



Introducing property tax in China as an alternative financing source



SungChan Cho^{a,*}, Philip PilSoo Choi^{b,1}

^a Institute of Land & Liberty, 48-10 Wonhyoro-1-Ga, Yongsan-Gu, Seoul 140-846, Republic of Korea

^b Korea Institute for International Economic Policy, 246 Yangjaedaero Seocho-Gu, Seoul 137-747, Republic of Korea

ARTICLE INFO

Article history:

Received 31 July 2013

Received in revised form

18 December 2013

Accepted 2 January 2014

Keywords:

China

Land management

Property tax

Sustainable growth

Alternative financial source

ABSTRACT

Since the beginning of the 21st century, China has been involved in active discussion on the introduction of the property tax. Yet the current land management system is unsustainable mainly because land supply is limited. This is because the system of lump sum grants produces distorted interests among suppliers and consumers of land. The property tax can be both a cure for these problems and create an alternative financial source of revenue for local governments. We suggest a theoretical model that proves the superiority of a property tax over lump sum grants.

© 2014 Elsevier Ltd. All rights reserved.

Since the beginning of the 21st century, China has been involved in active discussion about the incremental introduction of the property tax. The property tax, first initiated in Shanghai and Chongqing as pilot projects, is ultimately to be extended to the entire nation. However, the Central Government's efforts have elicited little support from local governments. According to the 18th Party Congress report in November 2012, the property tax is expected to be applied incrementally. While many are still unsure as to how incremental it would actually be, we believe that property tax reform is inevitable for sustainable growth in China. This paper examines the background and rationale for introducing the property tax from this perspective. For further clarity, we offer a mathematical model as an alternative financial source, especially for city-level-governments.

China's land management system

In China, land is owned by the state in cities and by collective authorities in rural areas. For urban areas, land can be mobilized for construction. In rural areas, it is usually requisitioned from the collectives. From this perspective, China's land management system gives rise to several challenges on how to requisition and allocate nominally 'public' land.

Until recently, the value of rural land to be acquired was based on the value of crops produced. The most typical compensation

for farmers was six to ten times the annual yield. Although still being the norm in many regions, yield-based compensation is giving way to a system of negotiation. Compensation based on yield was often too low to allow farmers the means to find new residences or alternative jobs. Increasingly now negotiation takes place between sellers – farmer representatives and buyers – local governments or enterprises responsible for its development. Negotiation usually focuses on the potential market price of the land after its development. Extra subsidies for farmers moving to urban settlements are often allowed, along with rights to operate businesses in the city. To bring these compensation schemes to pass, a <Land Management Law> is being amended to eliminate the present compensation ceilings, up to 30 times crop value. In some cases, sellers demand too much, or one of the sellers may simply "hold out" of the collective decision and continue to occupy his/her land. More frequently the problem of land acquisition is still the low level of compensation. The dislocation of farmers in the village of *Wukan* in Guangdong province in late 2011 offered a dramatic example.

Once requisitioned, the land can be distributed in one of the five ways – by allocation, grant, lease, investment for state operated enterprises (SOEs) or management in trust (see [Table 1](#)). Allocation involves distribution of land by decision of administrative authorities. This was the modus operandi of the planned economy before 1978, employed mainly by state institutions, military forces, urban facilities, public services and so on. In such cases the land could be allocated free of charge indefinitely but not circulated or leased without further permission. Allocation continues, and often involves corruption between the parties involved because it is essentially arbitrary. Since it does not involve any fee, the state does not receive any rent. This practice inevitably leads to low

* Corresponding author. Tel.: +82 2 736 4906; fax: +82 2 736 4907.

E-mail addresses: landjustice@hotmail.com (S. Cho),

ccpps@gmail.com (P.P. Choi).

¹ Tel.: +82 2 3460 1022.

Table 1
Five ways of land distribution.

	Charge	Term	Circulation	What Or To whom	Advantages	Weaknesses	Notes
Allocation	Free	Limitless	Yes only with approval	Land for public facilities		Corruption Loss of Rent Low efficiency of land use	As before 1978
Granting	Yes	Long term	Yes	Land for development	Enhance local Gov. revenue High efficiency of land use	Maximization of granting revenue during the tenure Uncertainty in land use period	Indirect Lease
Leasing	Yes	Middle or short term	Yes	Land for allocation	Direct lease Stable revenue High efficiency of land use	Short-term decrease in revenue	Direct lease
Investment for enterprise Management and trust	Free	Limitless	No	Corporatized SOEs		Arbitrary valuation	Investment in kind
	Free	Limitless	No	Large SOEs Already allocated land		Corruption	

Source: Choi and Cho (2013).

efficiency because users hardly have any incentives to make the best use of the land allocated.

