

Inheritance Tax for the Improvement of Chinese Property Tax System

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ABSTRACT

The current property tax system in China leaves much to be desired, so its role of revenue and taxation regulation is limited. Since inheritance tax is an important guarantee for an improved property tax system, its collection can expand the scope of taxation and enhance its function of regulation. Now China has economical, legal, historical and ideological conditions for starting to collect inheritance tax, nevertheless, property assessment and other systems need to be improved. To build an inheritance tax system, the tax threshold, tax exemption amount, anti-evasion measure, tax rate design and others need to be considered in building inheritance tax system.

Keywords: *property tax, inheritance tax, system, improvement, institution*

1. INTRODUCTION

China has built an initial taxation system for the ownership, transaction and proceeds of real property and vehicles, which plays an active role in the updating of land resources allocation, the control of real estate market and increase of local fiscal revenue. As an important component of national tax system, property tax has long been at a disadvantage position. The current taxation subjects are only real estate and vehicles, however, tax of general property ownership and inheritance levied in other country hasn't been included. The inheritance tax can make up deficiency for our property tax, and also it can bring advantage of adjusting economy, improve nations innate quality and promote public welfare. We have measured up to conditions of economy, laws, history and ideas, but still lack of rules of property estimating, etc. Our inheritance tax should make up the rules of opposing tax avoiding, starting point for levy, tax rate, etc.

2. THE CURRENT SITUATION AND PROBLEM

2.1. *The structure of current property tax system*

Currently, our property tax system mainly includes real estate tax, deed tax and car & boat tax. In addition,

it also involves land VAT, land use tax in urban and rural areas, land occupancy tax, vehicle purchase tax and other tax of resource type. In terms of taxation process, it includes taxation on property occupation and transfer. In terms of taxation object, it is mainly about individual property tax.[1] China has built an initial taxation system for the ownership, transaction and proceeds of real property and vehicles, which plays an active role in the updating of land resources allocation, the control of real estate market and increase of local fiscal revenue. As an important component of national tax system, property tax has been long at a disadvantage position. The current taxation subjects are only real estate and vehicles, however, tax of real estate, the most valuable property for Chinese, as well as tax of general property ownership and inheritance levied in other country hasn't been included. With the continuous deepening of economic system reform, accumulating of personal wealth and the increasing of gap between the rich and the poor, the original property tax system leaves much to be desired.

2.2. *The coverage of the current property tax is narrow and its regulation role doesn't perform well.*

As far as current property tax is concerned, the tax types are many, but their objects are limited to real estate and vehicles, excluding gold, silver, jewelry, securities, deposit and saving and curios. Moreover, it

has also provided broad taxation scope for estate taxation. Especially the taxation of personal property is rather weak. For example, personal estate taxation is only stipulated in the deed tax, house rental taxation is only prescribed in the real estate property taxation and the current tax types are not involved in the estate occupation taxation. The coverage of taxation is narrow and the tax design is simple. Most of them adopt ad valorem fixed rate taxation or specific quota taxation, the tax rate has few types, taxation regulation is simple and inadequate levy and control leads to severe tax loss and bad regulation. Especially the current property tax is powerless in the face of expanding domestic gap between the rich and the poor.

2.3. The current property tax yields little revenue.

OECD data shows that each country mostly designates property tax as local income. Developed countries have a higher ratio of national property tax revenue to local taxation revenue. With 80% in America, 84.5% in Canada, 93% in Britain and 99.6% in Australia. Because property taxation features great amount and heavy weight, a good circulation system of increased taxation resulting in the provision of more public service and creation of more tax sources, which enables it to play an active regulation role in the local economical construction. Property tax has a low proportion of local tax in the developing countries, with 23%~54% generally in Asia.[2] Therefore, property tax in all countries over the world has an important role in the local tax and is the main source of local finance.[3] China's property tax revenue occupies about 2.04% of total tax revenue and about 4.12% of local tax revenue. The low ratio of property tax revenue leads to weak function and difficult in playing its regulation role.

