Equitable Wealth Distribution through Property and Inheritance Taxes: Global Practices and Implications for China

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Abstract. This paper delves into the complexities of residential or commercial property and inheritance taxes, their meaning, purpose, and the more comprehensive implications of their implementation worldwide, with a focused evaluation in China. Property tax, targeting land and its accessories, emerges as a steady revenue source, difficult to avert and critical for income redistribution. Inheritance tax, levied on the net estate of the deceased, acts as a system for equitable wealth distribution, despite its complexity and the difficulties in valuation and management. By comparing and contrasting these taxes within different global jurisdictions, this study supplies insights into their roles in dealing with wealth variation and improving fiscal techniques. The analysis encompasses pilot programs in China, evaluating the expediency and impact of these taxes in the Chinese context. The paper underscores the capacity of property and estate tax in cultivating economic stability, social equity, and the redistribution of wealth, alongside suggestions for policymakers aiming to improve these taxation systems.

Keywords: Property Tax, Inheritance Tax, Common Prosperity, Taxation Systems

1 Introduction

The discourse on residential or commercial property and estate tax is critical in the world of fiscal policy and social equity. These taxes not just represent substantial earnings streams for federal governments but also play an essential function in attending to wealth inequality. In the face of escalating home values and the concentration of wealth, the need for a fair and efficient tax system is vital. This paper seeks to check out the definition, systems, and functions of property and estate tax, identifying their distinct functions while highlighting their typical goal towards equitable wealth distribution. Through a detailed evaluation of their application across different countries and the particular obstacles and chances within China, this study aims to contribute to the ongoing argument on financial policy's role in attaining social justice and financial stabil

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supply a backdrop for this exploration, highlighting the importance of tax in mitigating wealth disparities and fostering a more inclusive economic environment [1-4].

2 Definition and Purpose of Property Tax and Inheritance Tax

2.1 Property Tax: Concept and Characteristics

Property Tax targets land and its attachments, such as buildings and structures, calculated based on the market value, assessed value, or rental income of the real estate. It is a type of property tax collected from the property owner or user, featuring a stable tax base that is difficult to evade, a tax burden challenging to shift, stable tax revenue, and the capacity for income redistribution among taxpayers [1]. Distinguished from broader real estate taxes, property tax is a specific branch within the real estate tax category, which also includes transaction taxes, income taxes, and others related to real estate. Real estate property tax itself is divided into property tax, urban land use tax, and farmland use tax.

2.2 Inheritance Tax: Mechanisms and Social Implications

Zhang and Huang examined the inheritance Tax, levied on the net estate of the deceased, which is a form of death duty and classified under property taxes that apply to property transfers [2]. This tax is categorized into estate tax, inheritance tax, and mixed estate tax systems. The estate tax system assesses the entire estate before distribution to heirs and legatees. In contrast, the inheritance tax system applies after estate distribution, with varying rates depending on the heir's relationship to the deceased and the value of the inherited property. The mixed system taxes both before and after estate distribution. Inheritance tax is noted for its diversity (covering real, personal, and intangible assets), the requirement for fair valuation (e.g., antiques, calligraphy, fine wines), which necessitates many professionals for valuation, leading to complex collection and management processes prone to disputes. It also demands higher regulatory standards, such as close inter-departmental cooperation and clear legal measures against tax evasion.

2.3 Distinctions and Commonalities: Towards Equitable Wealth Distribution

Western theories supporting wealth equality advocate for inheritance tax from the perspectives of equal opportunity and resource distribution, arguing that bequeathing entire fortunes exacerbates social wealth and resource disparities. The "second generation rich" gain inherent advantages, contradicting the principle of fair competition and potentially leading to social stratification [2]. The state should utilize its taxing power to achieve equitable distribution, with inheritance tax serving as an effective means to balance social wealth. Similarly, property tax aligns with the goal of achieving common prosperity through equitable wealth distribution. Both taxes aim to narrow the wealth gap by imposing higher taxes on the wealthy and lower or no taxes on the poor, adjusting the wealth of the rich for a fairer distribution of social wealth and enhancing the national tax system.

