

PROPERTY TAXES AND FEES – A TALE OF TWO CITIES

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ABSTRACT

Housing affordability is a concern around the world. Australia and China have different political systems. The former has a western democratic system, while the latter has a communist/socialist system. Despite the difference in political ideology and economy, the people in both countries are complaining about the high property prices problem. There are many factors for high property prices. High property taxes and fees are alleged to be a major suspect for causing high property prices. The paper examines the property taxes and fees for residential developments in these two countries. Sydney in Australia and Wuhan in China are chosen as case study cities. The property taxes and fees in these two cities are examined and compared. It is found that property taxes and fees account for a substantial portion of property prices in both cities. Housing affordability can be enhanced if the relevant governments are determined to reduce the amount of property taxes and fees.

Keywords: Housing affordability, property prices, property fees, taxes

INTRODUCTION

Housing is one of the basic needs of people (Peardon, 2008; Easton Town Council, 2010). Yet it is also one of the major social and political problems in all countries. Obviously, countries with bigger population have more demand for housing. Housing problems not only face populous countries, like China (Klein, 2010; Ding & Knaap, 2003), India (Baxi, 2010; Khurana, 2005) and USA (Desmond, 2009; Ranghelli, 2005), but also countries with relatively smaller population, such as Australia (Burke, 2008; Zappone, 2010), New Zealand (Butler, Williams, Tukuitonga & Paterson, 2003; Bates & Kane, 2005) and Singapore (Addae-Dapaah & Wong, 2001; Chew, 2009). There are many factors for housing problems, such as population growth, land supply, economy, interest rate, employment opportunity, income level, availability of

finance, capacity of the construction industry, government regulations and policies, property taxes and fees (Feldman, 2002; Duncan, 2008; Hensarling, 2009; Power, 2007).

Property taxes and fees are financial burdens imposed by a government on property developers, owners and/or occupants (Wisegeek, 2010). Property taxes and fees are levied for a number of reasons, including raising income for government, for public purpose, for provision of infrastructure to a development/community, or even for land use planning (Needham, 2000). Charges for funding infrastructure for a particular development or community is known as 'Infrastructure Contributions' in Australia (UDIA, 2003 & 2008), 'Infrastructure Charges' in the UK (Hodge & Cameron, 1989), 'Development Impact Fees' in the USA (Skaburskis, 1990) and under various names in China.

In this paper, property taxes and fees for residential developments in Australia and China are studied. Two case study cities, Sydney in Australia and Wuhan in China, are chosen for examination. Through the study, it is expected to find out the similarities and differences in property taxes and fees in countries with different levels of economic development and political systems. The issue of equity of property taxes and fees is not covered in this paper. The findings of this study are based on two cities only and are by no means exhaustive.

PROPERTY TAXES AND FEES IN AUSTRALIA: FOCUS ON SYDNEY

Australia is thought to be a lucky country by many people. However, housing affordability in Australia is surprisingly in a poor condition. *The 5th Annual Demographia International Housing Affordability Survey 2009* reports that there are 64 "severely unaffordable housing markets" in the countries surveyed; and Australia accounts for 24 of them (Cox & Pavletich, 2009). The appalling condition, to a substantial extent, is caused by property taxes and fees. The following quotes highlight the problem:

"Australia is perhaps the least densely populated major country in the world, but state governments there have contrived to drive land prices in major urban areas to very high levels, with the result that in that country, housing in major state capitals has become severely unaffordable, with Median Multiples of eight in Sydney and seven in Melbourne" (Cox & Pavletich, 2008);

"It is hard to believe that between 20 and 35 per cent of the purchase price for a new house and land package is indirect taxes" (HIA, 2003);

and

“Government continues to divest itself of cost and risk. Cost and risk is shifted from the federal to state level, from the state to local level and from all three levels to the initial new homebuyer (via the developer), whilst the GST collected during the development process accumulates consolidated revenue for the Commonwealth” (UDIA, 2008).

It can be seen that property taxes and fees are a big issue in Australia. At the federal government level, the taxes affecting property development include Income Tax, Capital Gain Tax (CGT), and Goods and Services Tax (GST); these taxes apply throughout the country. Individuals and companies are subjected to different income tax rates. Personal income tax is collected on a progressive rate basis, while company tax is at a fixed rate. Historically, the highest personal income tax marginal rate was at 75% in 1951 and company tax at 49% in 1986 (Reinhardt & Steel, 2006). Today, the tax rates have been reduced to 15% - 45% plus Medicare Levy of 1.5% for personal income tax (ATO, 2010a) and 30% for company tax (ATO, 2010b).

