Regime Resilience and the Adoption of Unpopular Policies: The Case of Property Tax Reform in China

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Outline

• Introduction
• Literature review
• Progress of property tax reform in China
• Strategies of the government
  • Policy pilots
  • Policy goal
  • Policy education
  • Policy design
• Conclusion and discussion
1. Introduction

• The literature indicates that an authoritarian system often has high administrative efficiency. The government can use both propaganda and coercion to enforce unpopular policies.

• In China, these unpopular policies include levying extra taxes and fees, replacing burial with cremation, implementing one-child control, and etc.
Property tax reform

• After 40 years of economic reforms, China has created a huge middle class, with over half of urban households owning homes.
  • Given the swift appreciation of real estate in urban centers since the late 1990s, housing assets represent about two-thirds of household wealth.
  • Among all households, those at the top 1 percent own one-third of the national total, while the bottom 25 percent of households together own only 1 percent of the total.

• A heated debate has been ongoing in China for over a decade about whether the country should adopt a real property tax.
The case of China

• China’s current move toward adopting the property tax faces several huge hurdles:

  1. Multiplicity of housing types and categories defies easy classification
  2. Behavior and pattern of housing purchase often involves multiple households of family relations

      • For example, home purchase by a young couple takes not only their own income stream but also the life savings of husband and wife’s parents
      • Housing price rose very fast in the past 15 years
      • Price-income ratio is substantially higher than in most developed countries
2. Literature Review

- Unpopular policies
  - Under which conditions and to what extent do governments pursue unpopular social policy reforms
    - a deteriorating socio-economic situation (Vis, 2009)
  - How to make the unpopular popular (de Groot & Schuitema, 2012)
  - Underlying factors of policy support for environmental policy (Wan, Shen & Choi, 2018)

- Selective implementation
  - Even though coercion could be used for unpopular policies to increase policy efficiency, aggressive execution of unpopular policies (and misimplementation of popular policies) can happen due to the selective policy implementation (O'Brien & Li, 1999)
Policy model?

- **Policy agenda**
  - Agenda setting models for policy agenda in China (Shaoguang Wang, 2006)
    - Close-door model (关门模式)
    - Mobilization model (动员模式)
    - Internal suggestion model (内参模式)
    - Borrow-external-force model (借力模式)
    - External suggestion model (上书模式)
    - External pressure model (外压模式)

- **What model for property tax?**
  - Active instead of passive?
  - Public participation? Gradual/incremental?
3. Policy Progresses

• A quite long process
  • Lasted for 15 years, still far from implementation
  • Very slow progress, especially compared to other policies in China

• China's property tax reform involves a wide range of difficulties, and it faces resistance among residents

• Government worries
<table>
<thead>
<tr>
<th>关于房地产税的相关表述</th>
<th>出处</th>
</tr>
</thead>
<tbody>
<tr>
<td>实施城镇建设税费改革，条件具备时对不动产开征统一规范的物业税，相应取消有关收费。</td>
<td>《中共中央关于完善社会主义市场经济体制若干问题的决定》（2003年10月14日）</td>
</tr>
<tr>
<td>稳步推行物业税</td>
<td>《中共中央关于制定国民经济和社会发展第十一个五年规划的建议》（2005年10月11日）</td>
</tr>
<tr>
<td>研究推进房地产税制改革</td>
<td>《2009年国务院政府工作报告》2009年3月5日</td>
</tr>
<tr>
<td>深化房地产税制改革，研究开征物业税</td>
<td>《国务院批转发展改革委关于2009年深化经济体制改革工作意见的通知》【国发〔2009〕26号】（2009年5月19日）</td>
</tr>
<tr>
<td>制定物业税税基评估技术标准，建立物业税税基评估系统，积极推进深圳开征物业税试点工作。</td>
<td>《深圳市综合配套改革三年（2009～2011年）实施方案》（2009年7月11日）</td>
</tr>
<tr>
<td>研究推进房地产税改革</td>
<td>《中共中央关于制定国民经济和社会发展第十二个五年规划的建议》（2010年10月18日）</td>
</tr>
<tr>
<td>对部分个人住房征收房产税改革于2011年1月28日起在上海和重庆两市开始试点</td>
<td>上海市人民政府关于印发《上海市开展对部分个人住房征收房产税试点的暂行办法》的通知【沪府发〔2011〕3号】和重庆市人民政府令第247号</td>
</tr>
<tr>
<td>加快建设城镇住房信息系统，改革房地产税收制度，促进房地产市场长期平稳健康发展</td>
<td>《国务院政府工作报告》2012年3月5日</td>
</tr>
<tr>
<td>在这个基础上进一步研究推进房产税改革的方案，适当扩大试点范围，积极稳妥地加以推进</td>
<td>财政部部长谢旭人就“当前的财政政策和财政工作”回答中外记者的提问（2012年3月6日）</td>
</tr>
<tr>
<td>加快房地产税立法并适时推进改革</td>
<td>《深化财税体制改革总体方案》（2014年6月30日）</td>
</tr>
<tr>
<td>国土资源、公安、民政、财政、税务、工商、金融、审计、统计等部门应当加强不动产登记有关信息互通共享</td>
<td>《不动产登记暂行条例》（2014年11月24日发布，自2015年3月1日起施行）</td>
</tr>
<tr>
<td>按照“立法先行、充分授权、分步推进”的原则，推进房地产税立法和实施</td>
<td>2018年3月25日，财政部部长刘昆语</td>
</tr>
<tr>
<td>房地产税法草案已有大体框架，正向各地征求意见</td>
<td>2018年4月17日（记者从业内人士处获悉）</td>
</tr>
<tr>
<td>房地产税法进入人大2018立法计划预备审议项目</td>
<td>2018年4月27日，全国人大常委会公布的2018年立法工作计划中的预备审议项目内含有房地产税法和个人所得税法</td>
</tr>
</tbody>
</table>
## Selected progress in property tax reform

