

Suggestions on Further Deepening the Special Additional Deduction of Personal Income Tax on Housing Loan Interest

Minxuan Zhong^{1, a}, and Pengyun Wang^{2, b}

¹ School of finance and public economics, Shanxi University of Finance and Economics, Taiyuan, China

² School of finance, Shanxi University of Finance and Economics, Taiyuan, China

^asophiezhong123@163.com, ^b1732915054@qq.com

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Abstract: Housing is the rigid demand of contemporary young people, but housing prices remain high, and housing expenditure accounts for a large proportion of household consumption expenditure. This article analyzes the current status of housing loans, combines the interest deduction standards for housing loans under the newly revised Individual Income Tax Law, and points out the significance of implementing this measure. Finally, according to the housing loan interest deduction system in South Korea, Japan, Singapore and the United States, combined with China's national conditions, put forward suggestions for the future reform of personal income tax housing loan interest deduction.

1. Research Background

According to data from the China Bureau of Statistics, in 2019, the per capita consumption expenditure of residents nationwide was 21,559 yuan, of which per capita consumption expenditure was 5055 yuan, an increase of 8.8%, accounting for 23.4% of the per capita consumption expenditure. It can be seen that housing expenditure accounts for an important proportion of household consumption expenditure.

China has a tradition of “living and living in peace” since ancient times, and housing has become a rigid demand of many people, especially young people. However, in recent years, house prices have remained high, and house purchase expenditures have accounted for a large portion of household expenditures, but also crowded out other consumption. The "New Personal Income Tax Law", which came into effect on January 1, 2019, increased the exemption amount and increased six special additional deductions for housing loan interest. Increasing the special deduction of interest on home loans will help reduce the tax burden on home buyers.

2. The Status of Housing Loans

House prices remain high, especially in first- and second-tier cities. Most people buy a home with a loan. Housing loans can be divided into commercial loans and provident fund loans according to their sources. This article collected the personal loan of China's housing provident fund from 2014 to 2018, as shown in the following table. From Table 1, it can be seen that since 2015, the personal housing loan rate has exceeded 80%, and it can be seen that China's residents have great pressure to repay. Since the peak of lending in 2016, it has declined in the past two years, but still exceeds 2.5 million.

Table 1: National Housing Provident Fund Individual Housing Loans

Time	Number of loans (ten thousand)	Loan disbursement (100 million yuan)	Total loans (100 million yuan)	Personal housing loan rate (%)
2014	222.51	6593.02	42245.30	68.89
2015	312.50	11082.63	53349.74	80.80
2016	327.49	12701.71	66061.33	88.84
2017	254.76	9534.85	75602.83	87.27

2018	252.58	10218.53	85821.32	86.04
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Data source: Ministry of Housing, Urban and Rural Construction

3. Personal income tax housing loan interest current standards

According to the newly revised "Personal Income Tax Law of the People's Republic of China", the taxpayer himself or his spouse uses a commercial bank or housing provident fund for personal housing loans for himself or his spouse to purchase housing in China. The interest is deducted in accordance with the standard monthly rate of 1,000 yuan, and the deduction period does not exceed 20 years. And taxpayers can only enjoy interest deduction for the first home loan once.

The first home loan occurred when the couple purchased the house separately before marriage, and the loan interest expenses. After the marriage, one of the houses purchased can be selected by the buyer according to the deduction standard of 100%. Deduct 50% of the deduction standard.

The current special supplementary deduction for personal income tax on housing loan interest is to allow the deduction of taxable income on the interest payments on housing loans by a fixed amount to reduce personal income tax, which is a tax-based deduction.

4. Significance of special additional deductions for housing loan interest

With the development of China's economy, the level of personal salary and family income has gradually increased. The old personal income tax law can no longer meet the actual needs. The newly revised personal income tax law is an important measure based on China's current national conditions. Under the current "tax and fee reduction" background, it is of great significance to stimulate domestic demand and liberate consumption potential.

Alleviate the tax burden on taxpayers who purchase the first home on loan. With the development of modernization and urbanization, the working class has gradually grown, which has also brought about an increase in demand for housing. A special additional deduction of interest on housing loans will be implemented to reduce the financial burden on families buying first homes, increase the disposable expenditure of residents, and stimulate consumption. It can also help China's economic development and help people realize the needs of a better life.

As it can only deduct the interest expenses of the first home of the family, it is not an investment house, which can alleviate the excessive investment and consumption in the current real estate, promote the realization of the "house is used to live" concept, and help stabilize the price of the real estate market .

The fixed deduction of interest on housing loans not only reflects the fairness of taxation, but also is relatively simple in collection, reflecting the efficiency of collection. Considering the heterogeneity of taxpayers, the cost of living is different between taxpayers who need to repay their home loans and those who don't. The special deduction reflects the vertical fairness of taxation.

Increasing the special additional deduction for housing loan interest is conducive to improving the personal and family information of taxpayers, improving the corresponding property, real estate and income sources of taxpayers, and fostering the consciousness of declaration and tax payment. Conducive to optimizing the personal income tax system, and promote China's transition from turnover tax as the main body to the transition from income tax to the main body.

5. International experience

With the development of China's economy, people's housing expenditure has become an important part of Chinese household expenditure. Although the personal income tax exemption has been increased and six special additional deductions have been added, there are shortcomings in the way of deduction.

The following has selected Korea, Japan, Singapore, and the United States to deduct interest on personal income tax on home loan interest.

Individual tax deduction for housing in Korea: Allowance for housing loans is allowed to deduct

40% of the borrowing amount (including interest) (with a ceiling of 720,000 won), with an annual limit of 3 million won; for mortgage loans over 15 years, the annual interest limit 15 million won.

Japan's housing loan: It is deducted from personal income tax. The deductible tax amount is the product of the remaining amount of the housing loan at the end of the year and the credit rate.

Singapore: There are two types of deductions for housing loan interest in Singapore. The tax deduction is based on the purpose of the home purchased. When the house is used for rent, the loan interest expense can be deducted from the rental income, and when used for other purposes, it is not deductible for private consumption.

The US pre-tax deduction for home mortgage loans: It is called Home Mortgage Interest Deduction. Interest on home loans incurred after October 13, 1987 is deductible. For households jointly declared by a husband and wife, the total loan amount is limited to USD 1 million, and the interest on residual income exceeding USD 1 million is no longer deducted; for single declaration, the limit is USD 500,000.

6. Propose reforms based on international experience

In combination with the policies of the aforementioned countries, in order to further improve the special additional deduction for personal income tax on housing loan interest in China, there are three suggestions below.

At present, China adopts the standard of deductible quota. The amount of interest deductible for a single person buying a home is the same as that for a family. I personally think that there is something wrong, and it is recommended that the amount deducted from the joint declaration of husband and wife be changed to double the deduction amount for single loan interest.

According to the specific conditions of housing deduction standards. Limitations on housing area. For example, non-common commodity houses such as houses or villas with an area exceeding a certain value are not allowed to be deducted before taxes. It can also be restricted according to the specific use of the house. For example, the house is not used for personal residence, but for rent and other profitable purposes, no deduction is allowed.

The deduction standard can adopt the inflation adjustment mechanism, which can be adjusted dynamically with the rise of prices and changes in the consumer price index.

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