**Policy Analysis of the Shanghai Property Tax Pilot Project,**

**Based on the S-CAD Method**

1. The S-CAD Method

The S-CAD method is a comprehensive policy analysis method developed by Professor Hok-Lin Leung[[1]](#footnote-1)[[2]](#footnote-2). It is based on the assumption that different stakeholders (actors) in policy formulation and implementation have different points of view and frames of reference. A policy should always be analyzed from the different viewpoints, taken one at a time. From that chosen viewpoint (Subjectivity, S) the policy is then analyzed for its effectiveness (Consistency, C), efficiency (Adequacy, A) and implementability (Dependency, D).

The method can be used for ex-ante policy planning and ex-post policy evaluation. On the one hand, it stresses that different actors have different premises and stances. On the other, it provides a logical framework to analyze the interaction between the different actors, we that we can achieve an effective and comprehensive analysis and evaluation of public policy.

The S-CAD method considers two types of policy actors: primary and relevant. The analysis begins with the choosing of a primary actor (the actor from whose viewpoint the analysis is being conducted. Here, “primary” is an analytic concept and does not denote power or influence). The premises and stances of the primary actor are then identified and the analysis focuses on how these premises and stances are reflected in the policy. After that, the analysis shifts to other actors who could, as seen from the viewpoint of the primary actor, influence the success/failure of the policy. In this way, the method provides a systemic analysis that encompasses all significant actors in a policy process.

Technically the method consists of four parts: Making subjectivity operational, logical test, economic test and practical test.

1. The SCAD method applied to the Shanghai Property Tax Pilot Project

Figures 1 and 2 show the elements and analytic linkages of the Shanghai Property Tax Pilot Project. The analytic procedures are described here below.

Step 1: Making Subjectivity operational. The Shanghai Government, as a policy maker and executor, plays a critical role in the formulation of the policy. It is the “primary actor”. In accordance with its premises and stances, the Government defines its policy goals and then implements a set of strategies, involving such issues as taxable objects, tax rates, deduction measures, etc., in order to achieve its goals. The S-CAD analysis begins with the identification of these premises and stances, goals, strategies and intended outcomes.

Step 2: Consistency test. This examines the effectiveness of the policy. More specifically, the test focuses on the consistency of the logical structure of the premises/stances, goals, strategies, outcomes. Three questions are asked: whether the goals represent the premises/stances, whether the strategies ensure the achievement of the goals, and whether the outcomes justify the strategies.

Step 3: Adequacy test. This deals with the efficiency of the policy. The implementation of the policy requires many resources (material, human, political, organizational, information and time). This ensures the necessity and sufficiency of the resources. Three questions are asked: whether the goals are necessary and sufficient in representing the premises/stances, whether the strategies are necessary and sufficient in achieving the goals, and whether the outcomes are necessary and sufficient to justify the strategies.

Step 4: Dependency test. For this pilot project, and as seen from the viewpoint of the Shanghai Government (“primary actor”), there are many stakeholders, such as developers, consumers and speculators. These are the “relevant actors” Their support and opposition influence the success of the policy. Taking them one at a time, the test analyzes, from their viewpoint, the reasons for their support and opposition. This allows us to examine the acceptability and feasibility of the policy.

1. Conclusions and Suggestions

The findings of the S-CAD analyses show that the Shanghai property tax policy is consistent with the intended outcomes, the strategies are necessary though not quite sufficient; and the policy is practicable. Comparing the actual with the intended outcomes we conclude that the Government’s policy has achieved the goals to stabilize property prices. However the policy seems to have almost no effect on the construction of affordable housing. Our recommendations include the following.

* Taxable objects. Change the taxable objects from newly purchased houses to pre-owned houses. Impose property tax on new houses as well as on the extra stock will extend the range of taxable objects and increase the revenues of the Government.
* Tax deductions. Apply different deduction measures on consumers of different incomes, thereby improving the allocation of social resources.
* Tax rates. Because of the imbalance of regional development the central government could set different marginal taxes for different regions. Also, graduated tax rates should be considered.
* Tax base. The tax base should be the appraised value instead of market transaction prices. The basis of property tax can be the value of the house, supplemented with a reasonable and monitored value-assessment program. There should be regular inspections to ensure the credibility of the tax base. This can also help to slow down the price growth of real estates.
* Tax collection. Improve the administrative measures and organization mechanism.

The policy implementation is still at an early stage, so the Government has understandably taken a more relaxed approach in order to minimize social resistance, while regulating the market and guiding rational housing consumption. As such, the inefficiency may be tolerated. But as the policy matures, the Government should improve on the efficiency of the policy strategies employed.

**Figure 1. Basic Elements of Shanghai’s property tax policy S-CAD analysis**

Premises and Stances

Goal

Strategy

PS1 Stabilizing the

real estate market

PS2 Improving

social welfare

PS3 Acquiring sustainable tax revenue

G1 Improving Property tax system

G2 Regulating

income distribution

G3 Adjusting housing consumption

G4 Allocating housing resources properly

R1 Stabilizing housing market

R2 Augmenting property tax revenue

**S4 Tax Collection**

Establishing collecting system, working in concerted effort and sharing information.

**S3 Tax Rate**

S3.1 0.6% in normal condition

S3.2 For newly built properties whose price per sq m is lower than twice the transaction price of last year, the tax rate is 0.4%

**S2 Tax Base**

70% of transaction value.

**S5 Usage of revenue**

The tax will be allocated to affordable housing. construction.

R3 Increasing affordable housing construction

Result

**S1 Taxable Objects**

S1.1 For local residents, the first 60 sq m of second or second-plus newly bought homes is exempted.

S1.2 For non-local residents who has been living in Shanghai for 3 years, the first newly bought home is exempted; to those who has not, the tax will be refunded after the condition is met.

S1.3 For non-local residents, their newly bought homes shall be taxed.

PS2

G2

G4

G3

S1

S2

**Figure 2． Entire Logic System**

S3

S4

S5

R1

R2

R3

PS1

PS3

G1

1. Hok Lin Leung, Towards a Subjective Approach to Policy Planning and Evaluation: Common-Sense Structured, Winnipeg, Manitoba: Ronald P. Frye & Company, 1985. [↑](#footnote-ref-1)
2. Hok Lin Leung, Approach to Policy Planning and Evaluation, China Renmin University Press, 2009. [↑](#footnote-ref-2)