



CHINA – July 2022

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The question “Why have so many incidents been revealed in Henan recently?” by user “Qiandatong” on China’s largest online discussion site Zhihu was posted on July 11. Censors deleted it three days later. However, within just three days, it received more than 12,000 likes. According to the analysis, the final reason is that the regime gets most of its revenue from land sales. The editorial board of China News Center commented, “Finally, land finance has come to an end. The fact that foreign capital has fled from China, it’s just that domestic websites dare not report it.”

According to the analysis by Qiandatong and posted on Zhihu, for local governments in China and Europe or the United States, the most significant source of income is from land.

It is just that China relies on land transfer fees, while the West relies on property taxes.

People pay for land-use rights, and the government charges fees to provide people with better living facilities.

But there is one crucial difference: In China, the land transfer fee paid by new homebuyers is a one-time payment, accounting for about 70% of the house price. However, residents’ property taxes in Europe and the United States are only about 1% to 3% of the property value annually.

Two problems arise: Many people in China do not pay taxes or very little and yet get better living conditions.

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For example, households who had their house demolished were later allocated a better one in a new construction built on their old land. As a result, homes bought for just tens of thousands of yuan in the 1990s have now grown to be worth several million. They hardly bear the burden of taxes, but they have much better living conditions because of their luck and vision.

For example, in tier 1 cities, locals with a monthly salary of several thousand yuan live in the tens-of-million school districts. This is impossible in Europe and the United States because they cannot afford annual property taxes.

In other words, New home buyers will pay taxes to all residents in the area. Many low-skilled indigenous people in big cities should thank the new residents. Without them buying houses and paying taxes, how would old residents be able to enjoy amenities such as subways, elevated highways, hospitals, schools, etc?.

Precisely because there are fewer taxpayers, and the amount of tax collected cannot be small, the one-time tax payment can only increase. Therefore, the new house price will undoubtedly be sky high. It has to be high enough to generate enough tax to be able to invest in the corresponding support.

This is also the core reason real estate prices in China are always extremely high.

The land transfer fee is a one-time payment, and if the regime wants to get a lot of income from land, it requires the continuous purchase of new houses. That's why local authority agencies in China are keen to develop so-called new city zones on the outskirts of cities.

Since authorities cannot demolish old cities, it will be better to allocate resources for new cities. After new cities' lands are tendered, local authorities can collect money to continue building other new cities.

But this kind of selling will one day end. So the Chinese real estate bubble started to burst, resulting in the housing market having a large inventory.

Qiandatong commented that the failure of rural banks in Henan is also related to the real estate market. There are no homebuyers, so real estate companies do not dare to accept land; therefore, authorities have no revenue. But the salaries of civil servants must be paid; cities still need to be built, and hospitals and schools need repairing. So, from where does the money come?

They immediately set their eyes on rural banks' money.

According to Qiandatong, first, local banks will lend money to urban zones building investment companies to receive land for projects. Still, the collateral is real estate projects,

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so the authorities will collect taxes to continue building infrastructure and paying employees. However, the buildings often have high prices, poor quality, and a poor general environment. So the houses cannot be sold. As a result, the buildings, one by one, begin to be incomplete.

Rural banks are also in danger of default when they cannot be sold.

Therefore, as this situation started to become common, with the construction of buildings suspended and local banks running out of money, they were all linked together.

It is why real estate projects in Zhengzhou and cities like Henan, in general, are not completed. Then, a few years later, rural banks start not allowing people to withdraw money.