3. THE SIGNIFICANCE OF INHERITANCE TAX IN IMPROVING PROPERTY TAX SYSTEM

3.1. Starting to collect the inheritance tax can enhance the regulation role of property tax.

Inheritance tax is of significance to property tax system in China. In terms of inheritance tax, its objects cover not only taxpayers' real estate, cars and boats, but also various properties such as savings, securities, pearls and jewelry. It is characterized by broad coverage, strong regulation, so it will contribute to narrowing the gap between the rich and the poor and improving the social welfare level. In recent years, because of the adoption of precision poverty alleviation measure for common prosperity, china's Gini coefficient has fallen, but still between 0.46 and 0.47, which is far beyond 0.4, the internationally recognized warning line. In terms of

wealth gap, the Gini coefficient of China's wealth, which moderated after 2015, rose again to 0.704 in 2020 under the impact of the epidemic. The wealth gap is more prominent than the income gap because of the accumulation effect. In 2010, the share of the top 1 percent of Chinese residents in total wealth rose to 30.6 percent. China is among the countries with fastest growth of wealth gap, which affects not only social fairness but also becomes an important factor for social stability. To solve this problem has become an urgent task for us. As a way to regulate wealth distribution and bridge the gap between rich and poor, inheritance tax is the first choice to solve this problem. Meanwhile, Inheritance tax can reduce unearned income, cultivate the independent personality and fighting spirit of the next generation, and help improve national quality. Traditionally, Chinese tend to leave all their estates obtained by hard work to their posterity. But judged from past experience, the more they leave, the worse the ability to survive of their posterity has. Too superior environment is detrimental to the nurturing an excellent person. Inheritance tax collection puts some pressure on the estate owners and successors, so that the wealth owners attach importance to the education of their children and cultivate the independent personality and fighting spirit of the next generation, and this education principle will also affect other social strata, which is conducive to the improvement of the quality of the whole nation.

3.2. It also can enhance the inadequate function of revenue from property tax.

Judged from international experience, inheritance tax is a real "rich man's tax", which aims to regulate the income gap between the rich and the poor. With the increase number of high-income class and the accumulation of wealth in China, the role of inheritance tax in supplementing fiscal revenue in the future should not be underestimated. According to statistics of Hurun Wealth Report 2020, Chinese families which own 6 million RMB Yuan reach 5.01 million with total wealth of 146 trillion Yuan that is 1.5 times china's yearly GDP. Chinese ultra-high net worth families which own 10 million has a total wealth of 94 trillion Yuan with a ratio of 64% of total. Chinese ultra-high net worth families which own 30 million dollars has a total wealth of 89 trillion Yuan with a ratio of 61% of total. Since the inheritance tax won't affect the basic living standard of taxpayers, higher tax burden can be considered in the design of inheritance tax. If 6 million Yuan is set as the threshold with about 40% of tax rate and about 7.15% of death rate being taken into consideration now in china, the annual revenue of inheritance tax in China will reach more than 300 billion Yuan. The increased revenues will compensate for the inadequate revenues of current property tax system as well as the local fiscal system.

3.3. Starting to collect inheritance tax is necessary for the improvement of tax system in China.

Inheritance tax is an important type of property tax for the perfection of national tax system and the extension of personal income tax. Starting to collect inheritance tax can not only remedy the incomplete construction of property tax system in China, but also make up for the deficiency of individual income tax collection and adjustment, so as to further improve national tax system and supplement local fiscal revenue. Meanwhile, the collection of inheritance tax helps safeguard national right and interest and prevent the loss of revenues. As an international prevailing, over 100 countries began to levy inheritance tax.[2] Countries that have a frequent economical exchange with China mostly have levied inheritance tax. If China does not levy inheritance tax in accordance with international practice, it will lose its due rights and interests. As economic integration accelerates, international exchange becomes more frequent and the geological scope of inheritance is expanding rapidly. Under the current transnational inheritance, Chinese people who inherit their estates abroad have to pay inheritance tax to the government of the other party, while foreigners who inherit their estates in China do not have to pay tax. As a result, the tax revenue of China is lost in vain, which harms national rights and interests and is not conducive to the normal exchanges of equality and mutual benefit between countries.

3.4. Starting to collect inheritance tax can stimulate instant consumption and promote the development of the public affairs.

