

The impact of land transfer fee Reform on local fiscal revenue and expenditure: A case study of Anhui Province in China

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Abstract

As an important source of fiscal revenue, land transfer fee has always provided an important guarantee for local construction. However, in recent years, local government's excessive reliance on land revenue has also produced many drawbacks. The reform of land transfer fee is just a norm of behavior, and its impact on local fiscal revenue and expenditure still needs in-depth study. In this paper, the cities of Anhui Province as an example, through the interview survey and data retrieval methods continue to follow up the reform of the local land revenue and expenditure situation, and through the collection of Anhui Province's financial revenue and expenditure data made into a table for analysis and trend forecast; Finally, by contacting the relationship among the subjects of various projects, this paper analyzes the impact of China's transfer fee reform and puts forward suggestions. At the same time, it makes an extended analysis of its relationship with the real estate tax to help modernize the financial system.

Keywords

Land transfer fee, reform, local finance, real estate tax.

1. Citation

In recent years, land transfer fees have become an important force in China's local economic construction and development. However, due to the small capacity of local supervision and restraint, the utilization efficiency of this income is not high, and the behavior of unpaid payment occurs in many places. There are also problems in the code of conduct of many local governments, and there are contradictions in the management of land revenue and expenditure. In order to further standardize the use of land transfer fee, the reform of land transfer fee officially entered the pilot stage in May 2021. Behind the changes in local economic development, land finance and other related fields reflected by the reform is its deep impact on the standardization of local financial revenue and expenditure management. In this context, according to the changes brought by the reform, this paper puts forward new theoretical suggestions to help the reform and development. The research idea of this paper is divided into five parts, and the structure is arranged as follows:

The first part of the introduction: First summed up the specific content of the land transfer fee reform, for this paper to build a demonstration background. Secondly, the purpose and significance of this paper are introduced. By citing the different reflections and opinions of the society before and after the reform, the evaluation and research of experts, the problems in the collection and management of land transfer fee income and its use before the reform are obtained, as well as the solutions after the reform. At last, the paper puts forward the research ideas and methods for the connection between the reform and the local financial revenue and expenditure management system.

The second part is in-depth history and analysis of the current situation: First of all, by elaborating the historical change course of land transfer fee, explore the trend behind its system change, view the change of land transfer fee from central land sharing to tax sharing reform from the perspective of development, deeply analyze the impact of land transfer fee reform in different periods, and then draw out the most noteworthy points of this reform. This paper analyzes its influence on the local government's fiscal expenditure management, the relationship between the central government and the local government, the social related industries and fields, and finally puts forward the significance of the current research.

The third part of empirical analysis: under the condition of a large number of previous studies and data analysis, this paper starts to focus on the impact of land transfer revenue reform on local financial revenue and expenditure management system, and finally draws relevant conclusions through historical trends, relevant research and evaluation, and survey data collation.

Part IV Conclusions and Suggestions: This paper is mainly an overall overview of the paper, and under the conclusion of clarifying the impact of land transfer fee reform on the local financial revenue and expenditure system, it summarizes the problems, analyzes the trend, and puts forward feasible suggestions for further optimization of land transfer fee reform and policy opinions on the standardization of local financial expenditure system, so as to inject new theoretical blood and put forward prospects for the modernization of China's financial system.

The fifth part of the extended analysis: mainly for the reform of land transfer fees in recent years, all kinds of scholars have been bound to the real estate tax issue. This issue has always been an important research topic in the current development of China's tax system. After analyzing the relevant issues of land transfer fee reform, this paper will also analyze the correlation between the two.

2. Introduction

2.1. Historical background analysis of the land transfer fee system

As an important source of local fiscal revenue, land transfer fee has certain rules in its historical development. First of all, we need to clarify what the land transfer fee is. Land transfer fee is the income price obtained by the local governments at all levels through the transfer of the use right of state-owned land. The price of land is mainly affected by region, environment and use. But in general, land sales are a very handsome income. Looking back at the history of China, in the early years of the founding of the People's Republic of China, the country has been through the implementation of free land distribution system. What can be associated here is the behavior of early workers to "divide the house". Obviously, this system could not bring the government a large income, and with the increase of population and the needs of economic development, this system was gradually abandoned by history, followed by the relevant reform of the land system. In 1987, the land grant system gradually took shape. In Shenzhen City, the first pilot bid auction of state-owned land use rights through the way of bidding. This reform has better promoted the balance of resources allocation of Chinese fiscal revenue and expenditure, and also provided a boost for the urbanization construction of pilot areas. However, it is worth noting that the revenue generated from this reform is still shared by the central and local governments, and the autonomy of local governments to use this revenue is not flexible. And in 1994, ushered in China's financial history more shocking tax sharing reform. This reform continues the previous reform content of Shenzhen, but the biggest change is the allocation of state-owned land transfer fees to local governments. This initiative has undoubtedly provided a rich source of revenue for local governments. Since then, the proceeds from the auction of state-owned land use rights for local governments will go to local governments, and the central government will no longer participate in the share. The reform

also represents the formal establishment of our country's land finance system. It's a piece of history to remember. After tax distribution reform, although we have made some adjustments and improvements to the land finance system, the overall change is not big. The land finance system of our country is developing steadily and scientifically.