CGT, implemented on 19 September 1985, is a tax on the capital gain made on disposal of any asset. For properties acquired after 21 September 1999, the taxpayer may pay tax on half of the capital gain made on disposal. The tax is charged at the marginal tax rate of an individual taxpayer and at company tax rate of 30% for companies and corporations (Prince, 2008). If the land is sold not as an asset but for profit in the business of trading in property, like the business of a developer, then CGT is not payable. The profits are subject to normal income tax. For casual developers, the sale of land may be regarded as a disposal of an asset and CGT applies.

GST is a consumption tax introduced on 1 July 2000. It is generally calculated at 10% of the selling price of the real estate; the cost is eventually passed on to the buyer under the contract (Blake Dawson & JLL, 2008). As far as residential properties are concerned, it is the sale of new properties that is subject to GST. The sale of pre-owned properties is free from GST (ATO, 2010c; Prince, 2008).

Land tax and stamp duties are collected by the state or territory government. In NSW where Sydney is situated, land tax is based on the unimproved value of the land. The charge is \$100 (US\$90) plus 1.6% of the land value between the threshold (A\$376,000 or US\$338,400) and the premium rate threshold (A\$2,299,000 or US\$2,009,100) and 2% thereafter (OSR NSW, 2010).

In NSW, stamp duties are payable for transfer of a dutiable property. The rate of duty is charged on a progressive scale. If the property value involved is more than A\$1 million (US\$900,000), which is the case of the majority of residential developments,

the top rate is payable at A\$40,490 (US\$36,440) plus A\$5.50 (US\$4.95) for every A\$100 (US\$90), or part, by which the dutiable value exceeds A\$1 million (US\$900,000) (OSR NSW, 2009).

All local level, council rates are levied by local councils to provide and maintain infrastructure and for the running of the local government. The rates again differ in different states and local government areas. In NSW, the standard rate is pegged to 2.6% by the state government. Individual councils may apply for approval to levy rates above the standard figure. For example, in July 2010, approval was given to allow several local councils to increase the rate to between 9.25% - 10.5% (ABC News, 2010).

The revenue from property taxes in recent years is shown in Table 1 below. Clearly the state governments have the largest share of property revenue.

Table 1: Revenue from property taxes

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m	\$m
Commonwealth government						
Taxes on property	13	14	14	15	15	16
State governments						
Taxes on property	16 690	16 046	16 911	19 865	20 967	16 986
Local governments						
Taxes on property	7 671	8 183	8 726	9 404	10 128	10 874
All levels of government						
Taxes on property	24 366	24 235	25 643	29 274	31 075	27 834

Source: ABS, 2009 (Note: Exchange rate: A\$1 = US\$0.90)

In addition to property taxes, developers need to pay infrastructure contributions to local and state governments. Except for federal taxes, there are no uniform rates for other property taxes and fees in the country. Development land in Australia is mainly in private ownership, and the government gets very little revenue from land sales. However, the government is blamed for pushing up land price because of the urban consolidation policy and the tardiness in releasing greenfield land for development via zoning or rezoning, in addition to the high property taxes and fees (UDIA, 2008).

Sydney

Sydney is the largest city in Australia, although it is not the capital of the country. Its urban area covers 1,687 km². The 2006 census reported that about 3.65 million

residents lived in the urban area; Inner Sydney was the most densely populated place in Australia with 4,023 inhabitants per km² (Wikipedia, 2009a).

Sydney is the commercial and financial centre in Australia and provides about 25% of the GDP in the country. The Australian Securities Exchange, the Reserve Bank of Australia and the headquarters of 90 banks are located in Sydney. More than half of Australia's top companies, and the regional headquarters for around 500 multinational corporations are also established in Sydney. There are 6 public universities in Sydney, including the Sydney University, which was the oldest university in Australia (Wikipedia, 2009a).

The 5th Annual Demographia International Housing Affordability Survey 2009 reports that Sydney is one of the 'severely unaffordable housing markets' with a median multiple of 8.3 (Cox & Pavletich, 2009). The median house price as at April 2010 was A\$641,000 (about US\$576,900) (Chancellor, 2010).

In regard to property taxes and fees in Sydney, HIA (2003) has identified the charges shown in Table 2.

