



Distribution of Rural land Added-Valued Revenues from the Perspective of Land Development Rights

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Abstract

Recently, the distribution of land added-valued revenues from the conversion of farming land to non-farming land, has attracted widespread attention from both academics and society. The research mainly uses the methods of document study, inductive summary and empirical analysis. Based on the perspective of land development rights, the paper reviews the unfairness that farmers whose land is expropriated only received a small amount of compensation. Furthermore, the study discusses the existing problems of the distribution model of China's land added-valued revenues: 1) Farmers are excluded from the unearned land added-valued income in the primary distribution; 2) Developers get too much profit in the actual distribution; 3) The relationships between land rent, tax and charge are confused in the distribution. Based on those conundrums, corresponding solutions are explored from the following aspects, 1) We can form a balanced distribution model of land added-valued income for multiple subjects. 2) Governments should respect farmers' wishes and measure the market price of land reasonably. 3) We should improve the system of land rent, tax and charge in China and clarify the role of the governments.

Subject Areas

Development Economics, Urban Planning

Keywords

Land Development Rights, Land Added-Valued Revenues, Revenue Distribution

1. Introduction

As a large agricultural country, China has more than 500 million rural dwellers

out of a population of 1.4 billion, accounting for 36.11% of the total population, according to the data of the seventh census. Liberating farmers from the land, using the land more effectively and developing its social and economic value is a must for China to move towards a modern and strong country. In 2004, the national constitution stipulated that the state may, for public interest. It is necessary to expropriate agricultural land in accordance with the relevant legal process and compensate the farmers whose land is expropriated according to certain standards. This kind of compensation for land expropriation is in fact the so-called land rent, which is an unproductive activity that generates “rent” and can easily lead to “rent-seeking behaviour”, as the government may abuse its public power or even its monopoly on the right to land development in the name of public interest to set up differentiated institutional arrangements in favour of itself. The government may abuse its public power or even its monopoly on the right to land development in the name of public interest to set up differentiated institutional arrangements in its favour. As a disadvantaged group and informationally disadvantaged party, farmers often receive only a small amount of monetary compensation for land acquisition and resettlement costs. For a long time, the distribution of value-added gains from the conversion of agricultural land to non-agricultural land has been repeatedly criticised, and the collective and individual ownership of land (including the right to land development) by farmers has not been properly protected, with huge non-productive profits and land bonuses being taken by the government and developers. In 2013, the Third Plenary Session of the 18th Central Committee of the Communist Party of China proposed that farmers should be given more rights to land and property. Land property rights mean establishing a compensation system for property rights (including land development rights) based on market value, so that farmers can share in the value-added income of land based on the contribution of land elements [1]. Thereafter, in 2016, in the Opinions of the State Council of the Central Committee of the Communist Party of China on Comprehensively Promoting the Revitalisation of the Countryside and Accelerating the Modernisation of Agriculture and Rural Areas, it was pointed out that “the value-added income shared by farmers collectively and individually should be appropriately increased, and methods for the collection and management of land value-added income adjustment funds should be introduced urgently”. In order to better protect the vulnerable groups in rural areas (especially farmers), this paper discusses and studies the reasonable distribution of land appreciation income based on farmers’ right to land development, and protects the legitimate rights and interests of landless farmers, which is also an important issue concerning the reality.

2. Explanation and Breakdown of Relevant Theories

2.1. Land Development Rights

Land development rights differ from land use rights and land ownership rights in that they refer to the right to develop (develop) on land for the purpose of

changing the use of land or increasing the degree of land use [2]. Land development rights are based on the right to build permission and can also be extended to the right to use permission, such as the conversion of agricultural land into municipal land, and the right to increase intensity, such as increasing the plot ratio. Land development rights originated in the Town and Country Planning Act of the mid-nineteenth century in the UK, and later the US borrowed the British concept and relied on zoning acts to administer them. The UK adopted an approved permit system and addressed land development rights redevelopment through new zoning techniques such as incentive zoning, special zoning and development transfers. The transfer of land development rights was seen as a land use management mechanism designed to protect agricultural land, forests, etc. [2]. The original property owner of the land sells the land development rights through the market mechanism, which increases the value of the land parcel through intensity change and use transformation, thus achieving efficient use and intensive land use, and this value-added income generated is the developmental value-added income of the land. The central government is responsible for controlling the total amount of land for construction, while the local authorities are responsible for revitalising the land for construction according to their own development, and the power to allocate land development rights is vested in the government.