These taxes also serve distinct purposes. Property tax generates additional funds for society, providing stable fiscal income for local governments for infrastructure development in education, healthcare, and sports. In contrast, the main goal of inheritance tax is not to expand fiscal revenue but to act as a legal lever, typically featuring a higher exemption threshold and tax rates. Additionally, property tax aims to optimize asset allocation, as owning more property increases tax pressure, leading to the release of some properties to adjust the surplus and shortage of real estate, thus optimizing property allocation. It can also curb excessive speculation in the real estate market. Inheritance tax prevents tax evasion through estate transfer, with countries establishing other policies to complement the inheritance tax system. Gift tax is one such policy designed to prevent taxpayers from transferring estates through gifts to avoid taxes [3].

3 Implementation of Property Tax and Inheritance Tax Worldwide

3.1 Property Tax: Global Practices and China's Pilot Initiatives

According to Jiang, Zhang, and Li, across the globe, around 187 countries or regions enforce property taxes, signifying a vast array of practices distinct from China's nascent property tax system, which is still in a pilot phase [4]. The implementation of property taxes within various provinces and cities in China is tailored to accommodate local conditions. Concurrently, more than 100 countries or regions have adopted inheritance taxes. Most economically advanced nations have instituted inheritance taxes, although countries like Canada and Australia have subsequently repealed them. Among developing nations and those with less economic development, the adoption of inheritance taxes remains sparse, with countries such as India and Egypt having introduced and then abolished them. China had a period of inheritance tax collection from 1940 to 1949. Following the establishment of the People's Republic of China, the second National Tax Conference in June 1950 decided to suspend the collection of inheritance taxes to adjust public-private relationships and promote economic recovery and development. Despite vigorous discussions in recent years within various Chinese outlines and conferences regarding the potential introduction of inheritance taxes, the collection has yet to begin. This section aims to draw insights from the taxation scenarios in other nations that levy property or inheritance taxes, providing valuable lessons for the implementation of these taxes in China [5].

The legislative frameworks, tax rates, taxable entities, tax bases, and tax incentives vary significantly worldwide, influencing the implementation of property taxes. In unitary states, property tax legislation is typically uniform and enacted by the central government. However, countries like the UK and Japan, despite having centralized legislation, grant local governments the discretion to adjust property tax rates and incentives based on local economic conditions, demands for public services, and fiscal health, providing significant autonomy. In federal systems, property tax legislation falls under the jurisdiction of state or provincial governments, leading to variations in property tax laws among different jurisdictions. For example, in the United States, property tax collection is highly regulated with clear legal guidelines, ensuring transparency and allowing taxpayers to monitor the collection process and use of funds through public disclosures and online access [4].

As Xu notes, property taxes are levied on residential properties, vacant non-residential properties, commercial properties, and in some cases, are increased for long-term vacancies [6]. Countries like Japan apply property taxes to fixed assets and city planning taxes, taxing landowners and homeowners. The US taxes both land and buildings, broadening the tax base to include almost all real estate except for specific exempt categories such as public spaces, charitable buildings, and churches.

The basis for property tax calculation varies, incorporating asset value (market or cadastral value), rental value, area, or a combination thereof. Most countries adopt ad valorem taxes based on asset value, while a few countries, particularly in Eastern Europe, Africa, and Asia, levy taxes based on quantity. The design of property tax rates follows the principles of matching expenditure with revenue, legal compliance, and procedural legality, with government departments determining the amount of real estate tax to be collected annually, and the ratio of tax amount to taxable value of the property defining the tax rate [6].

3.2 The Global Landscape of Inheritance Tax: Trends and Repeals

As discussed by Yu et al., inheritance taxes are predominantly based on the inheritance tax system, with countries adopting different rates for different relationships between the heir and the deceased [5]. This system, exemplified by the US, the UK, and Taiwan, operates on a "divide then tax" principle, addressing the shortcomings of the estate tax system by treating different heirs equitably according to their ability to pay, although it may encourage tax evasion and impose higher administrative costs. A few countries, like Japan and France, employ the estate tax system, taxing the entire estate before distribution, which simplifies taxation and reduces administrative costs but lacks consideration for the relational proximity between the heir and the deceased [7]. Only a couple of countries, Iran, and Italy, use a mixed inheritance tax system, which aims to prevent tax evasion and ensure tax fairness by taxing the same estate twice, although this approach can complicate the taxation process and potentially lead to double taxation.