Table 2: Fees, taxes and charges on new residential development in Sydney

Land Development	Building
Developer Infrastructure Contributions: <ul style="list-style-type: none"> - Major Roads - Drainage - Public Open Space - Sewer and Water Headworks - Recycled Water - Community Facilities - Roads and Transport Levy - Stormwater Retention - Land Restoration Clearance Fees <ul style="list-style-type: none"> - Water Corporation - Council - Land Titles Office - Electricity - Development Assessment Commissioner GST on Development Costs	Council Fees and Charges: <ul style="list-style-type: none"> - Building Permit Levy - Training Levy - Kerb Deposit - Water Corporation - Development Application Fees - Long Service Leave Levy - Compulsory Home Warranty Insurance GST

Source: HIA, 2003

It should be noted that Table 2 does not include charges for council rates, stamp duties and land tax and State Infrastructure Contributions.

The Developer Infrastructure Contributions are also known as 'Section 94 contribution'. Local councils are authorised by section 94 and 94A of the Environmental Planning and Assessment Act 1979 to levy contributions to provide, maintain and enhance amenity and service delivery within the area. Each local council

may prepare contribution plans that it thinks fit. Table 3 shows an example of part of a contribution plan for residential development in the City of Sydney local government area.

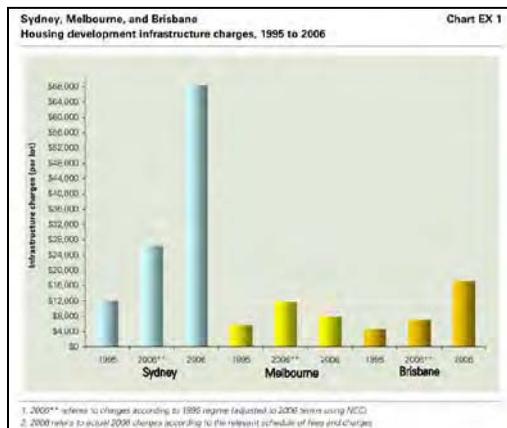
Table 3: Western precinct summary contributions rates

Contribution Type	Per Resident	Per Worker	Bedsits & One bedroom dwellings	Two bedroom dwellings	Three or more Bedroom dwellings	Residents of a Non-Private Dwelling*
Community Facilities	\$524.40	\$104.88	\$681.72	\$996.36	\$1,363.44	\$274.91
Public Domain	\$748.45	\$149.69	\$972.98	\$1,422.05	\$1,945.96	\$748.45
New Open Space	\$6,144.52	\$1,228.90	\$7,987.88	\$11,674.60	\$15,975.76	\$6,144.52
Accessibility	\$61.43	\$12.29	\$79.86	\$116.72	\$159.72	\$61.43
Management	\$66.42	\$13.28	\$86.35	\$126.20	\$172.69	\$66.42
Total	\$7,545.22	\$1,509.04	\$9,808.79	\$14,335.93	\$19,617.57	\$7,295.73

Source: City of Sydney, 2006

Apart from local council’s infrastructure contributions, developers also need to pay State Infrastructure Contributions which cover recovery of train, road, bus subsidies, land for education, health and emergency service facilities, conservation and planning delivery. The State Infrastructure Contributions apply to the growth centres in Sydney and a few other prescribed areas. The infrastructure levies can amount to \$66,000 or about 30% of the sale price for a single vacant block of land that is zoned for residential development (DoP, 2008). In fact, Sydney has the highest infrastructure charge among the major cities in Australia (see Figure 1).

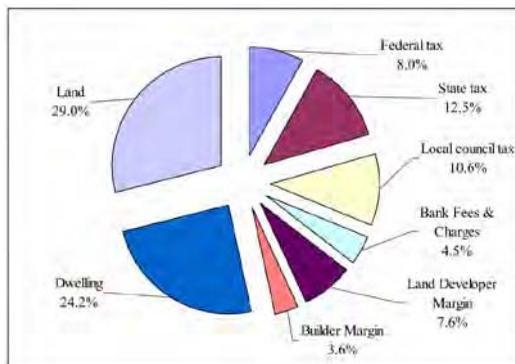
Figure 1: Comparison of infrastructure charges



Source: Urbis, 2006

Coupled with the federal taxes, land tax, and stamp duties, etc., the total cost of property taxes and fees amounts to 20% – 35% of house price (HIA, 2003), and is eventually passed on to home purchasers. Figure 2 shows the various components of a typical new house and land package in a large Sydney greenfield development.

