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Property Tax and Assessment News from Around the World

CHINA – June 2021

CONTENTS

China regulators hold meeting discussing property tax

China's property market quickly regained strength last year after the coronavirus crisis. A consistent rise in house prices in bigger cities, now spilling over into smaller ones, has raised concerns about financial risk and overheating.

China's regulators on Tuesday held a meeting on the reform and trial work of property tax, which is widely seen as a powerful tool to curb rampant speculation in the housing market.

Government entities including the finance ministry, housing ministry and taxation administration solicited opinions from representatives from some cities, experts and scholars on the pilot work of implementing the real estate tax, the Ministry of Finance said in a statement on its website.

The ministry did not further elaborate on the specifics of the meeting.

China's property market quickly regained strength last year after the coronavirus crisis. A consistent rise in house prices in bigger cities, now spilling over into smaller ones, has raised concerns about financial risk and overheating.

The finance ministry spokesperson said last month that China will proactively and stably push forward with property tax legislation and reform, leading to share price drops in Chinese real estate developers.

In March, China omitted mention of property tax in its 2021 legislative plan for a second consecutive year as the government focuses on boosting consumption to cement an economic rebound. The legislation remains in the country's economic development plan for 2021-2025.

China property: tax authorities' enhanced oversight of land-sale revenue seen as 'mixed bag', and runaway prices may **drop**

- New means of collecting revenue from land sales in China aims to help central authorities better trace the flow of funds and defuse debt risks at local levels
- Move means developers will have 'less financial flexibility' in buying land

A new plan that will require land-sale revenue in China to be paid to and managed by tax authorities rather than local-level land departments will be a “mixed bag for China property”, according to analysts, as Beijing moves to stabilise runaway home prices and defuse local financial risks.

The revamped collection method, which will allow central authorities to better trace the flow of funds, will be rolled out in a pilot programme from July 1 in seven regions, including Shanghai, Inner Mongolia, Zhejiang, Hebei and Yunnan. And it will be extended nationwide from next year.

The arrangement will force property developers to make land-purchase payments directly to tax bureaus instead of land agencies, thus making it harder for local authorities to play with the funds, such as by using them to shore up indebted local government financing vehicles (LGFVs).

Money in tax administration accounts are generally under the central government’s oversight, and thus off-limits for local cadres to use directly. However, the new set-up does not change the fact that land-sale revenue still belongs to local governments, and Beijing will not take a cut.

The move follows last month’s symposium on work related to real estate tax reform and reflects the central government’s determination to both deflate the property bubble and tackle local implicit debt piles, which could be even higher than the confirmed size of 26 trillion yuan (US$4.06 trillion), the analysts said following last week’s announcement by the Ministry of Finance.

Citing the “mixed bag” implications, Raymond Cheng, head of Hong Kong and China research at CGS-CIMB Securities, said that land prices could be eased in the medium to long term, while a strict implementation of the new policy “will prevent developers from delaying payment of land premiums in the future by negotiating with local governments”.

“This means that developers will have less financial flexibility [in terms of] buying land,” he said.

Meanwhile, Cheng said, “local governments [will] have no big incentive to maintain the high land price policy going forward, which is currently one of the key sources for local governments’ spending. Under this new policy, local governments will have much less room to manage and to misuse those land revenues”.

On the surface, the move will not weaken local financial strength, with revenue from land sales still going to local coffers. However, it will give Beijing a better way to look into the data and get to the root of local financial problems.

“There will be no future for a local reliance on land sales. It’s unsustainable. Therefore, it is necessary to lower its proportion in fiscal revenues,” said Wen Laicheng, a finance professor at Central University of Finance and Economics in Beijing.

Land-sale revenue in China is now a major source of local off-budget revenue, with the value nearly tripling in the past decade to 8.4 trillion yuan (US$1.31 trillion).

Additionally, financing vehicles with deteriorating financial positions have been ordered to restructure or even liquidate, according to budget-management regulations released in early April.

“The central government will be able to obtain real-time data on local fiscal strength, which will help coordinate nationwide fiscal resources with transfer payments,” according to Shenwan Hongyuan Securities’ assessment on the medium-term implications, released on Monday.

And Peng Wensheng, chief economist at China International Capital Corporation, also said the new compliance measures will help curb refunding practices and accordingly affect land prices and the cash flow of local government financing vehicles.

“We foresee fewer irregular practices, which may help prevent inflated land prices in some local government areas,” he wrote in a research note.

As it strives to curb property speculation and runaway home prices, China's leadership has taken steps that include wide-reaching purchase restrictions, mortgage restraints, financial requirements on developers, and affordable-housing programmes.

