

Research of Tax Governance on Urban Village Rent: A Case Study of X Village in Dongguan City

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Abstract: Tax governance is an important part of the national governance system and also a significant reflection of the national governance capacity. Using X Village in Dongguan City as a case study, this paper summarizes the tax governance issues in the urban rental market through field investigations and online data collection, as well as identifies the deficiencies in current laws, regulations, and policies. The research reveals that there are practical problems such as regulatory gaps and implementation difficulties, asymmetric market information, inadequate participation in social governance, and difficulty in coordinating conflicting interests in X Village. In response to these issues, the study explores corresponding paths for governance and proposes methods such as establishing comprehensive regulations and strengthening law enforcement, creating an information-sharing platform, enhancing participation in social governance, and balancing economic interests to address the tax irregularities in urban village rentals. This will help provide a solid foundation for the sustainable development of urban villages.

Keywords: Urban village; Housing rental; Tax governance; Dongguan

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1. Introduction

With the accelerated urbanization in China, urban villages as a special area in the development of cities carry the residential needs of a large floating population. Due to their large scale, complex management, and difficulty in tax collection and management, the rental market in urban villages has become a focus of social attention. The governance of rental taxes not only concerns the legitimacy and fairness of national tax revenue but also affects the stability of urban society and healthy economic development. As a unique phenomenon in the process of urbanization, urban villages have nurtured a series of informal characteristics due to their unique geographical location and social structure. In this context, the rental market in urban villages is particularly typical and exhibits certain degrees of irregularity in tax administration. The problems faced by its rental tax governance mainly manifest in several aspects. Firstly, the sources of rental income are complex, involving individuals, collectives,

enterprises, and so on, making it difficult to collect taxes. Secondly, historical legacy issues and conflicts over real interests lead to loopholes in rental tax collection which result in serious loss. Thirdly, residents' lack of understanding of taxation laws leads to low compliance with taxation regulations further exacerbating difficulties for taxation governance. These existing problems not only affect the stable growth of national tax revenue but also worsen the unfair distribution of social resources thus affecting societal harmony and stability. In response to challenges posed by rental tax governance within urban village settings, scholars have proposed various solutions^[1]. There is a need to strengthen legal construction and clarify landlords' responsibilities towards taxation obligations through legislative means to regulate market behaviors^[2]. Improving the efficiency of taxation administration is crucial and possibly requires collaboration between taxation departments and urban village management departments while leveraging information technology to enhance transparency and responsiveness^[3]. Furthermore, practical considerations regarding the actual needs and economic conditions of community residents should be taken into account during processes governing rental taxes within urban village settings. Studies have indicated that providing preferential policies can incentivize landlords and tenants to actively declare and pay taxes, thereby reducing instances of evasion fraud^[4]. Additionally, public education recognized important measures to increase residents' awareness about paying taxes and enhance their knowledge of related laws^[5]. In practice, some areas' governance regarding rentals within urban villages improved through joint efforts from government community residents. For example, some local governments established a unified leasing model in cooperation with community companies to simplify the entire process and improve administrative efficiency, while others attempted to introduce private capital participation in infrastructure construction services to promote overall improvement work relating to taxation administration^[6-7]. Overall, these measures aim to address challenges faced when governing rentals within urban villages, striving to achieve a fair efficient effective system for all stakeholders involved.

Previous research has proposed various strategies to strengthen regulatory construction, enhance tax collection efficiency, implement tax incentives, and promote public finance and taxation education for urban village rent taxation governance. However, these studies still fall short. X Village in Dongguan City faces widespread challenges in rent taxation governance and holds typical significance as a representative case of urban villages. Therefore, research on such issues has profound theoretical and practical implications. This paper will analyze the adaptability between the community characteristics of urban villages and governance strategies using X Village as the research object. The study will explore how to efficiently integrate resources from the government, community, and market. Through empirical research on the specific situation of X Village, this paper aims to reveal the economic behavior patterns of urban village residents and formulate more precise tax policies accordingly. Additionally, this paper will discuss diversified governance models including public-private partnerships to promote systematic and sustainable development in urban village rent taxation governance.

2. Current tax policies and regulations

2.1. Current tax incentives for housing rental

To meet the housing needs of a large number of the mobile population, the government has increased the supply of public rental and affordable housing and provided tax incentives for renting and leasing. As of October 2021, Guangdong Province has built 185,600 units of affordable rental housing, achieving an 83.5% completion rate for the annual target task in 2021. Stamp duty related to low-rental and economically affordable housing management units is exempted from payment individuals purchasing economically affordable housing are subject to half the deed tax; individuals receiving subsidies for low-rental housing are exempt from personal

income tax. In 2021, small-scale taxpayers in the property rental industry renting houses to individuals are subject to a reduced value-added tax rate of 1.5%. In 2024, “Opinions on Financial Support for Development of Housing Rental Market” was issued to strengthen innovation in credit products and service models for the residential leasing market, expand diverse investment channels for residential leasing market financing, and improve financial management in the residential leasing market.

