



Reform and Improvement of China's Property Tax System

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Abstract. China's property tax reform follows a phased "pilot - legislation - re-fined pilot" path. But coordination among multiple parties is challenging, and differences in institutional design slow progress. As a key part of the fiscal system, the reform must adhere to tax - optimization rules, fit socio - economic development, and fix structural issues. In China's new development stage, growing income inequality has made the redistributive role of taxation a focus. This study analyzes property tax reform from the perspective of wealth distribution, to clarify its regulatory function and support improvements to the tax system. Analysis reveals three key systemic flaws: (1) structural imbalance between excessive transaction taxes and insufficient holding taxes; (2) overlapping levies and inequitable burden distribution; and (3) suboptimal institutional design. To address these, we propose: (1) streamlining transaction-phase taxes (e.g., reducing Cultivated Land Occupation Tax); (2) increasing holding-phase tax ratios; (3) establishing market-value-based assessments; and (4) implementing broad-based progressive taxation.

Keywords: Property tax reform; Policy recommendations; Income distribution

1 Introduction

As an emerging economy, China attracts global investors. Scarce land resources have increased in value, making real estate a popular investment due to capital gains potential and a vibrant lending market. The real estate sector's growth has spurred related industries like construction, finance, and consumer goods, making it an economic pillar. To regulate the real estate market and reduce local governments' land - finance dependence, property tax reform is necessary. During China's 14th Five-Year Plan socioeconomic transformation, property tax has become a key policy for resource allocation and income distribution. Its reform impacts macroeconomic regulation, economic quality, and social stability, highlighting its growing strategic importance in the new era^[1].

2 Institutional Evolution and Current Practices

2.1 Reform Status

China's Gini coefficient hit 0.47 in 2022, placing it in the "high inequality" range (0.4 - 0.5) by UNDP standards. This highlights the need to optimize income distribution to boost consumption, crucial for the new development paradigm. With real estate being the main form of household wealth, property tax's regulatory role is vital. As part of direct taxation, it can use progressive rates to address income tax's limits in wealth redistribution and promote social equity^[2]. Property tax reform aims to raise revenue, adjust income distribution, and improve resource use. Despite diverse approaches, its legislation remains a key concern. Current reform efforts focus on five areas: expanding taxpayers, widening the tax base, adjusting rates, modifying assessment criteria, and decentralizing fiscal power to local governments^[3].

Comparative research shows that in most countries like the US, Canada, the UK, and Australia, property taxes are mainly local taxes, crucial for municipal revenues. In OECD countries, property taxes averaged 5.61% of total tax revenue in 2018, yet they form the core of local finances. In 2017, US local governments got \$509 billion from property taxes, about 30% of their general budget. Many countries let local areas decide key property tax elements. For example, US states vary tax rates and exemptions, Japanese cities set tax bases, and UK local authorities set annual council tax rates.

In most jurisdictions—including the U.S., South Korea, Mexico, Argentina, Japan, Brazil, Canada, and Germany—property tax liability falls exclusively on legal owners. Some nations, however, extend taxpayer status to occupants or beneficiaries. Italy's rights-based system exemplifies this approach, imposing municipal taxes not only on titleholders but also on usufructuaries and beneficiaries (when no owner or usufructuary exists).

International practices regarding tax bases demonstrate considerable diversity. Most nations employ assessed market values as primary calculation benchmarks, while alternatives persist: Russia and Mexico use cadastral values, whereas India's property tax and the UK's rates system incorporate rental income. Recent reforms increasingly prioritize assessment methodology improvements, responding to the challenge of accurately capturing dynamic property values through conventional valuation approaches^[4].

2.2 Evolutionary Trends

Comparative analysis reveals that modern property tax regimes universally adhere to the principle of taxation according to capacity, achieving equitable burden distribution and income redistribution through differentiated rate structures coupled with exemptions. Key manifestations include: Progressive rate schedules tailored to property values, with geographical adjustments (e.g., urban vs. suburban differentials). Exemption policies for public-benefit properties (Russia, Germany, France, India) and vulnerable groups—notably civil servants, pensioners, and military personnel whose

properties are exempted when representing their sole income source (e.g., Mexico's practice).

3 Challenges in Property Tax Reform

3.1 Multiple Taxes and Imbalanced Tax Structure

China currently maintains ten distinct tax categories related to real estate, covering all phases of property development and management. This multiplicity not only creates duplicate taxation but also increases collection costs while reducing efficiency. Such duplicate taxation violates the principle of tax neutrality, adversely affecting business operations across market entities^[5]. China's current property tax system exhibits a pronounced "transaction-heavy, holding-light" structural characteristic. The holding phase only imposes two taxes - Property Tax and Urban Land Use Tax - with significantly low overall tax burdens. This design creates two major issues: (1) insufficient holding costs fail to curb property vacancy rates; and (2) concentrated transaction taxes elevate deal costs, indirectly driving up housing prices. In 2022, taxes from the holding phase totaled 581.6 billion yuan, yet accounted for merely 3.48% of national tax revenue (narrow-caliber statistics).

3.2 Tax Base and Rate Design

Both Property Tax and Urban Land Use Tax employ limited calculation methods: Property Tax uses either ad valorem (based on historical cost) or rental income approaches. The ad valorem method fails to reflect dynamic market value changes, creating disconnection between tax bases and actual asset values, thereby constraining revenue growth potential. Urban Land Use Tax applies specific taxation based on fixed area measurements, completely disregarding land value appreciation from economic development. This static approach severely misaligns with market value fluctuations of land resources. The uniform property tax rates across regions contradict the correspondence principle in fiscal decentralization theory, given China's significant regional economic disparities and spatial variations in human capital endowments^[6]. This uniformity undermines tax equity objectives.