Figure 2: Components of house price in Sydney



Source: HIA, 2003

PROPERTY TAXES AND FEES IN CHINA: FOCUS ON WUHAN

Property taxes and fees in China are collected by the central and local governments. All property taxes go to the central government, while all property fees go to the local governments. Taxes are prescribed by law and apply uniformly across the country. There are 14 property taxes in China (State Council Development Institute, 2005). Ten of them (listed below) are payable for property developments, and account for about 15% of house prices (Zhu, 2008):

1. Business Tax
2. City Land Use Tax (for local investment enterprises only)
3. City Maintenance Construction Tax
4. City Property Tax (for foreign investment enterprises only)
5. Corporate Income Tax
6. Cultivated Land Occupation Tax
7. Education Fee Addition
8. Land Capital Gain Tax
9. Property Tax (for local investment enterprises only)
10. Title Deed Tax

Unlike taxes which are prescribed by law, property fees are imposed by local governments as they think fit. Property fees are an important source of revenue and local governments are willing to introduce new fees to increase revenue. In the extreme case, there are over 100 items of property fees in certain cities (Zhao, 2009). The large number of fees makes it difficult for local governments to name new fees, some of them simply charge a bizarre fee known as the “unforeseen fee” (Jia, 2008). On average, there are over 50 items of property taxes and fees levied by 25 government departments. The various fees account for about 15 – 20% of the house price (Zhu, 2008). Altogether, property taxes and fees account for at least 30% of the total house price (Feng, 2009).

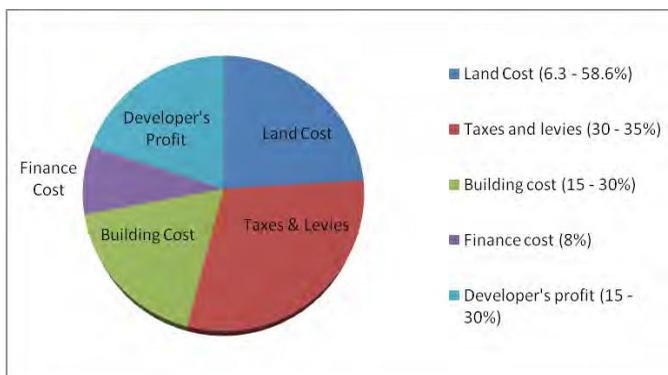
In China, the state owns all urban land, and rural collectives own all rural land. Rural land needs to be converted into construction land by the urban government before developments can commence. The conversion process involves compulsory acquisition of the rural land and rezoning it for the relevant redevelopment (Chan, 1999). After the conversion, the land becomes state land. The relevant urban government then transfers the land use rights (LURs) to developers for various developments after the payment of a ‘LURs transfer fee’.

The LURs transfer fee is the major revenue for the local governments. People in China often treat the LURs transfer fee as part of the property taxes and fees. Since it is actually the land cost rather than property taxes and fees, it is excluded from the study in this paper. According to a recent survey of 620 residential development projects throughout the country conducted by the State Land Ministry, land cost ranges from 5.3% to 58.6%, with an average of 23.6%, of house price (Wu, 2009).

On the whole, the LURs transfer fee, in conjunction with various property taxes and fees, constitutes a substantial portion of the total revenue of local governments. For example, in 2007, the Chongqing government collected over RMB 40 billion from property taxes and fees, more than 50% of the city government’s total revenue in the year (Zhou, 2008).

Other components of house price include construction cost (about 15% - 30%), developer’s profit about (10% - 40%), and finance cost (about 8%) (Jia, 2008; Modern Express News, 2007). Based on the above information, the components of the house price in China could roughly be presented as per Figure 3.

Figure 3: Components of house prices in China



Obviously, property taxes and fees on the whole have the largest share of the house price. Wuhan is the chosen case study city in China and the property taxes and fees there are cited for analysis.

Wuhan city

Wuhan is the capital city of the Hebei Province. It lies at the east of Jiangnan Plain, and the intersection of the middle reaches of the Yangtze and Han River. It is the most populous city in central China. The city's land area is 8,494km², supporting a population of about 8.5 million.

