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Property Tax and Assessment News from Around the World

CHINA – May 2021

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China accelerates push for nationwide property tax

Levy expected to incentivize local governments to sell more land-use rights

China is accelerating long-discussed plans to roll out a nationwide property tax. Experts say such a tax could be tested by the end of this year in some first- and second-tier cities that have hot real estate markets, most likely Shenzhen and the southern island province Hainan.

The central government for years has been mulling a tax on homeownership, and Shanghai and the southwestern megacity of Chongqing were chosen in 2011 to conduct trials of levying taxes on certain houses. Since then there has been much discussion of expanding the tests nationwide, though there has been little progress in a decade.

Local governments have been reluctant to push for such a tax out of concern that it will cause property values to fall and dampen demand for land, hurting a major source of their fiscal revenue. Experts argue that won't be an issue.

On May 12, officials from the Ministry of Finance, the Ministry of Housing and Urban-Rural Development, the State Taxation Administration, and the national legislature's budgetary affairs commission held a seminar to solicit opinions from experts and local government officials on pilot-testing property taxes, according to an official statement.

Test first before legislation

The brief statement sent a signal different from previous official remarks. The government in the past always talked about property tax legislation and reform, but this time the wording changed to "pilot testing property tax reform." Some experts interpreted the change as a sign that the government aims to give property taxes a trial before passing legislation.

"Although legislators have been drafting property tax legislation for many years, a draft needs to solicit comments and be deliberated by the National People's Congress," said Shi Zhengwen, a professor specializing in tax law at the China University of Political Science and Law. "Generally, a new law will be reviewed three times, so it will take at least one or two years."

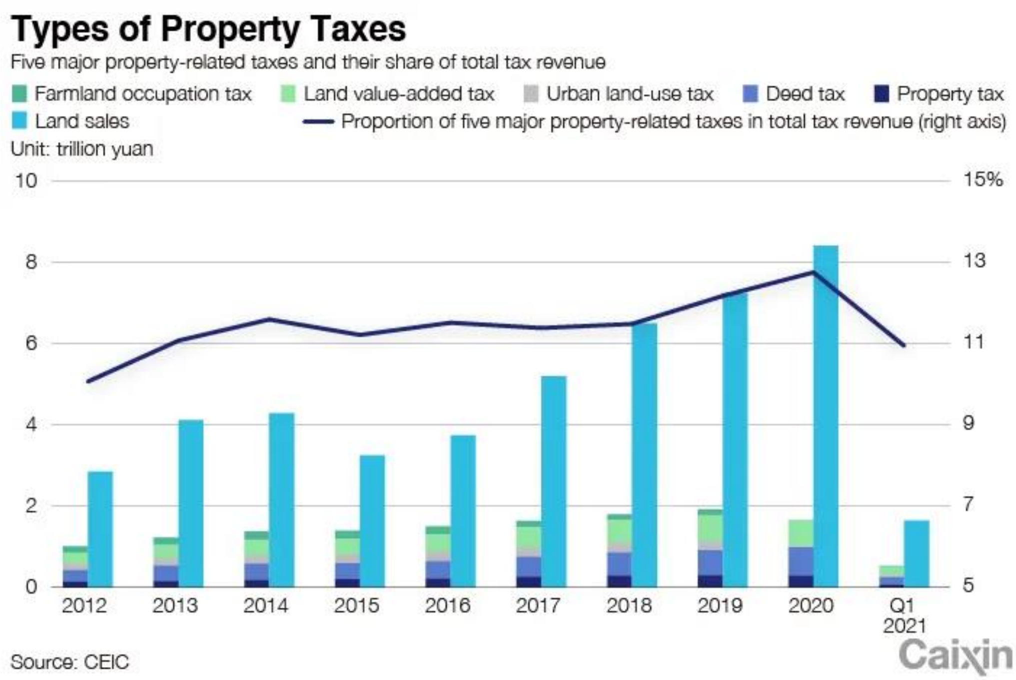
Caixin learned that lawmakers drafted property tax legislation in 2018 and have been soliciting comments from local governments and relevant ministries, but it has not yet been submitted to the National People's Congress for deliberation.

The draft law is being completed and will be filed for preliminary review by legislators "when conditions are ripe," Wu Ritu, vice chairperson of the NPC's Legislative Affairs Commission, said in March 2019. Since then no update has been made.