After reviewing history, let's look at the present situation. In the recent development process, land transfer fees have become the most abundant source of financial revenue for local governments. According to the "implementation of Bengbu's 2020 fiscal budget and 2021 budget plan", this year Bengbu will receive 11.5 billion yuan from state-owned land transfer fees, accounting for about 84% of its government-managed fund revenue. It can be seen from this that the income from land transfer fees is of great importance to local governments. According to the development of various parts of Anhui in recent years, the land transfer fee income of various governments is constantly rising. Taking Bengbu City of Anhui Province as an example, according to the relevant disclosure information released by the Finance Bureau, the state-owned land use right transfer fee income is about 5.945 billion yuan in 2018, 10.13 billion yuan in 2019 and 11.5 billion yuan in 2020. The overall situation is stable and improving. This also reflects the local government's increasing dependence on land transfer revenue. It has played a huge role in stabilizing local fiscal revenue and expenditure, maintaining local infrastructure construction and promoting social and economic development. However, as mentioned above, excessive dependence on land transfer fees will also cause many negative effects. For example, inefficient use of funds, inducing real estate bubbles, debt risks and so on. It is against this background that the relevant reform Notice in May 2021 was also timely released, with the main purpose of better regulating the balance of local land fiscal revenue and expenditure and scientific and reasonable development.

3. The core concern of land transfer fee reform

The biggest change of the land transfer fee reform is the change of the main body of the expropriation department. The original department of natural resources was changed to the Department of Taxation. However, it needs to be emphasized that the ownership of land finance has not changed. In other words, local governments are still important users of land finance. The division of land transfer fees between the central and local governments has not changed. At the same time, it is worth noting that this circular is not out of nowhere. As early as 2018, China issued a related document titled Reform of the State Tax and Local Tax Collection and Administration System. Can be said to be a preview of the reform. In this document, the goal of convenience and efficiency is clearly put forward, and the related responsibilities of non-tax revenue are also divided into the scope of the tax department. This can better promote the reasonable and proper use of relevant income. The circular is a continuation of reforms that were issued in 2018.

3.1. Transformation of land transfer fee management and collection departments

Combined with the relevant "Notice" issued in 2021, it is obvious that the most noteworthy changes in this reform are the changes in management and collection departments. It was primarily the department of natural resources that was converted into the department of taxation. Before this reform, the income from land transfer fees has always been managed and collected by local financial departments, and can also be operated through land resources departments in a more specific process. The main process is for the land and resources department to sign contracts with land bidders. Land bidders are then required to pay the money to the local Treasury in time as required by the contract. Finally, the land and resources department will provide information to the local finance department, review the application, and give the land use certificate to the land bidder. However, since the reform, the specific

administrative collection department will be changed to the tax department. However, it should be stressed that the relevant departments still fulfill their responsibilities, but in the collection of the link to the tax department.

3.2. The end user of land transfer proceeds has not changed

Although the reform has changed the income management of relevant departments to a large extent. But the most important users of income have not changed much. Revenue from land transfer fees will still be used by local governments. But before use, you need to declare with the corresponding tax authorities. In this "notice" also clearly put forward this provision, that is, the government non-tax revenue still in accordance with the current provisions to continue. Therefore, the impact of this reform has not greatly changed the difference between the central and local governments in this revenue, and the relevant rights of local governments have not been weakened. However, changes have occurred in the process of collection and management.

3.3. There are traces of relevant reform contents

The main object of this reform is still non-tax income. By transferring this income to the tax department for collection and management, it can further promote the efficiency and security of the use of funds. At the same time, it can better promote the overall management ability of local governments and make more scientific and reasonable policies. But it is worth noting that similar elements of this reform can be seen in other reforms before it. For example, in 2019 the state transferred many non-tax revenues, such as funds for major water projects and renewable energy, to the tax authorities. At the same time in 2020 some regions and cities social insurance expenses also began to have this trend. Many changes to the collection process of non-tax income are already common, so this reform is also expected. The advantage of switching to the tax department is that it will make the revenue more transparent and simplify the process. This reform to promote the modernization of our fiscal management has a tremendous promoting function.

