

## China's Urban Land Use Right Leasing Fees Treated as Rent - Method and Results

Jingping Li  
Renmin University of China

With heavy debt burden, most local governments in China resort to land use right leasing fees. The land use right leasing fees first appeared in China's Flow of Funds Accounts (Physical Transaction) in 2006, included in acquisitions less disposals of other non-financial assets. The paper suggests recording the land use right leasing fees as rent, which helps to reveal implicit debt of the current governments to other institutional sectors and future governments. Regarding land use right leasing fees as rent, this paper makes an empirical accounting based on data from 2003 to 2009 in China. The main findings include:

- (1) Impact on households. Although the net rent payment (i.e., rent minus imputed interest) coming from land use right leasing fees is negligible with respect to households' disposable income, the ratio of total land use right leasing fees paid by households to households' disposable income is up to about 2 percent, which means a quite heavy burden on households. Besides, the implicit claims of households to governments are increasingly significant, with the ratio of claims accumulated during the seven years to deposit balance over 5 percent.
- 2) Impact on corporations. The impact on corporations is similar with that on households.
- 3) Impact on governments. Although the impacts on households and corporations' income flow are negligible, the gross rent coming from land use right leasing fees is significant with respect to governments' revenue, with the ratio of the former to the latter 3 percent. In addition, the implicit liabilities of governments accumulated during the seven years have exceeded 30 percent of the national debt balance.

In summary, if land use right leasing fees are treated as rent in national accounts in stead of as acquisitions less disposals of other non-financial assets, the income flows will be nearly untouched, while the liabilities/claims will be changed considerably, especially the liabilities of governments. Due to the fact that the method suggested in this paper can depict a more accurate image as to the debt burden of governments, the China's accounting system had better take the method into account in recording land use right leasing fees, at least create a memorandum item to record the results based on this method.<br>