It appears the authorities intend to launch a pilot run before issuing a new law as the legislative process has encountered some difficulties, said Liu Yi, a Peking University professor specializing in fiscal policy.

Shi said he expects a pilot program to be launched this year in a few cities. Several experts said the pilot cities must be representative of first- and second-tier cities. Among the first-tier cities, Shenzhen is most likely to be chosen. As for second-tier cities, possibilities include urban areas with good economies and hot housing markets, said Ma Guangyuan, an economist and property issues commentator.

Jia Kang, chief economist of the Huaxia New Supply Economics Research Institute, has called for pilot testing property taxes in Shenzhen and Hainan. Shenzhen, as the pioneer demonstration zone for China's reform and opening-up, and Hainan, with the world's largest free trade port zone, have been given greater autonomy for restructuring, making them suitable choices for testing property taxes, experts say.



Conducting a pilot program can also help accelerate legislation by addressing problems that may occur after the new tax is officially launched, Shi said.

Although opinions differ on the order of legislation and pilot programs, many researchers say they believe property tax legislation should be completed by 2025 during the 14th Five-Year Plan.

Long-term tool for local governments

The central government needs long-term measures to regulate the real estate market. A property tax, which would combine legal and economic measures, could be a good long-term tool with multiple functions such as complementing the local fiscal and taxation systems, improving government and national governance and adjusting income distribution, Shi said.

China's home prices in April grew at the fastest pace in eight months after curbs failed to stem buyer enthusiasm. New home prices in 70 cities, excluding state-subsidized housing, rose 0.48% last month from March, when they gained 0.41%, National Bureau of Statistics figures released on Monday show.

Rising housing prices are prompting China to speed up the launch of property taxes, but it's not the main reason. Because the new tax will increase the cost of owning property, it's a common belief that it will discourage speculation and serve to constrain housing prices.

However, the trials in Chongqing and Shanghai have shown that property taxes have had limited impact on real estate prices. The same has been true in other countries that have introduced real estate taxes. Beijing has downplayed that narrative since 2010.

There are two main factors affecting housing prices: land supply and monetary policy. Property taxes or the lack of them have minimal impact compared to the two main factors, property development tycoon Pan Shiyi said.

Experts including Shi told Caixin that the introduction of property taxes may dampen housing prices in the short term, but in the long term, the move is not intended to regulate housing prices.

The main purpose of such a tax is to provide a stable source of income for local governments. An overhaul of the tax revenue distribution system in 1994 diverted the lion's share of the country's fiscal revenue from the regional and local governments to the central government. For instance, 45% of China's fiscal revenue last year was handed over to the central government, up sharply from 22% in 1993. Amid weak growth of tax revenues, some local governments heavily rely on the sale of land-use rights to cover costs such as infrastructure and social welfare programs.

The country's recent tax cuts to help support the economic recovery have further damaged local governments' finances. Data from the Ministry of Finance show that fiscal revenue declined 3.9% in 2020, and tax revenue declined 2.3%.

Legal foundation for property tax

Opponents of property taxes also question the rationality of levying a tax on houses built on land that homebuyers don't even own.

Up until the early 1990s, most urban homes were owned by the state and provided through work units, but the government started to privatize public housing and encourage private real estate development to boost the economy. Homeowners in China own their dwellings but not the land under them. All land in China is owned by the government, which sells land-use rights to developers and homeowners through 20- to 70-year leases.

"It is an important legal doctrine that wealth taxes must not be imposed on state-owned land," said Xu Shanda, a former deputy head of the State Administration of Taxation. "Even though Chinese property owners own the building, the land is owned by the state."

But Liu Jianwen, a law professor at Peking University specializing in tax and the economy, contends that this legal obstacle was removed when the Property Law came into effect in 2007. The law defined rights to the use of land for construction purposes in a way that is "almost equivalent to ownership rights," he said.

Internationally, there are many examples of countries levying property taxes on houses built on publicly owned lands. Countries including Singapore, Israel and Australia have coordinated the relationship between public land-use rights and house ownership within their legal framework.

Even though China doesn't have a nationwide property tax, there are many types of taxes levied on real estate development and transactions, including farmland occupation tax, urban land-use tax, land value-added tax, deed tax, corporate income tax, personal income tax, and stamp duty. There have long been arguments that the tax burden during the construction and transaction process is too heavy, while taxes in the possession stage are too light.

