

China to expand pilot property tax program

Global Times, January 6, 2010

China will expand a pilot property tax program nationwide, according to an unidentified source at the State Administration of Taxation quoted by the *Shanghai Securities News* Tuesday, but analysts said it remains uncertain when the program will be expanded and whether or not it will cool the real estate market.

The pilot program has already been run in Beijing and Liaoning Province for more than six years, the newspaper reported. Currently, China does not have the sort of property tax present in Western countries like the United States, where a tax is levied annually on the value of property holdings.

Calls to the State Administration of Taxation's press office were not answered.

Patrick Chovanec, an associate professor at Tsinghua University's School of Economics and Management, said he is optimistic about the program, and the Chinese government could learn from the Western world, especially the United States.

"In China, local governments are dependent a lot on land sales as a kind of revenue source, and that means they have the incentive to boost the property price, but it is not a sustainable kind of revenue, because land sales are a one-time thing," Chovanec said.

"Ideally, I think the property tax goes to replace land sales income."

But analysts said some issues remain to be resolved before a property tax is put into practice nationwide.

The issues of how to estimate property values and how to create a full database of properties to be shared with developers and taxation administration departments need to be resolved, Ding Yun, a professor at Capital University of Economics and Business, said Tuesday. She added that educating citizens about the tax would also take time.

The *Shanghai Evening Post* said in its report that there are two methods for calculating property taxes. One is imposing a tax of 1.2 percent on 70 percent of the estimated property value; another is imposing a tax of 12 percent of the property's rental returns. The tax threshold for the pilot program has not been decided on.

Zheng Xinye, a professor at Renmin University of China, said Tuesday that resolving such technical issues would be easy but that other problems, like the huge cost involved in implementing a property tax, would be tougher.

Property developers, afraid that the tax will decrease property demand, and homeowners, wary of additional expenses, would likely challenge the program, Chovanec said.

Analysts also said expanding the pilot program would have little immediate impact on the hot real estate market.

Zheng, of Renmin University of China, said the program was just another warning from the central government to the property sector.

Chovanec said the government was moving cautiously because the real estate industry has contributed to a large percentage of the country's GDP.

Property sector shares dropped in response to the news. Vanke slumped 2.26 percent to 10.36 yuan (\$1.52) on the Shenzhen Stock Exchange. Poly Real Estate Group, the second largest developer, declined 2.9 percent to 21.27 yuan (\$3.12) on the Shanghai Stock Exchange, its lowest close since August 31. And Greentown China Holdings dropped 1 percent to HK\$11.72 (\$1.51) in Hong Kong.

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