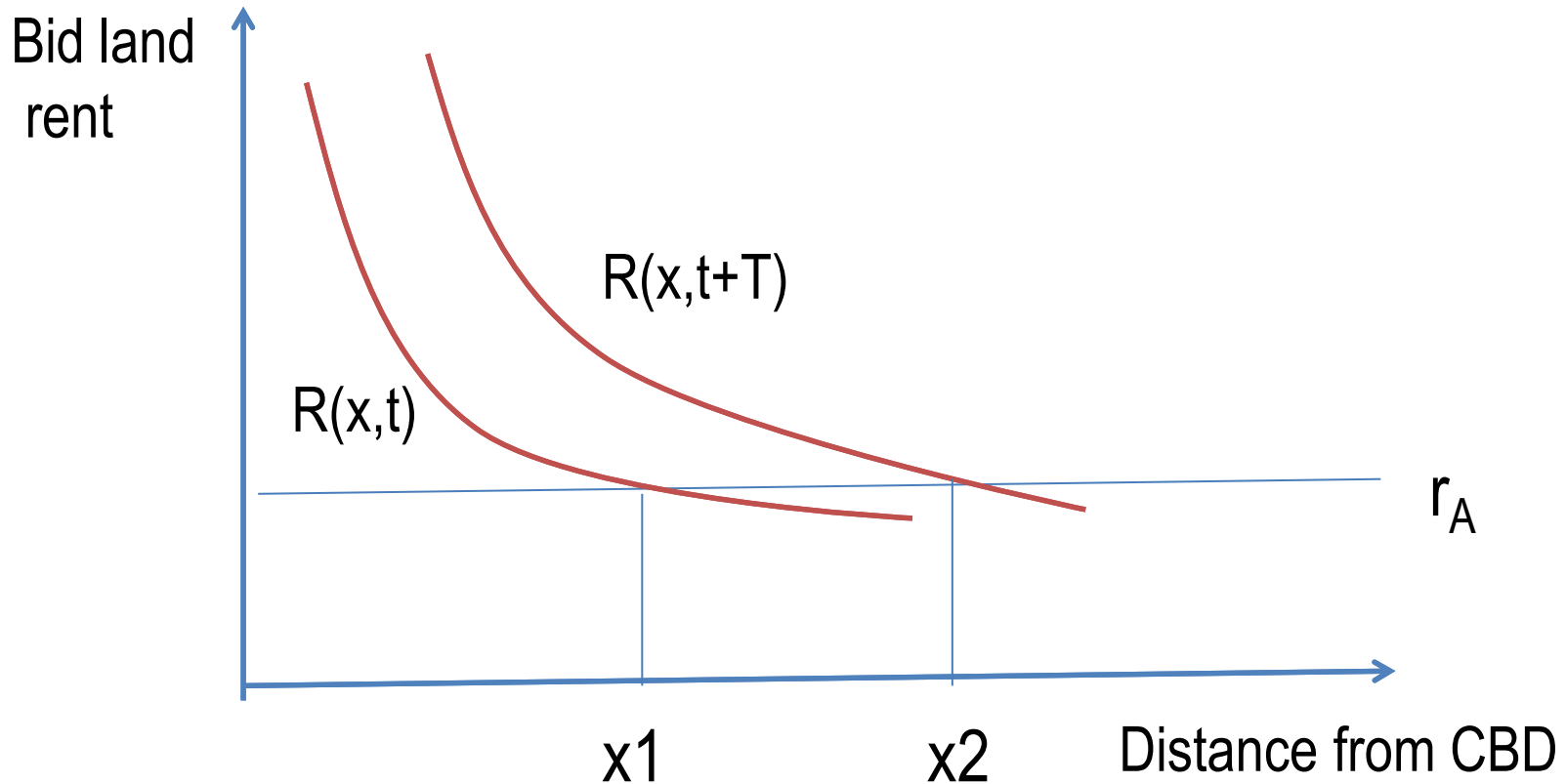
- resale housing or apartment: housing price appreciation or capital gain: due to improved neighborhood or urban amenities
- tax on housing capital gain would be feasible
- less incentive to keep land or housing vacant
- discourage real estate speculation
- fair and equity (benefit from public investment shared by the society)

Track II: existing urban land

- land acquired for free
- users enjoy land rents (state-owned firms, universities, government sector land use)
- if leased at market rents, tax on land rents or land value is feasible
- if resold, tax on capital gain is feasible
- otherwise, property taxation is feasible

Track II: existing urban land

- As cities grow, existing land users enjoy land rent or price appreciation due to public investment