Wuhan is strategically located with equidistance of 1000km from other major cities such as Beijing, Shanghai, Guangzhou and Xi'an. It is well known as the "thoroughfare of nine provinces" for having dozens of railways, roads and expressways passing through the city (Wuhan City Government, 2009).

Wuhan is an important functional centre for economy, trade, finance, transportation, information and technology, and education in Central China. There are 52 higher educational institutions including Wuhan University and Huazhong University of Science & Technology in the city. It has modern manufacturing industry, with optoelectronic information and automobile manufacture as the key components. Steel manufacturing, new pharmaceutical sector, biology engineering, new material industry, environmental protection are also major components. Big enterprises such as the Wuhan Iron & Steel (Group) Co. and Dongfeng-Citroen Automobile Co., Ltd are in this city (Wikipedia, 2009b). The outstanding performance in the optical industry has earned the city the name "Optical Valley of China". Wuhan is now the largest laser equipment production base in China and is the third largest optical fibre producer

in the world. It is also among the top 5 in the world in optoelectronic R&D capability (JLL, 2007).

In terms of city competitiveness, Wuhan was ranked No.10 in competitiveness of scale in the “China’s City Competitiveness Report No. 5” (GUPC, 2007). The GDP in 2008 was ranked No. 13 out of 337 cities in the country at RMB396 billion (about US\$58 billion) (TJCN, 2009). It is identified by JLL (2009) as one of the 15 tier-2 cities among 40 rising urban stars in the country. Table 4 provides a snapshot of property prices and rents in Wuhan; figures from Shanghai are also included for comparison.

Table 4: Real estate prices and rents in Wuhan and Shanghai

City	High end residential price (US\$/m ²)	Grade office rent (US\$/m ² p.a.)	Retail rent (US\$/m ² p.a.)
Wuhan	8,957	99	615
Shanghai	10,809	326	2,713

Source: DTZ Research, 2010(a) & (b)

From the above figures, it can be seen that property prices and rents in Wuhan are only a fraction of those in Shanghai. However, it does not mean that there are less property taxes and fees in Wuhan; in fact, there are 57 items of property taxes and fees for property development in the city; see Table 5.

The large number of property taxes and fees worries not only foreign investors, but also local investors. While property taxes have a legal background, property fees are introduced entirely at the discretion of local governments. While a substantial number of the fees is based on legitimate reasons, others are less obvious. A quick look at Table 5 reveals that some items are, however, either irrelevant to property development or overlapped.

For example, the Health Supervision and Epidemic Prevention Fee, Garbage Services Fee, Termites Prevention Fee, Commercial Concrete Transactions Service Fee, Unpacked Cement Special Funding, Provision of Street Lighting Fee, Different Land Greening Fee, Local Education Development Fee, Non-staple Food Prices Balancing Fund, Embankment Works Construction and Maintenance Management Fees should not be charged at all; as they are not related to property development or that the services are within the normal duties of the government.

Besides the irrelevant items, there are a number of overlaps among the fees. For instance, the Project Quality Supervision Fee and Project Quality Supervision and Management Fee, Safety Technical Services Fee and Construction Safety

Technological Services Fee, Education Fee Addition and Education Development Fee, etc. are overlapped items.

Table 5: Wuhan city real estate development taxes and fees

	Tax/fee name
Preliminary stage fees:	Land Use Approval Fee
	Newly Acquired Land Survey Fee
	Town Planning Inquiry Fee
	Land Registration Agency Fee
	City Infrastructure connection Compensation Fee
	File Management Services Fee
	Wall Materials Development Special Fund
	Public Fire Fighting connection Fee
	Safety Technical Services Fee
	Removal of Old Civic Defence Facility Compensation
	Civic Defence Reconstruction on Different Land Fee
	Coordinates Demarcation Fee
	Planning Red Lines Positioning and Examination Fee
	Health Supervision and Epidemic Prevention Fee
	Examination of Project Documents Fee
	Examination of Construction Design Plan Fee
	Examination of Earthquake Resistance Design Fee
Construction stage fees:	Garbage Services Fee
	Termites Prevention Fee
	Comprehensive Development Industry Management Fee
	Project Quality Supervision Fee
	Construction Works Examination and Testing Fee
	Examination of Project Cost Fee
	Project Quality Supervision and Management Fee
	Construction Tender Transaction Services Fee
	Commercial Concrete Transactions Service Fee
	Unpacked Cement Special Fund
	Construction Contract Endorsement Fee
	Provision of Residential District Street Lighting Fee
	Road Excavation Restoration Fee
	Roads Occupation Fee
Environmental Impact Assessment Fee; Environmental Monitoring Fee, etc.	
Noise Prevention Fee	
Sewage Disposal Fee	
Different Land Greening Fee	