Nevertheless, second-hand home prices of tier-one cities such as Beijing rose 11.3 per cent in April, year on year, while those in tier-two cities rose 3.4 per cent, according to government data.

Land revenue is largely used to compensate property owners who have been subject to land expropriation, housing demolition, groundwork and maintenance – measures that are usually undertaken by financing vehicles or state-owned enterprises. Some of the land revenue is also used to repay debts and improve rural infrastructures, as shown in some local budget reports.

Ivan Chung, a senior analyst with Moody's Investors Service, said investors are turning away from LGFVs in less-developed provinces, particularly those with high exposure to the land market. "The regulation will pose a new challenge," he added.

SINGAPORE

Iras giving 0.5 month rent relief cash payout to 50,000-plus property tax accounts

The scheme aims to help retailers and SMEs tide over the latest Covid-19 restrictions.

Eligible tenants under some 50,000 property tax accounts of qualifying commercial properties are expected to receive a half-month rental relief cash payout directly as part of the new rental support scheme announced last week.

The scheme aims to help retailers and small and medium-sized enterprises (SMEs) tide over the latest Covid-19 restrictions.

The Inland Revenue Authority of Singapore (Iras) told The Straits Times on Thursday (June 3) that it "expects the number of qualifying tenants and owner-occupiers to be similar to last year, where we disbursed the cash grant to about 50,000 property tax accounts for qualifying commercial properties".

One property tax account may contain more than one property.

Many retailers that have suffered a massive drop in sales amid the restrictions in place from May 16 to June 13 have cheered the Government's announcement of rental relief and increased wage support.

But some say more landlords could do more.

Rental relief will be offered to SMEs and non-profit organisations with an annual revenue of not more than $100 million that are tenants of qualifying commercial properties. It is part of an $800 million support package announced by Finance Minister Lawrence Wong last week.

The payout, which will be disbursed from mid-August, is computed based on the latest contractual gross rent from May 14 to May 29. Iras said this would include gross turnover rent, maintenance fees and charges that tenants pay for the provision of services, such as cleaning and security.

Some industry players say this method of computation is fairer as it takes into account maintenance fees and other fees that tenants pay as part of gross rent. They also welcomed the fact that most qualifying tenants will receive the cash payout automatically without having to apply.

But they noted that the 0.5-month payout is still less than four months of base rent waivers given last year. And this year, landlords are not mandated to match the government payout.

As a result, many have not done so despite the Government's urging, they added.

Mr Logan Wong, founder of Pure Senses and a member of the Fair Tenancy Industry Committee, said: "When the previous rent reliefs were announced last year, many tenants initially thought these were based on gross rents, not base rents. That was one source of unhappiness between the landlords and tenants, because tenants felt they were getting less relief."

Under the enhanced Covid-19 (Temporary Measures) (Amendment) Act last year, eligible tenants and sub-tenants in the food and beverage and commercial sectors enjoyed four months of waiver of base rent from April to July 2020 - two months each from the Government and the landlord.

This was as long as their leases were in force on April 1, 2020. Base rent excludes any gross turnover payable, maintenance fees and charges for services such as cleaning and security.

Even though some landlords have offered help before last week's announcement, at least one retailer at Jurong Point said her landlord is still reviewing whether to give them rent relief.

Ms Shermaine Wee, founder of gifts and stationery shop Klosh, said she has seen a 50 per cent drop in sales since the heightened restrictions last month, and had been in talks to extend her lease at Jurong Point until Dec 31 this year. Her current lease ends on June 30.

"We didn't commit to another long-term lease because of the uncertain situation. But the landlord rejected our request for a temporary extension," she said. She said she was told by the landlord that they are "will need time to review tenants' sales before we can reach out to those who will be adversely affected during this period".

"We have been at Jurong Point since 2009. This is not the way to treat a long-time tenant. There should be some goodwill also," Ms Wee said.

Meanwhile, City Developments has granted a 50 per cent waiver of net rent for the majority of its tenants and a 100 per cent gross rental waiver for those under mandated closure and who cannot operate online from May 16 to 13 June.

"Close to 90 per cent of our retail tenants will be granted such waivers, in addition to rent restructuring for some whose businesses are still badly affected in the first half this year and rental payment flexibility for those facing cash flow issues," CDL said.

Ms Valerie Wong, general manager of asset management at GuocoLand, said "the extended tenant support will be calibrated in a measured approach to meet the business needs of each tenant".

CapitaLand said it has provided its retailers whose operations are impacted by the measures with rental rebates, rental restructuring and operational support to continue sales through its online platforms eCapitaMall and Capita3Eats.

"For those who are mandated to close, such as tenants of Westgate and Jewel Changi Airport or providers of personal care services where masks are not worn, we have offered them rental waivers during the closure period," it said.