Granting means that local governments, mainly at the city-level, give land use rights to users for lump sum fees. Granting applies only to state-owned land which of course is in the cities. Today, granting is the most common mode of land distribution, representing about 70% of all land distributed (see Table 2). Rights to land use can be leased, sold and mortgaged. Grant fees represent the main source of out-of-budget revenue of local governments. But this often leads to short-sighted behavior among local officials, since they wish to maximize grant revenue during their tenure. Even with the low level of compensation for farmers and high grant fees in urban areas, this produces a significant additional income for the local governments. This is why increase in urban space has outpaced urban population (World Bank and DRC, 2012). Although it encourages high efficiency of land use, granting creates problems of uncertain ownership titles for land at the end of grant periods. The laws define explicitly the maximum number of years for grants based on intended use: residence (70 years), manufacturing (50 years), education, science, culture, etc. (50) and commercial, amusement, etc. (40). This means that bidding for granting often involves corruption and bribery scandals between developers and government officials. This frustration meant that the granting method was changed in 2004, from private contracts to open bidding, precisely because of the corruption issues.

Leasing was introduced in the 1990s to make up for weaknesses in the grant system. Leasing is fundamentally different from lump-sum grants in that it requires payment of annual rent. This encourages the land user to take full productive advantage of the land. So far, leasing has not become the main mode of land

distribution, and accounted for only 8.6% in 2007 and 0.1% in 2010. However, the leasing contract periods are not as long as grant periods. The most typical examples of leased land include the Shanghai Fudong district, the Suzhou industrial complex and the Shenzhen Special Economic Zone. Leasing them is based essentially on the same idea as the property tax since land rent is collected annually.

The other two ways of land distribution are not normally applicable to urban development. In the case of investments for SOEs, the state evaluates land sites and invests in companies by acquiring a portion of the company shares. The main instances of this practice are corporatized SOEs. A management in trust is one way of supporting SOEs that already possess allocated land by letting the SOEs develop and utilize it. Any SOE endowed with this kind of land ownership has only to report to the authorities regularly about its management. This practice obviously enjoys preferential treatment, and the process can become easily mired in inefficiency.

Problems – why is it unsustainable?

The current land management system in China is not sustainable due to several factors. First of all, the amount of land itself might be limited for further construction and financing. As shown in Table 3, most of the newly available urban land supply is secured through requisitioning of rural land. However, the total agricultural land area in China is about 121.7 million ha, very close to the government's preservation commitment of 121.2 million ha. Although the amount of agricultural land is increased incrementally every year by cultivating or recovering wasteland, it is obvious that current requisitioning trends cannot be sustained indefinitely. Making

Table 2
Construction land supply of allocation, granting and lease (units: ha, %).

	Construction land supply in total	Allocation	Granting	Lease	Others					
2001	178,678	100	73,980	41.4	90,394	50.6	10,128	5.7	4176	2.3
2002	235,437	100	88,052	37.4	124,230	52.8	17,556	7.5	5599	2.4
2003	286,437	100	65,258	22.8	193,604	67.6	10,552	3.7	17,023	5.9
2004	257,920	100	62,054	24.1	181,510	70.4	8773	3.4	5583	2.2
2005	244,270	100	64,623	26.5	165,586	67.8	8044	3.3	6016	2.5
2006	306,806	100	63,791	20.8	233,018	75.9	7588	2.5	2410	0.8
2007	341,974	100	76,088	22.2	234,960	68.7	29,397	8.6	1528	0.4
2008	234,185	100	62,381	26.6	165,860	70.8	3616	1.5	2329	1
2009	361,649	100	122,288	33.8	220,814	61.1	9030	2.5	9517	2.6
2010	432,561	100	138,267	32	293,718	67.9	553	0.1	24	0

Source: MHURDC (2014).

Download English Version:

<https://daneshyari.com/en/article/6548847>

Download Persian Version:

<https://daneshyari.com/article/6548847>

[Daneshyari.com](https://daneshyari.com)