4 Policy Recommendations

4.1 Streamlining Property Tax Categories

As urban and rural residents' housing debt eases and the housing market supply - demand balance improves (shown by better price - income ratios and lower affordability stress), taxpayers' capacity rises. We suggest cutting transaction - stage taxes like Cultivated Land Occupation Tax, Land Appreciation Tax, and Deed Tax in property development and sales, and expanding holding - stage property taxes^[7]. This will optimize the tax structure and boost fiscal sustainability.

4.2 Increasing Holding-Phase Taxation

China's property tax revenue primarily derives from two phases: development/sales (Cultivated Land Occupation Tax, Land Appreciation Tax, Deed Tax) and holding (Urban Land Use Tax, Property Tax). These five major taxes collectively contribute over 10% of national tax revenue (12.76% in 2020; 11.51% in 2022). However, the tax structure remains heavily skewed toward the transaction phase, accounting for 9.59% (2020) and 8.03% (2022) respectively, while the holding phase represents less than 3.5% (3.48% in 2022). This structural imbalance suggests that future reforms to enhance holding-phase property taxes should be accompanied by corresponding reductions in transaction-phase tax burdens to prevent overall tax pressure increases.

4.3 Improving Market-Value-Based Assessment

In the process of formulating subsequent pilot programs for property tax reform, it is imperative to prioritize the establishment of a scientific and rational property valuation mechanism. This necessitates the development of a corresponding property assessment system by relevant authorities^[8]. A balanced approach could be adopted where the central government provides unified guidelines on valuation methodologies and procedures, while allowing regional flexibility to accommodate local circumstances.

To enhance the fairness and transparency of property tax base assessments, local governments should take the lead in establishing specialized property valuation agencies that maintain relative fiscal and administrative independence. Concurrently, a regular data-sharing mechanism should be implemented between valuation departments and tax authorities to enable real-time synchronization of property valuation information, thereby ensuring both accuracy and timeliness in tax collection and administration.

This integrated approach combines centralized standardization with localized implementation while maintaining necessary checks and balances through institutional independence and inter-agency coordination. The proposed framework aims to create a robust valuation system that supports effective property tax reform while addressing regional disparities and ensuring administrative efficiency^[9].

4.4 Implement a Broad - Base Progressive Tax System

In the specific design of the property tax system, it is recommended to adopt a flexible tax rate mechanism—setting a floating range for tax rates (e.g., 0.5%-3%)—allowing local governments to autonomously determine the applicable rate based on local economic development levels, residents' payment capacity, and real estate market conditions. To enhance tax fairness, the progressive tax rate model of personal income tax may be referenced, implementing differentiated taxation according to housing attributes^[10].

4.5 Building a Fair and Reasonable Tax Base Assessment Mechanism

Tax base assessment is crucial for tax fairness and influences taxpayer compliance. Drawing from international experience and China's specific context, market-value-based ad valorem taxation represents a generally accepted approach. This method aligns with market economy principles by capturing property appreciation driven by economic growth, thereby serving to rebalance income distribution to some extent.

With regard to assessment cycles, authorities may consider a five-year cycle given the substantial costs involved. In terms of methodology, digital tools should be enhanced to control expenses through a hybrid approach combining mass appraisal with individual assessments, prioritizing market-based approaches while supplementing them with cost and income methods. Drawing on international experience, real estate could be zoned with tiered valuation—using land value as the base price for zoning in China—with benchmark unit prices adjusted by transaction cases and housing indices. This establishes property-specific valuations via commercial housing comparisons.

For urban village housing, assessments may integrate rental levels and representative transactions to correlate values with commercial properties. Dormitories and company-built housing should follow commercial valuation if market-tradable, or adopt urban village methods if trade-restricted; cost approaches may apply in less developed central/western regions constrained by market maturity or data limitations. Institutionally, specialized bodies such as a Tax Base Assessment Committee should be established—guided by the principle of separating tax collection from valuation—to coordinate multi-stakeholder efforts. The committee would develop standards, supervise processes, conduct reassessments, resolve disputes, and commission qualified third-party assessors, leveraging Shanghai/Chongqing pilot experience and global models to integrate governmental and societal resources.

5 Conclusions

The significance of property taxes within the tax systems of countries worldwide exhibits substantial variation, with their proportion ranging from less than 1% to over 10% of total tax revenue. Compared to the average level among OECD countries, China's current property tax revenue—which includes urban land use tax and real estate tax—accounts for a notably smaller share of overall tax income. It is worth emphasizing that the bulk of China's property tax revenue is derived from commercial and industrial real estate, while taxation on residential properties remains relatively limited. Given the disproportionately high share of housing assets in the wealth structure of both urban and rural residents, property taxes possess considerable potential for future revenue growth.

However, the extent to which this potential can be realized will depend on multiple critical factors. These include the benefit principle of taxation (i.e., whether taxpayers perceive a direct link between the taxes paid and public services received), the affordability of property taxes for residents at both the acquisition and ownership stages, and the broader structural design of the tax system. For instance, if property taxes are

perceived as an excessive burden without corresponding improvements in local infrastructure or public services, compliance and public acceptance may decline. Conversely, a well-calibrated tax system that aligns with economic conditions and taxpayer capacity could unlock substantial revenue while maintaining social equity.

Thus, while property taxes in China hold significant promise as a sustainable revenue source, their successful implementation requires careful balancing of fiscal objectives, taxpayer fairness, and macroeconomic stability. Policymakers must consider regional disparities in housing affordability, potential impacts on real estate markets, and the need for complementary reforms—such as adjustments to existing land finance mechanisms—to ensure long-term viability.

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