Inheritance tax is a tax levied after death, so the most direct way to evade inheritance tax is immediate consumption. Meanwhile, to encourage the development of social public welfare, each state stipulates public donation can be deducted before tax from inheritance tax. For inheritance tax with progressive tax rate, this pre-tax deduction can not only reduce taxable income, but also reduce tax rate, as well as bring public-interest collateral benefits for taxpayers. In China, it is necessary to stimulate public donation through compulsory inheritance tax. According to China Charity Donation Report 2019, More than 64.23% of charitable donations in China now come from enterprises, only 23.28% of which from individuals. McKinsey Company's senior consultant claims that Chinese enterprises pay more attention to its wealth instead of charity business. By imposing inheritance tax, more taxpayers are encouraged to donate for the public good, thereby the entire social welfare level will be improved.

4. THE CONDITIONS AND SHORTAGE FOR THE STARTING TO COLLECT INHERITANCE TAX

4.1. The current conditions

4.1.1. China has economic conditions for starting to collect inheritance tax.

According to statistics of Hurun Wealth Report 2020, the wealthy families with 6 million RMB assets have reached 5.01 million with a total wealth of 146 trillion Yuan, among which, 17 trillion yuan will be expected to hand down to the next generation in 10 years, 42 trillion yuan in 20 years and 78 trillion yuan in 30 years. The continuous accumulation of personal income provides sufficient and reliable tax resources for inheritance tax collection.

4.1.2. The collection of inheritance tax in China has a certain legal basis.

China's current "Marriage Law", "Inheritance Law", "General Principles of civil Law" and other laws affirmed the legality of private property and property inheritance, cleared the scope of inheritance and family property division principle. "Tax Collection and Administration Law" also provides basic law for inheritance tax collection and administration.[4] Furthermore, China's property registration system is gradually improving. The adoption of real estate, car, stock registration and the real-name registration system for personal savings now have provided guarantees for inheritance tax collection.

4.1.3. There are many historical experiences and international rules for inheritance tax in China.

Inheritance tax is an ancient tax type and modern inheritance tax has a history of over 600 years. It is first investigated in the early Republic of China and was collected when new China founded. At present, over 100 countries around the world have collected inheritance tax, including most developed countries, more developed countries and some developing countries, whose experience and lessons have provided us with valuable examples and data.

4.1.4. China has provided ideological basis for inheritance tax collection.

Chinese citizens have gradually increased their awareness of tax payment. Although ordinary people may be difficult to bear inheritance tax for a while, their awareness as a taxpayer is enhanced steadily and the concept that tax payment is an obligation has taken root in their heart. Moreover, with the publicity of

inheritance tax in recent years, many people have accepted the concept, which lays a good ideological foundation for the establishment and collection of inheritance tax.

4.2. The room for improvement

4.2.1. The property registration and appraisal system need to be improved.

Currently, China's property registration and declaration system are incomplete. The current real-name savings system can only monitor and control personal savings, but estate presents various forms and it is difficult to know a taxpayer's entire estate as the amount of estate is difficult to identify. China now hasn't established refined property appraisal agency and system, which leads to the difficult identification of property value and higher appraisal cost.[5] Thus, China needs to establish personal asset file and property appraisal system as soon as possible, and monetize, clarify, normalize and institutionalize personal income so as to lay a solid foundation for the confirmation of tax base of inheritance tax.

4.2.2. Information network construction needs to be improved.

Tax authorities often do not have timely access to information about people who have died, making it difficult to ensure that estates are not divided or transferred before tax. At present, China has established a system in which individual identification number serves as the uniform number for the important economic activities such as saving, investment and insurance. Moreover, tax department can establish data bank by linking its computers with those of financial, insurance and household registration administration departments so as to provide a basic condition for inheritance tax collection by grasping information about the property and death of taxpayers

4.2.3. The awareness of taxpayers needs to be enhanced.

Some taxpayers have faint awareness for taxpaying, therefore tax evasion has become the focus of tax administration. To effectively prevent personal property from transferring abroad for the purpose of tax evasion, the corresponding restraint mechanism must be established and international taxation cooperation be strengthened. This tax evasion will naturally decrease with the development of inheritance tax globalization. In the meantime, by means of basic education, more and more people will realize that young people need to be independent and it is essential to enable children with true skill, genuine knowledge and ability to be independent.