	Construction Safety Technological Services Fee
Final stage:	Property Management Commencement Fund
	Residential Estate Property Owners Committee Accommodation
	Property Management Business Use Accommodation
	Building Survey Fee
Tax:	Land Use Tax
	Cultivated Land Occupation Tax
	Stamp Duty
	Income Tax
	Property Tax
	Use of Vehicles and Ships Tax
	Local Education Development Fee
	Land Capital Gain Tax
Real estate transaction taxes and fees	Business Tax
	City Maintenance Construction Tax
	Education Fee Addition
	Embankment Works Construction and Maintenance Management Fee
	Non-staple Food Prices Balancing Fund
	Education Development Fee
	Stamp Duty on determined price
	Title Deed Tax

Source: Adapted from Changfengyaguo, 2008.

The charging of large amount of taxes and fees easily leads to the allegation that they are introduced out of the greed of the government. While the allegation may have some basis, it does not point to the core of the problem. The main reasons are that local governments are only able to raise small amount of revenue via other channels. Taxes and fees on property development are found to be a convenient tool to raise large amounts of revenue.

There is one drawback to raise revenue via property taxes and fees in China, because they are one off payments made during the development process. Under the current property taxation system, there is no requirement for the payment of an annual ad valorem tax such as council rates, land tax or property tax. The lacking of a recurring income from property forces local governments to continue charging high LURs transfer fees, taxes and fees from property development to raise revenue for running the government and providing necessary services and infrastructure.

In addition to the above, there is a lack of effective control and/or supervision from the central government or the public. Regarding public supervision, it should be noted that it is non-existent in China at the moment.

COMPARISON OF PROPERTY TAXES AND FEES IN AUSTRALIA AND CHINA

From the above, it can be seen that both Australia and China impose heavy taxes and fees on residential property development. In comparison, China has more items of property taxes and fees than Australia. The property taxes levied by the Chinese central government are higher, 15% versus 8% by the Australian federal government. Table 6 contrasts the property taxes in both countries.

Table 6: Property taxes in both countries

China	Tax rate	Australia national level	Tax rate
Business tax	5% of real estate sales turnover	-	-
City land use tax	RMB 0.5 – 10/m ² x taxable land area	-	-
City maintenance construction tax	7% of Business Tax payment	-	-
City property tax	Annually 1.2% of standard property value, 1.8% of standard land value, etc.	-	-
Corporate income tax	25% of taxable income	Company Tax	30% of taxable income
Cultivated land occupation tax	Actual area occupied x prescribed standard tax rate from RMB1 – 10/m ²	-	-
Education fee addition	3% of Business Tax payment	-	-
Land capital gain tax	Progressive rates at 30%, 40%, 50%, & 60%	Capital Gain Tax	Individual taxpayers pay tax at their marginal tax rate and companies pay tax at company

			tax rate of 30%. Tax not payable if the sale of property is in the business of trading in property.
Property tax	1.2% of remaining value of property	-	-
Title deed tax	3% – 5% of transaction price	-	-
Stamp duty	5% of transaction price paid by both parties	-	-
-	-	Goods and Services Tax	10% of sale price
State Level			
-	-	Land Tax	Differs from state to state. In NSW, the charge is 1.6% or 2% depending on the value of the property.
		Stamp Duties	Differs from state to state. In NSW, the charge ranges from 1.25% to a top rate of 5.5%
Local Level			
-	-	Council Rates	Differs from state to state. In NSW, the standard rate is 2.6%. Upon application, individual councils may be allowed to charge rates above the standard rate.

Developers in Australia and China are subject to Capital Gain Tax. Unlike their Chinese counterparts, Australian developers do not pay Capital Gain Tax if they are in a business of trading in property; they need only to pay the normal Company Tax. China does not have a Goods and Services Tax. In Australian, GST and Company Tax have a major impact on developers (Karantonis, 2007).

Business Tax is unique to China. It is a tax on the proceeds of property transactions. It is a ‘double-dip’, as developers are required to pay Corporate Income Tax as well. All other taxes in column 1 of Table 6 are unique to China.