2.2. Regulation and policy interpretation of urban village housing rental

Solving the housing problems of new urban residents, young people, and frontline workers is crucial for social development. X Village in Dongguan plays a significant role in addressing the housing issues of migrant workers moving southward for economic development. It needs to transform into a standardized rental area and establish a sound tax management system to safeguard the rights and interests of landlords, tenants, and enterprises. Promoting tax governance based on government-issued incentives policies will reduce the financial burden on migrant workers renting houses. Strict control measures should be implemented to maintain market order while ensuring transparency in rental information to prevent underreporting or failure in tax collection.

Article 62 of the Land Administration Law allows rural villagers to rent out their homesteads and homes, adding real estate taxes for the government and providing extra income for farmers. House rentals in China require registration procedures and a house rental certificate, but non-compliance generally does not affect contract validity. Adherence to regulations on house rentals is essential to safeguard legitimate rights between landlords and tenants. The government should allocate funds for improving living conditions in urban villages, while commercial property leases must register with business administration departments and comply with taxation laws.

3. Urban village rental market overview and governance challenges

With the deepening of reform and opening up, X Village in Dongguan, as one of the strategic locations, has attracted a large number of Hong Kong and local overseas Chinese investments to establish factories, leading to an influx of a large number of migrant workers from southern China. Faced with the inadequate accommodation provided by factory dormitories, some migrant workers have had to seek rental housing within the village. In this process, some local villagers have started to change their business strategies, abandoning traditional agricultural production and instead converting land resources into rental housing to obtain more lucrative economic returns^[8]. With the increase in imitators, X Village quickly emerged with a large number of rental properties; however, the rental market still cannot meet demand. In such a market environment, X Village has gradually formed large areas of informal rental zones. Coupled with the profound influence of local traditions, the government and other management agencies face limitations in governing the village’s ability to effectively regulate the rental market and establish a sound tax management system^[9]. This phenomenon not only highlights the uniqueness of urban villages in rapid urbanization but also presents severe challenges for subsequent rent tax governance.

3.1. Lack of regulations and enforcement difficulties

The tax governance of urban village rental markets is facing issues with inadequate regulations and unclear boundaries in its management. Currently, only a few prefecture-level cities have relevant management documents based on the Ministry of Public Security’s “Temporary Residence Permit Measures” and “Rental Housing Management Regulations.” However, there is still no universal consensus among governments and related departments regarding governance over urban village rental markets at a more extensive level.

The informal nature of urban villages, coupled with their unique dual household registration system and land tenure, make existing tax regulations less effective in meeting market demands or practical operations in these areas undergoing urbanization. This institutional background results in unique complexities within urban village rent taxation governance that give rise to a series of management challenges, particularly since residential properties within these villages are mostly self-built by villagers without unified planning or standardized management practices, leading to uneven housing quality and facilities. This further affects fair pricing for rents as well as equitable tax collection. Given these challenges, current tax regulations must undergo thorough scrutiny and necessary adjustments to better adapt them to actual conditions within urban villages while meeting market demands and ensuring fairness and effectiveness in tax policies.

3.2. Asymmetric market information

In urban villages like X Village in Dongguan, the lack of a mechanism for sharing information restricts the flow of information between landlords and tenants, leading to market transparency issues. Landlords may conceal rental income to evade taxes, while tenants struggle to uphold their rights due to limited access to information. This asymmetry weakens tax administration efficiency and fosters disorderly competition. Informal leasing activities operate on the fringes of regulation, making it difficult for tax authorities to obtain accurate leasing information. The absence of standardized lease contracts and formal registration procedures further complicates tax verification efforts. Additionally, the long-term imbalance between supply and demand has led local landlords to adopt differentiated leasing strategies based on tenant characteristics, posing challenges for tax collection efforts. Establishing a comprehensive and transparent information-sharing platform is urgently needed to regulate leasing market behavior and ensure accurate implementation of tax policies.

3.3. Insufficient social governance participation

Inadequate social governance participation significantly hinders tax administration processes in X Village in Dongguan. There are imperfect communication systems between the government and private sectors, leading to difficulties in property rent taxation governance within urban villages. This is exacerbated by information asymmetry, hindering public understanding of taxation policies. Additionally, civil organizations need to play a more active role in property rent taxation governance practices at X village. This issue is not just about quantity limitations, but also about inadequate resource allocation, operational capabilities, and societal influence. These organizations often struggle to effectively communicate with governments and therefore cannot fully participate in policy formulation and execution. Additionally, public engagement consciousness is weak. In x village, many tenants and landlords do not actively engage in property rent taxation governance or community development. This lack of participation weakens the overall efficacy of societal governance.