<table>
<thead>
<tr>
<th>Property tax reform</th>
<th>Document</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement urban construction tax and fee reform, when the conditions are available,</td>
<td>The Decision of the Central Committee of the Communist Party of China on</td>
<td>14-Oct-03</td>
</tr>
<tr>
<td>levy a unified and standardized property tax on real estate, and cancel the relevant</td>
<td>Several Issues Concerning the Improvement of the Socialist Market Economic</td>
<td></td>
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<td>fees accordingly.</td>
<td>System</td>
<td></td>
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<tr>
<td>The property tax reform for individual housing began in Shanghai and Chongqing on</td>
<td>Interim Measures for Shanghai to Launch a Pilot Project on the Collection</td>
<td>28-Jan-11</td>
</tr>
<tr>
<td>January 28, 2011.</td>
<td>of Property Tax on Some Individual Housing</td>
<td></td>
</tr>
<tr>
<td>Promote real estate tax legislation and implementation in accordance with the</td>
<td>by Minister of Finance</td>
<td>25-Mar-18</td>
</tr>
<tr>
<td>principle of “legislation first, full authorization, and step-by-step promotion”</td>
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4. Government Strategies

- Policy pilots
- Policy goal:
  - control housing price
- Policy education
- Policy design
4.1 Policy pilots

• Local property tax pilots
  • Shanghai
  • Chongqing

• Initiated in January 2011
Details of LPT in Shanghai and Chongqing

LPT in Shanghai
• Eligibility: Newly purchased 2nd (or more) housing units
• Assessed Value: 70% of market price
• Tax Rate: 0.4% ~ 0.6%
• Tax Exemption: 60 m² per household member
• Calculation: \[ Property\ Tax = (FS - 60 \times N) \times MP \times 70\% \times TR \]
  FS - Floor space N - Number of household members
  MP - Market price/m² TR - Tax rate

LPT in Chongqing
• Eligibility
  ➢ Detached housing including earlier purchase
  ➢ Newly purchased apartments with market price/m² > double average in previous two years (luxury housing)
• Assessed Value: 100% of market price
• Tax Rate: 0.5% ~ 1.2%
• Tax Exemption: 100 or 180 m² per household
• Calculation: \[ Property\ Tax = (FS - 100 \textit{or} 180) \times MP \times TR \]
  FS - Floor space MP - Market price /m² TR - Tax rate
4.2 Policy goal

“Taxes on residential properties will help narrow income gap and enhance social equity…. will lead to reasonable consumption of housing and promote economical land use”

--Spokesmen of MOF, SAT, MOHURD (Jan. 27, 2011)
4.3 Policy education

• Before 2011, few residents know/understand the annual property tax

• Now, most city residents understand this tax. More importantly, most of them have a expectation of this tax in a near future
  • Will not feel surprise if it comes out tomorrow

• More importantly
  • Use tax revenue in local public service
  • Create a link between revenue and expenditure
4.4 Policy design

• Low rate with large exemption
  • Effective tax rate
    • US average 1% vs. China 0.5%, 0.1-0.2% in metro cities
    • Generous exemption

• Main targeted group
  • Households with more housing units
  • High price, large area housing units

• Get support from some group
  • By emphasizing different policy goals
5. Conclusion and Discussion

• For both unitary and democratic systems, there are generic rules for unpopular policy
  • policy effectiveness, policy fairness, policy preference, and participatory process
  • Unitary system has more tools to facilitate/manipulate the process

• Policy window (timing)
  • Kingdom’s theory (problem, policy, politics streams)
  • Housing boom vs. Price decrease stage?

• How to proceed?
  • Policy diffusion
  • Nationwide implementation vs. Voluntary/designated experiments and transfer?
  • If voluntary, who will have the first try? Diffusion mechanism?
Thank you!