4.2.4. The relevant laws need to be improved.

China now hasn't incorporated inheritance tax into its "Inheritance Law" and "Civil Law", thus relevant laws must be amended and revised before inheritance tax collection. Meanwhile, as China is carrying out a new round of taxation reform, VAT, income tax and property tax all face important adjustment and the collection of inheritance tax will certainly be delayed as well.

5. THINKING ON THE DESIGN OF INHERITANCE TAX SYSTEM

5.1. Inter living gift tax collection at the same time is a necessary anti-tax evasion measure.

Upon inheritance tax collection, many taxpayers will choose to transfer property in their lifetime for tax evasion in order to avoid their estate being collected after they passes away. Thus, it will make inheritance tax collection void and null. To prevent the tax loss and enable inheritance tax to adjust personal wealth for the purpose of social wealth re-distribution, it is necessary to collect gift tax at the same time. It means the collection of inter living gift tax similar to inheritance tax in nature and tax burden, thereby to impede tax evasion and prevent tax loss, which is common practice in countries throughout the world.

5.2. The choice of taxpayers and objects

According to internationally adopted standard, taxpayers of inheritance tax shall be the richest group that is within 3% of total population. It shall be taken into consideration whether to collect total inheritance tax from decedents or to collect separate inheritance tax from successors. In light of our national condition, the collection of total inheritance tax is more suitable, as it has the advantage of simple tax system, easy collection and management, and tax resource control as well as easy tax cost reduction as compared with separate inheritance tax collection. Moreover, as inheritance tax doesn't belong to individual income tax, the successors' burden needn't be considered during tax collection, thus to facilitate the implementation of total inheritance tax. In terms of tax objects, its objects shall correspond with that prescribed by "Inheritance Law", namely, property shall be defined as chattel and real estate (including visible and invisible ones), which will help maintain the consistence of two kinds of law and the tax basis of inheritance tax.

5.3. The identification of tax threshold and exemption amount

The threshold of a tax is often dependent on the motive. Therefore, the tax threshold shall be higher for

the purpose of tax adjustment and vice versa for the purpose of seeking more revenues. As a national mechanism for fairness, inheritance tax shan't be taken as a way to raise money, but as a way to balance wealth aimed at minority people. If the tax threshold is too low, the tax will be paid by majority people, which will run counter to the original design and prevent people from expanding their business. It is set internationally at an average level of about 15 to 20 times GDP per capita. Since China's GDP per capita is estimated at 72447 Yuan according to statistical bulletin 2020, our inheritance tax shall be set between one million and one million and a half Yuan. However, houses in China are the main property at an excessive price. In combination with statistics of Hurun Wealth Report 2020, it shall be set at 6 million Yuan. Meanwhile, the local government shall be delegated more power and have the permission to modify it according to price fluctuation and local condition. Basic living housing can be considered as an exemption item included in deduction items for the sustenance allowance or directly as an exemption item. Moreover, exemption shall include a tax deduction to ensure the basic living standard of minors and spouses without source of income, funeral expenses, inheritance management fees and deceased's debts before their death, as well as public donation and other deduction items that will improve social welfare level.

5.4. The identification of tax rate

As an extension of income tax, inheritance tax should be considered to implement excess progressive tax rate, so as to realize vertical tax equity and enable huge inheritance successors to bear high tax burden to re-distribute social wealth and prevent the excessive concentration of wealth. Based on international experience, a progressive tax rate of 10%- 60% within 10 tiers can be considered.

5.5. The ownership of collection administration

Inheritance tax collection assigned to local financial system and more power given to local government can

embody the principle of collection according to local condition, set targeted tax threshold and exemption and reduce loss of tax resources at the management level. Based on the above, information network shall be built comprehensively to avoid tax evasion of estate in other regions and countries.

6. CONCLUSIONS

As a tax type that aims at all property, unlike other property tax, inheritance tax plays a universal regulation role, such as re-distribution of wealth and closing the gap between the rich and the poor. Whether to collect inheritance tax won't be an empty talk but will be decided by national condition and background in the end. Nowadays in China, inheritance tax is needed to complement the inadequate regulation effects of property tax system and close the gap between the rich and the poor so as to build a harmonious society.

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