3.4. Difficulty in reconciling conflicting interests

In X village, the core governance challenge lies in the multi-dimensional conflicts of economic interests ^[10]. The government aims to regulate the rental market through tax policies to increase fiscal revenue, while landlords seek to maintain or raise rents for higher returns. This opposition makes it difficult for tax measures to be effectively implemented, leading to tax evasion and undermining governance effectiveness. Additionally, economic conflicts between landlords and tenants are increasing, particularly in urban villages inhabited by low-income groups ^[11]. The continuous rise in rent puts heavy economic pressure on tenants and exacerbates social inequality and instability, conflicting with the government's goal of expanding fiscal revenue.

4. Reflection and governance path of taxation in urban villages

4.1. Improving regulations and strengthening enforcement

Improving regulations is crucial for governing taxation in urban villages. Current laws may not fully address the unique nature of urban villages, making governance challenging. It is urgent to revise and improve existing regulations to accurately capture the characteristics of urban village housing and rental market needs. Clear legal requirements should be established for tax registration, declaration, and payment, along with operational guidelines to support taxation governance. Strengthening enforcement is essential to improving effectiveness in urban village taxation governance. Enhancing law enforcement supervision and utilizing advanced information technology such as big data analysis and cloud computing is necessary for transparency and rapid response capabilities in tax management.

4.2. Building an information-sharing platform

Creating a centralized information-sharing platform is crucial for improving taxation governance in urban villages. It helps to address asymmetries in information flow, leading to more effective governance and precise policy execution. This platform allows government authorities to access updated data resources in real-time, improving monitoring of housing rental conditions and tax collection activities, thus enhancing tax management efficiency.

For landlords and tenants, the platform provides vital market dynamics and policy-related information for fair negotiation processes and transparency within rental markets. Additionally, it offers rich data resources for academic researchers, promoting public engagement and transparency throughout governing procedures. Overall, this shared platform promotes open exchange and provides a foundation for continuous improvement and innovation in taxing administration within our city's urban areas.

4.3. Enhanced participation in social governance

The effectiveness of tax governance in urban villages depends not only on a strong legal foundation but also on extensive social participation. In X Village, Dongguan City, the lack of social governance participation has hindered the improvement of tax governance for rental housing. The complex and diverse social structure of urban villages requires active participation from the government, villagers, tenants, and social organizations. The government plays a core role in tax governance in urban villages, but issues such as uneven resource allocation and ineffective policy implementation limit its effectiveness. The government must interact with the community in urban villages to gain insight into their actual needs and develop more precise tax strategies. Villagers play a crucial role as contributors in urban village tax governance by increasing their awareness of their rights and understanding of tax policies. Tenants are also key participants in promoting market transparency and fairness.

Information asymmetry and lack of protection mechanisms can hinder tenant participation in governance. Therefore, establishing a system to protect tenant rights and promote their involvement in tax governance is crucial for improving efficiency. Social organizations can serve as communication bridges and help raise awareness about taxes, contributing to deeper societal management. However, there is currently limited involvement from social organizations in these areas, which requires support through policy incentives or societal assistance.

4.4. Balancing coordination of interests

In the administration of taxation in urban villages, it is crucial to achieve a balance of economic interests. Landlords, tenants, and governmental bodies all have different interests at stake. Landlords want maximum

returns from their properties, while tenants seek affordable rents. Governmental bodies act as mediators to ensure financial stability and provide community services. To achieve this goal, the formulation and execution must take into account various interest demands. Reasonable taxation should effectively regulate markets to protect legal rights while encouraging landlords to operate within the law. For example, economically disadvantaged individuals could receive subsidies or reduced taxes, easing their financial burdens; and landlords who comply with regulations may be given preferential tax treatment as an incentive for lawful business operations. These measures not only achieve a balance of interests in urban village taxation administration but also promote fairness and harmony. This balanced strategy contributes to creating a stable leasing market environment and lays down firm foundations for sustainable development within urban villages.

5. Conclusion

Tax governance plays an important role in the process of urban village governance as a key component of the national governance system. With the continuous development of the economy, the scale of the housing rental market in urban villages is expanding, and its operation and management are becoming increasingly complex. At present, tax governance in urban village housing faces issues such as imperfect tax regulations, lack of transparency in market information, and insufficient social participation. This article proposes measures to strengthen regulatory construction, improve tax collection and management efficiency, establish information-sharing mechanisms, promote social co-governance, and balance economic interests to optimize tax policies, enhance governance efficiency, achieve fair distribution of social resources, and realize continuous optimization of tax governance and stable social development through multi-party cooperation and comprehensive strategies.

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Disclosure statement

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