4 Potential and Impact of Implementing Property and Inheritance Taxes in China

The potential implementation of property and inheritance taxes in China necessitates a comprehensive analysis, considering policy signals, national circumstances, policy objectives, societal acceptance, and anticipated effects.

4.1 Property Tax Implementation Feasibility and Impact:

Towards a Comprehensive Property Tax System: Policy Signals and Pilot Outcomes.

The feasibility of property tax implementation in China is underpinned by clear policy signals from the government. Since 2011, pilot property tax programs have been initiated in cities like Shanghai and Chongqing, with the property tax legislation included in the legislative planning of the 12th and 13th National People's Congress Standing Committees. This indicates a governmental inclination towards advancing the comprehensive implementation of property tax across the nation, with the feasibility hinging on the outcomes of these pilots and subsequent policy evaluations.

China's context for implementing property tax traces back to the housing reform in 1998, which saw the housing market's rapid development and soaring prices, amplifying asset bubble risks and homeownership costs. In response, the Chinese government has enacted several regulatory measures, viewing property tax as a long-term mechanism to curb speculative investments and promote healthy market development. The introduction of property tax aims to alleviate reliance on land sales for fiscal revenue, encouraging a diversified fiscal revenue system and regulating the real estate market to promote equitable property resource distribution.

Economic and Social Dimensions of Property Taxation.

Economic Impact.

As Zhang and Fan indicate, their analysis using microdata from Shanghai (a pilot city) revealed that property tax significantly curbs speculative housing investments [8] It provides local governments with a new stable tax source, reducing dependency on central government transfers and enhancing fiscal self-sufficiency. The imposition of property tax could make renting more attractive, potentially invigorating the rental market.

Social Impact.

Implementing property tax could narrow the wealth gap by taxing high-value properties. However, it may increase the tax burden for residents with multiple properties, especially in first-tier cities, necessitating a gradual societal acceptance build-up, particularly against the backdrop of already high housing prices.

4.2 Inheritance Tax Implementation Feasibility and Impact

Assessing the Feasibility of Inheritance Tax in China.

The urgency of implementing inheritance tax in China stems from the need to ease social tensions, ensure fair wealth distribution among all societal actors, and perfect the modern tax system, promoting social equity through tax fairness. China's tax system, primarily based on indirect taxes, differs significantly from the direct tax-focused systems of developed countries. Introducing inheritance tax, a direct and significant property tax source, remains uninitiated, highlighting the need to establish a comprehensive property tax system and refine China's tax regime.

According to Yu et al., China has a substantial tax base for inheritance tax, mainly targeting high-net-worth individuals [5]. With a large population and wealth amount among high-net-worth families, as reported in the "2020 Hurun Wealth Report," China provides a solid foundation for inheritance tax collection. The mature status of inheritance tax globally suggests that China can draw from international experiences. However, traditional concepts of familial inheritance may affect societal acceptance, requiring government mediation.

The Broader Impact of Inheritance Tax on Wealth Redistribution.

If carried out, as per the insights of Xie and Yao, inheritance tax could alter wealth transfer techniques, prompting wealthy families to look for alternative wealth management and inheritance strategies [9]. It may also impact intake and cost savings behaviors due to increased unpredictability over future property rights. Socially, as a progressive tax, estate tax works as a tool for changing wealth distribution, possibly substantially affecting family businesses, specifically those needing significant funds for succession.

5 Expanded Policy Recommendations

5.1 Proposals for the implementation of property tax in China

Fully considering the impact of tax burden and advancing in a gradual manner.

Sun utilized the difference-in-differences method to evaluate the overall effect of this policy on the per capita disposable income of residents, along with conducting robustness tests [10]. Empirical research indicates that implementing the current policy for the collection of property taxes on personal general residences is likely to have a negative impact on the average income of urban residents, with a specific magnitude of around 3 percentage points. Furthermore, since 2022, the domestic situation of recurring pandemics has significantly impacted the employment scenario, leading to a decline in residents' income expectations. Initiating reforms in personal property tax collection under such gloomy circumstances is likely to cause resident dissatisfaction. Therefore, in the process of promoting the expansion of property tax reform, it is necessary to judiciously assess the situation to mitigate the impact of reforms on the living burdens of residents, adopting strategies such as the gradual implementation of taxes and area-based exemption policies.

Grant local governments a certain degree of tax autonomy.