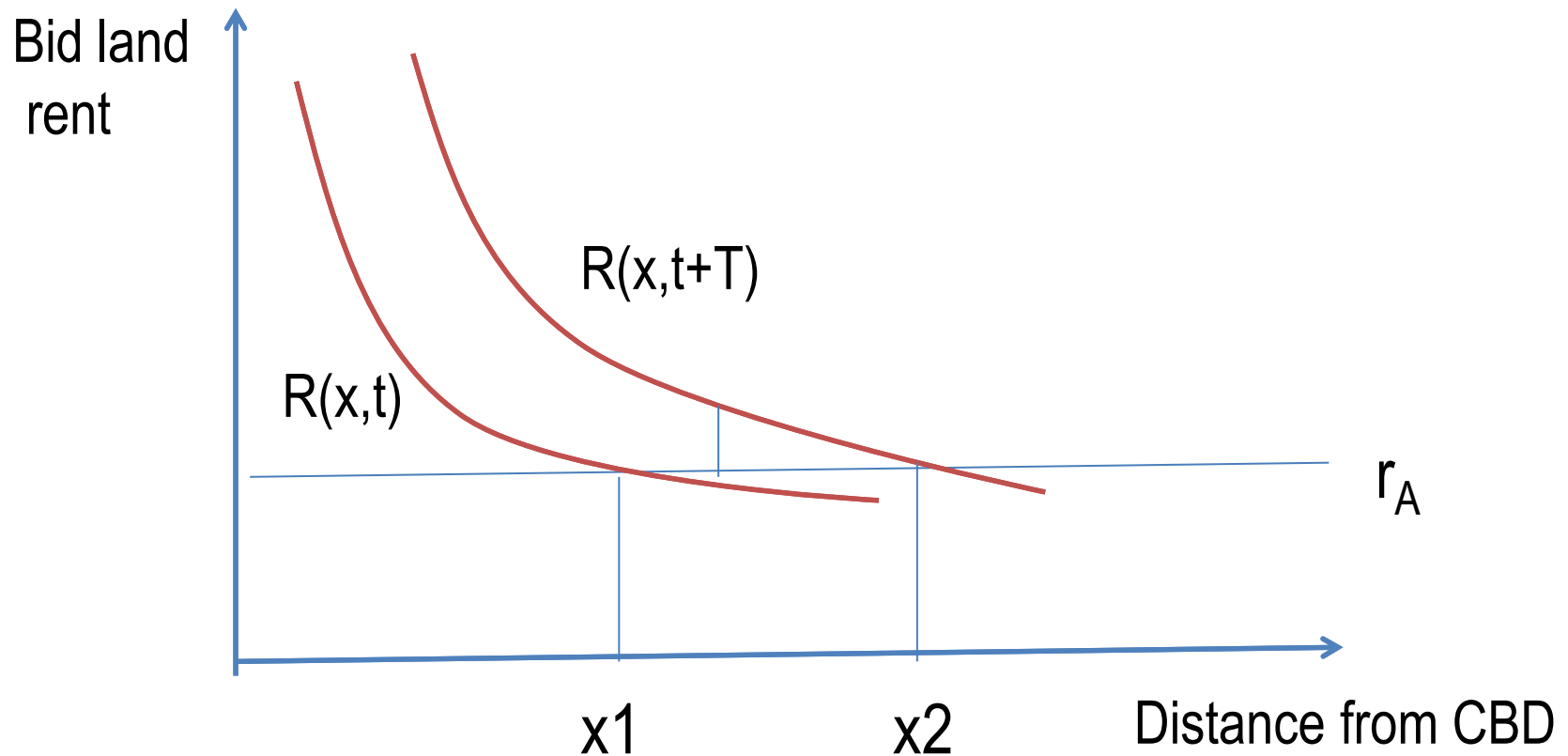


Farm land conversion

- farm land jointly owned by farmers in a village
- when converted to urban land use, farmers receive urban land rents or urban land price
- how to tax rents or capital gain?

Farm land conversion

- As cities grow, existing farm land has higher market value if converted to urban land



Farm land conversion: practical issues

- farmers cannot enter land market freely
- just compensation? (forced re-location and forced low compensation)
- in the suburban area of large cities, compensation may be huge, tax on capital gain may be feasible.

Prospective of land value taxation

- for newly transferred urban land, land rents have been “confiscated”; land value taxation is not feasible
- for existing land users, land value taxation, land rents taxation, or property taxation is feasible; but the stock of track II existing land is diminishing
- for both types of land, tax on resale capital gain is feasible

Alternative real estate taxation: development fee

- charge a lump-sum fee from developers or require developers provide in-kind local public goods
- more common in American cities; common in China too (基础设施建设费)
- efficiency vs. equity (Bruckner, 1997)

Alternative real estate taxation: land value taxation

- since home owners already paid the land rent stream, this type of land value taxation should be based on only land value appreciation

Alternative real estate taxation: tax on capital gain of resale

- for real estate owners who acquired land for free or very low “land price”, tax on capital gain from reselling the property
- this include capital gain from farm land conversion

Shanghai property tax experiment:

- tax rate is 0.4%~0.6%; first 60 square meter per capita is waived; based on 70% of market price
- taxed both structure and land
- very small number of households are eligible for property tax.
- challenge: tax base; appraisal

个人住房房产税税率为0.4%或0.6%，且还要剔除人均60平的免征面积，且按照应税住房市场交易价格的70%计算。