Proceeds from land and property-related taxes amounted to 1.96 trillion yuan ($305 billion) last year, or about 20% of local governments' annual income, according to Ministry of Finance data.

Former Finance Minister Xiao Jie has suggested that as a new property tax is levied, the tax burden during the construction and transaction process should be reduced accordingly.

Some experts suggest eliminating the land value-added tax. In place since 1994, the tax was created in the aftermath of the real estate bubble of the early 1990s.

It is imposed on developers at progressive rates ranging from 30% to 60%, depending on the amount of value appreciation on the transferor of land-use rights. The tax is usually passed on by developers to homebuyers.

No matter when and in what way the property tax is levied, what is certain is that it will affect land-use sales by local governments, according to a report by brokerage Guotai Junan. In the past, local governments usually adjusted the supply of land according to market demand. Once a property tax is implemented, local governments will be motivated to sell more land-use rights to collect more property tax in the future, the report found.

China's Shenzhen and Hainan could be property tax testing ground

China has the conditions to advance trial work on a property tax, and Shenzhen city and Hainan province could be testing grounds for it, with both of them frontiers of China's reforms, a state-run newspaper reported, citing several experts.

The report came amid mounting speculation that China plans to push ahead with a long-awaited property tax after a meeting last week held by regulators deliberating the matter, and as consistent heat in the housing market raises concern about financial bubbles.

"The meeting is different from the past, it focused on the pilot work of property tax, which has rarely been mentioned by authorities before," the Security Times said.

The southern tech hub of Shenzhen should be the first candidate for the pilot programme, due to its runaway home prices in a heavily speculated market, according to the newspaper, citing a researcher with China's top think tank, the Chinese Academy of Social Sciences (CASS).

The tax scheme roll-out in the balmy southern island of Hainan would be much easier with its largely regulated property market meaning less resistance for implementation, another expert said.

Any trial could be promoted in a staged way, with cities with average home prices of more than 30,000 yuan (US$4,665.56) per square metre being taxed first, followed by cities with lower home prices, the CASS researcher said.

China's current market-curbing measures range from land price caps and home transaction restrictions to loan availability.

In March, China omitted mention of a property tax in its 2021 legislative plan for a second consecutive year as the government focuses on boosting consumption to cement an economic rebound. However, the legislation remains in the economic development plan for 2021-2025.

China urged to push ahead with controversial property tax as 'inevitable' solution to local debt crisis

- Proposed taxation on property owners, which will eventually cover ordinary Chinese households, has received strong opposition for the past decade
- A pilot programme in Chongqing and Shanghai mainly target villas and high-end property owners, but could be expanded to include the likes of Shenzhen and Hainan

Real estate tax has not been put on the legislation agenda for this year, with Beijing warned to exercise caution because it has the potential to impact a wide range of industries and households, as well as the country's financial and social stability.

China’s latest move to introduce a controversial property tax represents a fresh crackdown on property speculation and a curb on runaway home prices, but analysts believe it is also an “inevitable” solution to help solve the nation’s debt crisis and ensure financial stability.

A new scheme, like many Western countries, would eventually cover ordinary Chinese households. At the moment, taxes and fees are mainly collected only at land auctions, or in the property development or trading process, with few additional costs for residential homeowners.

However, the real estate tax has not been put on the legislation agenda for this year, with Beijing warned to exercise caution because it has the potential to impact a wide range of industries and households, as well as the country’s financial and social stability.

A joint symposium on Tuesday, which included the Ministry of Finance and Ministry of Housing and Urban-Rural Development, heard opinions from municipal officials and experts about the current real estate tax reform pilot programme, further increasing speculation on the outlook for property taxation in more Chinese cities.

“There’s no doubt that it will be levied,” said Cai Chang, a tax professor at Central University of Finance and Economics. “The only issue is how.”

Beijing’s proposed taxation on property owners has received strong opposition for the past decade due to the lack of availability of housing information systems as well as questions about the legitimacy of such a move, as the land which a house is built on is already owned by the state.

Previous discussions often involved a number of exemptions for ordinary households, particularly those living in the only flat they own, to facilitate early implementation.

“The best time [to levy such a tax] should have been 20 years ago when home prices were low. Now it faces strong opposition,” said Larry Hu, chief China economist of Macquarie Capital, who nevertheless believes more cities will be added to the pilot programme.