2.2. Decomposition of Land Appreciation Gains

Before analysing the value added to land, it is important to first identify the components of the value of land itself, on the basis of which the value added to land can be analysed more objectively. According to environmental economics theory, the value of land is made up of market and non-market values [3]. Market value is the value generated by the use of land for market-based economic activities, for example, agricultural land through the cultivation of fruits and vegetables, which are converted into money through market transactions, or the market benefits of development and construction on the land. Non-market values include social and ecological values [3], values that are not used for exchange in the production and consumption segments of the market. Land has strong externalities, which are positive externalities both from a social and ecological point of view, and are altruistic [4]. Due to the obvious externalities of land, part of its value added comes from the transaction price of the land once it enters the primary market, generally referred to as “artificial value added”, which refers to the increase in profit from the user’s ongoing investment in the land [5], which is a market value and benefits mainly the operator. A larger proportion of non-market benefits spill over to society, forming “natural value added”, which is derived from locational factors or public actions, including increased levels of economic and social development, improved infrastructure and environment, land use conversion and changes in supply and demand, etc. It is a non-market value [1], and the main beneficiaries are all citizens of society, including individual farmers or rural collectives. Different value components have different

groups of beneficiaries, so the distribution of land value-added income should also be different according to the subject, and the issue of the attribution of land value-added income will be discussed next.

2.3. Overview of Land Appreciation Gains Vesting

The issue of the ownership of land value-added income in the academic community has formed three main views, respectively, “price increase to the public”, “price increase to the private (farmers)”, the “comprehensive view of property rights”, the following will be the three views to sort out.

2.3.1. Price Increase to the Public

As early as the industrial revolution in the 19th century, there were already a number of scholars who advocated the idea of “the increase in value to the public”. They argued that the increase in the value of the land came from the development of the social economy and the investment return of the whole society, and that the increase should be shared by the society, while the individual farmers or rural collectives, *i.e.* the original right holders, should not enjoy the huge benefits because they have not made any investment in the land, which is a gain for nothing, otherwise it would be unfair and would breed The “profit-eating class”. From another perspective, this value arises from the positive externalities brought about by government or state investment in society, and the beneficiary group of this positive externalities is society as a whole, so the benefits of natural appreciation brought about by this part of the land should also be shared by society [6]. Proponents of this view include Henry George, Marx and Sun Yat-sen’s idea of “equal land rights” [7].

2.3.2. Price Increases Go to Private (Farmers)

In practice, the theory of private ownership is based on the American theory of compensation, in which land development rights are purchased from the private sector so that the developmental value-added benefits of the land can be privately owned, mainly through the purchase of development rights and the transfer of development rights. This view is that farmers should have the right to “non-agriculturalisation of agricultural land”, *i.e.* they should enjoy the benefits of non-agriculturalisation on the land, in addition to the benefits of agricultural use.

2.3.3. Public and Private

These two views are both extreme and one-sided. The “public ownership of the land” is based on the fact that the land value increase comes from the government’s investment in the land and its infrastructure, which should be shared by all, and that the right to development of the land is also owned by the state. However, it ignores the fact that farmers should also share in this right, arguing that this benefit is only a gift from society and not something to which they are entitled. The “price increase to the farmers” only sees the farmers’ right to develop the land, but does not consider that the state also has the right to develop the land, and that the farmers do not make a real contribution to the process of

land appreciation, and that the farmers who have lost their land may gain a lot from the artificial value added by the state's investment in the land. It is unfair that the "profit-eating class" does not provide an effective incentive to the farmers who are working the land. In fact, no scholars have pointed out that "the price increase goes to the public" or "the price increase goes to the farmers", but more scholars are in between. He argues that multiple subjects share the same rights to farmland and enjoy limited property rights. In the face of the massive natural increase in land value, the property rights of landless peasants, the state, and "farmers in cultivation" should be taken into account and distributed among multiple subjects.

2.4. Deconstructing the Relationship between Land Rent Taxation and Land Appreciation Gains

There are three main charges levied on land in China: land rent, land tax and land fee, which are added to the two distributions of the state's participation in the distribution of land appreciation proceeds to achieve the initial distribution and redistribution of land appreciation proceeds. Land rent is the balance of the product of labour after deducting the production inputs necessary to maintain the livelihood of the workers, *i.e.* the price paid by the user for the use of the land. As land value added returns are divided into two components: artificial and natural. Artificial appreciation, or transfer investment appreciation, is ultimately enjoyed by the investor in the form of interest during the lease term of the land, and once the lease term is up, the capital investment in the land is transformed into grade differential ground rent II (*i.e.* ground rent arising from continuous investment in the same parcel of land). The natural appreciation of the land is expressed in absolute land rent and differential land rent I (*i.e.* land rent due to fertility, location) [5]. Land tax is a tax on land, in money or in kind, based on the area, grade, price, revenue or appreciation of land. Land tax refers to the costs incurred to obtain the right to use the land for a project. The land use fee is of a compensatory nature and includes land premiums, land requisition fees, urban construction support costs and compensation fees for demolition and resettlement, which do not enter into redistribution. Fees include administrative fees and service fees, such as land requisition management fees, which do not belong to the scope of initial distribution and redistribution [8].