While taxes and fees related to real estate ownership are nominally managed as local taxes, in essence, the authority to legislate and interpret these taxes is firmly held by the central government, leaving local governments, as implementers of the system, with minimal power. Given the varying economic development conditions and tax compensation requirements across different regions, the state should delegate some powers to local authorities when formulating tax policies. Local governments could then develop corresponding tax systems based on the local real estate development trends, fiscal deficit conditions, and residents' capacity to bear taxes. This approach would highlight the principal role of property tax as a local tax and better serve the development of the local economy [6].

Improve the real estate valuation system.

Currently, the valuation system in China is relatively backward compared to developed countries with mature property tax regimes, which operate in conjunction with sophisticated assessment systems. To accurately determine the value of properties based on factors such as location, age of the property, and accessibility to transportation, developed countries regularly assess the value of taxable properties, taking into account a variety of factors including size, geographic location, orientation, condition, and the level of surrounding infrastructure. China should adopt this practice to ensure a more accurate and fair property valuation system [11].

5.2 Suggestions for China's Internship Inheritance Tax

Establishment of small-scale pilots.

Based on the Monte Carlo simulation estimates conducted by Huang, Huo and Zhang, the government could consider levying inheritance tax at an appropriate time. Narrowing the wealth gap and achieving common prosperity for all people have become a consensus across society [12]. Regardless of how the system elements such as exemption thresholds and tax rates are designed, all simulated tax schemes can effectively reduce the wealth Gini coefficient. Initially, a pilot program could be launched on a small scale, with consideration for expanding the scope depending on the operational effectiveness of the system.

Adopt a Progressive Tax Structure.

In the selection of tax rate forms, there are primarily two types: proportional tax rates and progressive tax rates. Comparatively, the use of proportional tax rates simplifies the method of levy, focusing more on the principle of tax efficiency. On the other hand, progressive tax rates have a stronger regulatory effect, embody the principle of ability-to-pay taxation, and place greater emphasis on the principle of tax equity. The primary objective of levying inheritance tax in China is to narrow the wealth gap, and progressive tax rates better reflect the fairness of taxation, facilitating the role of taxes in redistributing wealth [4]. Carrying out such a structure requires cautious calibration to set thresholds and rates that show the economic truths and wealth circulation within China, guaranteeing they are equitable and do not stifle financial development.

Implement Targeted Exemptions.

According to the Huang et al. 's Monte Carlo simulation estimates, a lower exemption threshold can lead to a lower wealth Gini coefficient, but policy outcomes of schemes with higher exemption thresholds are more stable [12]. The redistributive effect of taxing approximately 3% of the population is superior to that of schemes taxing about 2%, 1%, or 0.5% of the population; the redistributive effect of taxing the 0.5% population exhibits greater stability [12]. When the exemption threshold is set at 4 million yuan, under six schemes of progressive tax rates, the wealth Gini coefficient decreases annually from the first to the tenth year of taxation [12]. Germany's model offers a blueprint for creating exemptions that protect middle-income households from excessive monetary strain. By excusing main homes and family services from inheritance taxes, the policy can prevent the potential disturbance of household incomes and the forced sale of acquired properties to pay tax liabilities. These targeted exemptions need to be carefully structured to avoid creating loopholes for tax evasion, ensuring that they serve their desired function of securing economically vulnerable families while preserving the tax's stability as a tool for wealth redistribution.

6 Conclusion

The execution of property and estate tax stands as a critical step for promoting wealth redistribution and fiscal equity. This research study has actually brightened the complex characteristics of these taxes, their administration, and their effect on social and financial structures. Internationally, varying approaches to home and inheritance taxation reflect diverse policy objectives and social worth. In China, the exploration of residential or commercial property and inheritance taxes through pilot programs and theoretical conversations highlights the nation's careful yet forward-looking stance towards fiscal reform. The findings suggest that while difficulties such as appraisal difficulties, administrative complexities, and societal acceptance persist, the prospective advantages in regard to wealth redistribution, economic stability, and social equity are compelling. Future research study must focus on the long-lasting effects of these taxes on property markets, inheritance practices, and the broader objective of decreasing wealth inequality. Policymakers are encouraged to think about the lessons gained from global experiences, adjust them to local contexts, and pursue a well-balanced method to taxation that aligns with broader economic and social objectives.

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