The current programme in Chongqing and Shanghai mainly target villas and high-end property owners, with big cities with runaway home prices in line to be added, including the technology hub of Shenzhen.
Jia Kang, former head of the finance ministry’s research institute, told Chinese media earlier this week that reform pilot zones like Shenzhen and Hainan are good candidates.

Last month, a team led by Liu Xiuwen, deputy director of the top legislature’s budget work committee, visited the cities of Guangzhou, Jiangmen and Shenzhen in the southern province of Guangdong to study how to improve the local and direct tax systems.

Beijing’s amplified tone, with property tax legislation mentioned in the 14th five-year plan and in an article by Finance Minister Liu Kun last week, came as the Politburo headed by Xi Jinping bombarded property speculation in well-regarded school districts of big cities at its meeting last month.

Previous government endeavours concentrated on purchase restrictions and mortgage availability for buyers, land auction and financing restrictions for developers and the government’s affordable housing programme.

However, Yi Xianrong, a former researcher with the Chinese Academy of Social Sciences, believes policymakers intend to create a solution to the mountains of local government debt, particularly for many low-tier cities which are finding it much harder to sell land to raise funds. Once a prime source of income, these cities are now seeing their debt levels snowball.

"The core notion is to bring a stable stream of fiscal revenue for local governments and accordingly help solve the debt crisis," he said.

While the Finance Ministry has prioritised solving local debt risks, property taxes are part of its policy design to empower local financial strength, through the wider distribution of national tax revenue and the creation of more local taxes.

"The old [real estate driven] growth model can no longer last. Housing is everywhere, but who dares to buy?" said Yi.

Local authorities rely heavily on land sales revenues, which have nearly tripled in the past 10 years to 8.4 trillion yuan (US$1.3 trillion) in 2020.

Guiyang, the capital city of the Western province of Guizhou, said its net revenues incurred from land sales totalled 61.7 billion yuan (US$9.6 billion) last year, while its general budget revenues were only 39.8 billion yuan.

Although land auctions in big cities remain fierce, with the top 50 cities netting around half of the national land revenue, they also increase pressure on home prices.

Real estate has been a pillar industry since home privatisation in 1998, and despite repeated efforts to lower the reliance, it still accounted for 26.8 per cent of the national fixed-asset investment last year.

Outstanding real estate related loans, including lending to developers and mortgages for individuals, hit a high of 50 trillion yuan (US$7.7 trillion) at the end of March, accounting for 28 per cent of total outstanding loans.

China Signals Renewed Effort on Property Tax

Chinese policy makers signaled they may revive efforts to introduce a national property tax, as surging home prices raise concerns over a widening wealth gap.

A trial of real estate tax reform was discussed at a seminar held Tuesday by officials from China's Ministry of Finance, top legislature, housing ministry and taxation administration, according to a statement on the finance ministry's website. The participants listened to opinions on the trial from local officials and some scholars.

The wording marks the first time Chinese policy makers mentioned a real estate tax trial, after years of pushing toward formal legislation on the levy, said Yan Yuejin, an analyst at E-House China Enterprise Holdings Ltd.'s research institute.

The move comes as authorities tackle a jump in residential property prices and President Xi Jinping vows to address wealth disparities in the world's second-largest economy. Real estate was the biggest driver of gains in household assets last quarter, overshadowing areas including financial investment, according to research by Chengdu's Southwestern University of Finance and Economics.

"Official news on the seminar is a strong signal sent by the Ministry of Finance," said Shi Zhengwen, a professor at China University of Political Science and Law in Beijing. "China may roll out a trial in some cities first, before finalizing legislation on the tax. Starting a trial this year is very likely."

President Xi said last month that China mustn't allow the gap between the rich and poor to widen further, according to a speech published on the website of Qiushi Journal under the Chinese Communist Party's Central

Committee. Residents "becoming well off together," a concept more frequently mentioned by Xi in the past year, is a "major political issue," instead of an economic one, he stressed in the speech.

A renewed fear of missing out on property gains has spread across China's biggest cities since last year as people seek to protect their wealth against inflation following the pandemic. Despite more meticulous curbs deployed by local authorities, home prices grew at the fastest pace in seven months in March.