In a market economy, the rational distribution of social wealth should follow the following principles: the primary distribution should be based on respect and protection of property rights under the market mechanism [9]; the secondary distribution should be based on equity under the mechanism of government taxation and provision of social security; and the third distribution should be based on ethics and morality under the mechanism of social welfare contributions. The third distribution should be based on ethics and morality under the mechanism of social welfare contributions. The income from land appreciation belongs to the category of social wealth and should also follow this distribution principle. However, due to the special nature of land and its attachments, rural

land is not only a carrier of employment for farmers, but also a carrier of ownership or property rights, and its attachments include: employment issues, expected benefits, special feelings towards the land, and so on. However, due to the special nature of land and its attachments, rural land is both a vehicle for employment and a vehicle for ownership or property rights, and its attachments include: employment issues, expected benefits, special feelings towards the land, etc., which are not reflected in the form of prices [10]. Land tax is an important form of redistribution, including land value-added tax and property tax, through which the value-added benefits of land are shared by all.

3. The mode of Distribution of Land Appreciation Benefits in China and the Problems

3.1. China's Land Appreciation Income Distribution Model

Article 47 of the Land Management Law stipulates: "Where land is expropriated, compensation (including compensation for land, ground attachment and seedlings, and resettlement subsidy) shall be given in accordance with the original use of the expropriated land", and stipulates that "the sum of compensation for land and resettlement subsidy shall not exceed 30 times the average annual production value of the land in the three years before the land is expropriated [11]. For housing on agricultural land, the land is either demolished and built as a whole, allocated for self-build or based on a certain amount of monetary compensation. The government gets the land at a low price and then offers it to developers at a high price through the market mechanism, such as auction and tender, thus getting a huge amount of land premium (which is essentially a land rent income). The government participates in the initial distribution of the land appreciation proceeds in the form of land rent. In the process of land development, the government, in its capacity as administrator, collects land tax (fees) from developers and real estate developers, thus entering into the redistribution of the land appreciation proceeds. For developers, the artificial value added to the land in the form of profits from their investment in the land, and in practice, part of the natural value added is also obtained through "grey trading" in the form of land rent. The individual farmer and the rural collective, as the original landowner, receive only the land rent for the value of the land itself and are completely excluded from the natural value added [12].

3.2. Problems with Our Land Value-Added Revenue Model

3.2.1. Exclusion of Farmers from the Natural Appreciation of Land in the Initial Distribution

Farmers are only compensated for the lower costs of the initial phase of land concessions during the nationalisation process, while farmers should receive not only the absolute land rent to which they are entitled but also the natural increase resulting from the very poor land rent II, which is the main source of value-added returns to land, including: supply and demand value added, use value added, social universal value added and external radiation value added [12]. In

practice, however, farmers do not participate in the initial distribution of the natural increase in land value, which should be shared by all, but as the original owners of the land and members of society, they are excluded from the natural increase in land value, which is unfair and unreasonable. In terms of the opportunity cost that farmers give up by giving up their right to development of the land, the loss of land is a career for farmers who lack the appropriate skills. For farmers although the one-off compensation for land acquisition can alleviate short-term financial and livelihood problems, in the long run, farmers are in a vulnerable position and their integration into society and the process of urbanisation and industrialisation is quite difficult, which is not conducive to the long-term livelihood development of farmers after the absence of farmland as a basic source of livelihood.

3.2.2. Excessive Profit Gain for the Developer in Actual Distribution

Developers obtain the right to develop and use land through market mechanisms, and the right to develop the land is transferred to them through the market process. However, in practice, as developers receive more of the natural value added in addition to the artificial value added, the property development industry has a huge profit margin compared to other industries. It is not reasonable to assume that the natural appreciation of land is a non-investment income and should not be received by the real estate developer, who in reality receives a huge amount of natural appreciation.

3.2.3. Confusing Relationship between Land Rent Tax and Fees in the Distribution Chain

Firstly, the government as the owner of the land collects land rent from those to whom the land is granted. Secondly, the government as the administrator collects land tax from real estate developers during the development process. In both processes, two confusions arise: one is the confusion of the government's role. The different roles of the government as a participant in the market and as a manager of the market have provided a footing for the government to seek rent in the land appreciation proceeds. The other are the confusion of taxes and fees and the duplication of levies. In the case of the government as a market participant, the government needs to pay rent tax to the government when it collects rent from developers, while in the case of the government as a land manager, it needs to collect urban land tax from property developers.