4. The local impact of the reform

According to the above analysis, we can find that this reform only changes the collection process, but has no significant impact on the government's relevant rights and the use of funds. However, with the deepening of reform and the strengthening of supervision capacity, the subsequent use of land transfer fees will be more transparent and standardized, and relevant government policies will be more reasonable and scientific. The background of this paper is one year after the reform of land transfer fee. At present, the land fiscal revenue of Anhui Province still shows a trend of continuous growth.

4.1. Rights remain unchanged, but supervision is strengthened

With the further development of the reform, the tax department will play a greater role in the management of land transfer fees, mainly because the tax department can collect and manage land transfer fees more transparently and openly. At the same time, although it has been emphasized that local governments' right to use land transfer fees has not been weakened, before the reform, local governments' income from the use of land transfer fees has been in a relatively vague environment. In some areas, there are cases of delayed levy, false levy and illegal levy before return. However, due to the low correlation between the tax department and the local government, the tax department is relatively independent, so it can better help the government to rationally use funds. Effectively control the government's dependence on the income from land transfer fees, prevent debt risks, and further optimize the balance of real estate finance.

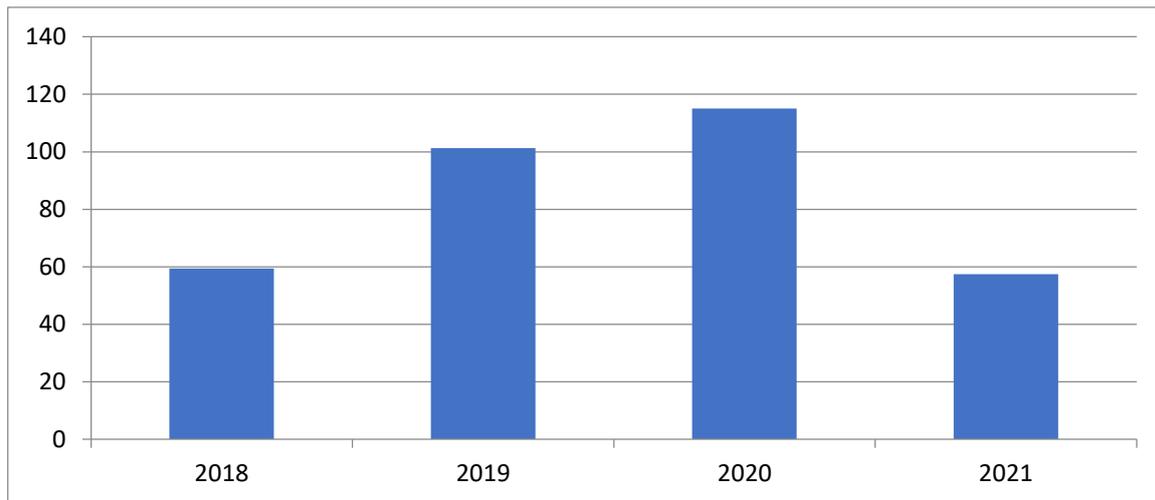


Figure 1: Land transfer fee income of Bengbu City, Anhui Province (Source: Finance Bureau)

4.2. Optimize the real estate market

At present, the reform did not immediately change the relevant pattern of the real estate market, and the impact is small. However, taking a long-term view, with the optimization of the management mechanism, the income of the government for land transfer fees will be smaller and smaller in the later period. Therefore, compared with non-tax revenue, direct tax will become the focus of local governments. Therefore, the recently popular real estate tax and inheritance tax will be promoted in an orderly manner under this reform, which will promote the development of China's tax system. In addition, the change of the collection department can also better strengthen the tax department's understanding of the real estate market around the country, and further promote the supervision of this kind of market, which is of great significance for improving the top-level design of the real estate long-term mechanism.

4.3. Strengthen the supervision of urban investment companies

The reform of land transfer fee can further strengthen the supervision of urban investment company and promote its reduction of chaos. In view of the current situation, many local governments have illegal behaviors with the city investment company, such as illegal injection of funds into the city investment company, and these illegal measures will induce a lot of debt risks, and cause great harm to the local finance, especially the land finance management, and increase the risk. With the transfer of the collection department to the tax department, it can better strengthen the supervision of local governments and urban investment companies' violations and reduce the occurrence of such behaviors.

This reform is not only a further optimization of the land transfer system, but also an important measure for the modernization of financial revenue and expenditure management in China. It not only better strengthens the importance of direct tax in local finance, but also better solves the chaos, promotes the sound and reasonable development of local finance in China, and promotes the complementary development between the real economy and the cities

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