China has separate property taxes for domestic developers and foreign developers; i.e. local developers pay Property Tax and City Land Use Tax, whereas foreign developers only need to pay City Property Tax. Australia does not have a separate property tax for foreign developers.

As for property fees, China clearly has the largest number. The large number of charges is levied by 25 government departments, far more than those in Australia. The income from the large number of property fees outweighs the property taxes. In Wuhan, the ratio is 20% versus 15% of house price. In contrast, the state and local charges in Sydney account for about 23%, whereas the federal tax accounts for 8%. Altogether, property taxes and fees in Sydney account for about 31% of the house price, which is slightly lower than the 35% charged in Wuhan. There is one thing in common in both cities, i.e., most of the property fees are required to be pre-paid, adding extra problems to the cash flow of developers.

China does not have a local council administration system. The fees listed in Table 5 therefore apply to the whole of Wuhan City covering an area of about 8,500km². In contrast, the Sydney metropolitan area has 38 local councils; each of which has its own infrastructure contribution plans, and developers have to make sure that they clearly understand the provisions of the plans. Developers in Wuhan, however, enjoy the simplicity of having uniform charges across the city. In Sydney, property fees are prescribed on contribution plans. By referring to the contribution plans, developers know how much to pay for a development in a particular council area. In Wuhan, a number of the charges are based on agreement and are negotiable. There is less certainty for developers.

CHANGES TO REDUCE THE BURDENS

People in both case study cities blame high property taxes and fees for being a cause for high property prices. In Sydney, property taxes and fees can be up to A\$150,000 (US\$135,000) per block of resident land. The condition is so bad that some developers even threaten to stop developing because they cannot sell properties at the resultant high price (Chesterton, 2007). In response to the negative public opinion, the NSW state government has taken the following steps to reduce the fees:

- increase the state government's contribution towards infrastructure;
- allow payment of state levies to occur before the transfer of title from the developer to the purchaser;
- for the provision of infrastructure as works in kind through developer agreements, the developer will receive an infrastructure levy credit which can be used to offset future contributions, or be traded to other developers.

- councils are limited to charging a maximum contribution of A\$20,000 (US\$18,000) per dwelling unless approved by the Minister for Planning for a higher contribution.

(DoP, 2008)

In China, the central government realises the pressing need to reform the property taxation system. So far, no concrete steps have been taken in this regard. There are only rumours that action will be taken shortly. For example, there is a plan to impose uniform property taxes for both domestic and foreign developers.

CONCLUSION

Property taxes and fees are an important source of revenue to the governments disregarding the political system. The high property taxes and fees verify that there is a policy in both countries to pass on the duty of providing services and infrastructure to new home purchasers. An examination of the charges in the case study cities reveals that the levies account for over 1/3 of house prices. While people may complain about the great tax/fee grab that contributes to high house prices, it is unrealistic to believe that if the relevant governments were to remove the property taxes and fees, then house prices would drop by 1/3. Nevertheless, a substantial reduction in charges may help in stabilising house prices or at least in slowing down the pace of price escalation. It will certainly contribute to enhancing housing affordability.

In regard to reducing property taxes and fees, public opinion is an important consideration to a democratically elected government. It has seen the NSW state government taking steps to reduce the charges. Although the changes may not please everybody, it is an important step in the right direction. In contrast, there is great discontent among the Chinese people; yet there are still more talk than action in China.

While it may be true that the governments are greedy and there is a lack of effective control and supervision of property taxes and fees, the major problem in China is the over reliance on land sales, property taxes and fees to raise revenue. Local governments need a recurring revenue to run the government and to provide various services and infrastructure. At present, after purchasing the property, owners have no legal duty to pay any annual ad valorem property tax or fees like council rates and land tax in other countries. Since the recurring revenue is not available, local governments have no alternatives but to continue relying on land sales, property development taxes and fees to raise revenue.

While an annual ad valorem property tax base may be the way forward, China at present simply lacks the establishment of a reliable property valuation framework to support the new property taxation system. Besides, the government needs to face the resistance from existing property owners who claim that they have already paid their share via the high tax and fee contents of the property price. The central government cannot simply order local governments to reduce the charges without giving them other means to raise the necessary revenue. Until there is a satisfactory reform to the land taxation system, the problems in China are going to continue in the foreseeable future.

The findings of this study are based on two cities only and are by no means exhaustive. When conditions permit, a larger scale of study should be conducted to derive more conclusive findings.

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