4. Exploration of Distribution Mechanisms

4.1. Formation of a Balanced and Diversified Model for the Distribution of Land Value-Added Revenue

From the above analysis, it can be preliminarily concluded that land value-added benefits should be borne by different actors at different stages of the process, including farmers, developers, the government and the general public. Farmers, as the original owners of the land, should not only receive the absolute rent but also

share part of the natural appreciation, while the government and developers, as investors in the land, enjoy the investment value of the land. Initially, the government expropriated land for the public interest, and the land became a public good, and the huge radiant value added should be shared by all people. In practice, the government tends to ignore the farmers, who are part of all citizens. Based on the principle that growth gains should be shared between urban and rural areas and interests should be balanced, a reasonable distribution mechanism should be formed to balance the interests of multiple subjects such as farmers, developers and the government.

4.2. Respect the Wishes of Farmers and Measure the Market Price of Land Reasonably

In China, the land ownership system is divided into two types of ownership: state ownership and rural collective ownership. The most important issue in the distribution of land appreciation proceeds is to determine the specific meaning of rural collective ownership, to improve the system of rural collective ownership, to strengthen the private nature of land use rights and to guarantee the private property rights of farmers. When setting compensation standards for expropriation, the needs and suggestions of farmers should be fully considered. As in reality, local governments, urged by land finance to compete with each other for land development rights on agricultural land and implement strategies such as village annexation with a view to gaining greater gains in land appreciation, often ignore farmers' ownership of land and often use the name of public interest to carry out forced demolition of buildings on rural land. Farmers' land ownership rights are strongly encroached upon, and farmers' own rights and interests cannot be protected in the long term. Therefore, it is necessary to fully respect the individual or collective wishes of farmers in the allocation of benefits and compensation for expropriation, to reasonably measure the "market price" of land, and to compensate farmers for land expropriation using the "market price" as the standard.

4.3. Improving Our Land Rent Tax System and Clarifying the Role of Government

To improve China's rent and taxation system, we must first clarify the role of the government in the two distribution processes, change the phenomenon of the government acting as both referee and athlete in the process, withdraw from market operations, hand over the management rights to enterprises or social organisations, and define the government's functions and the distribution of benefits to relevant subjects. Farmers should receive absolute land rent and differential land rent I in the initial initial distribution, while developers should enjoy the return on investment profits according to the principle of "who invests, who earns", *i.e.* differential land rent II, and the natural growth brought about by the externalities of the land should be allocated to the secondary distribution by the government through taxation. The Government should define the target of tax

increase reasonably, reduce the duplication of taxation, purge land fees and reduce the rent-seeking phenomenon caused by the monopoly position of the Government after it owns the development and ownership of land.

5. Conclusions

This paper explores the unfairness of individual farmers, as a disadvantaged group, receiving only a small amount of cost compensation after land expropriation, and explores the existing perspectives on the distribution of land appreciation benefits from the perspectives of “public to private”, “private to private”, and “public to private”. “The existing views on the distribution of land appreciation benefits are discussed from three perspectives. At the same time, the land rent tax in China also affects the distribution of land appreciation benefits. Market value of land generates Differential Rent II. Developers receive their dividends in the primary distribution, while the government receives land rent revenue. In the secondary distribution, the government receives a portion of profit from the developer and VAT on the land itself through tax regulation. Developers receive a certain amount of revenue through rent-seeking activities and gray transactions. The non-market value of the land generates Differential rent I and absolute rent. The individual farmers receive nominal compensation in the primary distribution which does not include the value of land attachments: such as employment issues etc. The farmers are excluded from the secondary distribution. In this process, both the government and the developers are getting part of the unearned land added-valued, while the farmers are excluded from it.

The discussion on the distribution of the ownership of land appreciation proceeds will become an increasingly important issue for people in the accelerating urbanization process. This paper discusses the three basic views on the taxation system and the ownership of land appreciation proceeds, and puts forward the shortcomings and problems in the distribution of land appreciation proceeds in China, which is conducive to optimizing and mediating the conflicts among farmers, government and developers. Although this paper theoretically explores the unreasonable aspects of the distribution of land appreciation income, and also explores the problems in the context of China’s actual taxation system, it lacks concrete empirical analysis, which is the shortcoming of this paper. In future research, it can be analyzed based on actual cases to explore the distribution model and mechanism that can be universally applicable.

Conflicts of Interest

The author declares no conflicts of interest.

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