A national tax on home ownership has long been seen as a key way to cool speculation, while also running the risk of depressing market sentiment. China voiced the idea for the first time in 2013, before work on drafting the law began, but little progress has been made since. In 2018, Premier Li Keqiang said the government will press ahead with the tax, yet in 2019, officials were still refining the draft.

In March, the government again pledged to push forward with the legislation as part of its new five-year plan covering 2021 to 2025.

China revives efforts to roll out property tax to rein in runaway home prices, after two-year silence

A high-level meeting signals the much-anticipated residential property levy is back on Beijing's agenda, according to industry experts

It comes after the central government highlighted the unaffordability of homes as a 'difficulty' in Premier Li Keqiang's work report in March

Chinese policymakers have revived efforts to roll out a much-anticipated property tax as part of a drive to tame soaring home prices which are beyond the affordability of the young generation.

The Ministry of Finance said it had attended a high-level meeting with the Budget Commission of the Standing Committee of the National People's Congress, the Housing Ministry and the State Taxation Administration to solicit opinions from city representatives, experts and scholars on a pilot scheme for implementing the real estate tax.

It did not disclose more details about the meeting in a statement issued late on Tuesday on its website. There had been no official mention of the plan over the last two years.

The meeting signals that the central government is reviving its efforts to roll out the residential property levy soon to rein in runaway home prices, according to industry experts, after the problem was highlighted in the run-up to the "two sessions" in March.

"The four authorities that participated in the meeting are the four that will be involved in implementing the property tax, from the one responsible for legislation to the one that will collect the tax," said Yan Yuejin, director of Shanghai-based E-house China Research and Development Institute. "The signal is strong enough that it is very likely that the tax will appear within the [current] five-year plan period by 2025."

The meeting came after the central government highlighted the unaffordability of homes as a "difficulty" in Premier Li Keqiang's annual work report in March.

"We will keep the prices of land and housing, as well as market expectations, stable," Li said in the report to China's legislature in Beijing. "We will address prominent housing issues in large cities [and] make every effort to address the housing difficulties faced by our people, especially new urban residents and young people."

The Chinese government is anxious to prevent any grievances from housing affordability from spilling over into social instability, as it grapples to keep the economy growing amid the coronavirus pandemic. Homes have become so expensive that Chinese couples are putting off having a second baby, undermining government efforts to boost the population, according to a Beike Research Institute survey last November.

"[The tax] could come within a year or two, considering the crazy speculation in cities like Shenzhen, where the home prices have increased too fast," Yan added.

China's new residential properties tax will be based on "appraisal value", Finance Minister Xiao Jie confirmed in an article published by the People's Daily in December 2017. He suggested the necessary legislation would be completed in 2019.

In March, China omitted mention of the property tax in its 2021 legislative plan for a second consecutive year as the government focuses on boosting consumption to cement an economic rebound. The legislation remains in the country's economic development plan for 2021-2025.

"First-tier cities like Shenzhen are likely to be targeted as home prices remain high," said Andy Lee, chief executive for southern China at Centaline Property Agency, which has 1,500 branches in the country.

Home prices in Shenzhen, the most expensive city to own a flat, have soared 179 per cent since January 2020. But they retreated 7 per cent to an average of 56,149 yuan per square metre in April from a year ago after 13 rounds of market-cooling measures that began last summer, according to data from the E-house China Research and Development Institute.

"In our view, any wide-reaching tax regime change is likely to take a number of years to implement nationwide, so its contribution to the stabilisation of home prices would be for the long term rather than immediate," said Chris Yip, senior director at S&P Global Ratings.

Some owners of several flats are expected to reduce their holdings as the introduction of the property tax re-emerges.

PHILLIPINES

Business seeks urgent passage of real property valuation bill

Business groups have urged Senate to pass immediately the Real Property Valuation and Assessment Reform Act, the Package 3 of the Duterte administration's Comprehensive Tax Reform Program (CTRP).

"We declare our strong support for the immediate passage of the Real Property Valuation and Assessment Reform Act," said the group in a statement.

According to the 11 business groups, they collectively agree with the intent of Package 3 in promoting the development of a just, equitable, and efficient real property valuation system through the introduction of some reforms.

These reforms include the adoption of a uniform valuation standard based on international valuation practices; the establishment of a single valuation base for taxation and for other purposes; establishment of a comprehensive database to support real property valuation functions; centralization of the approval of the

Schedule of Market Values (SMVs); and the strengthening of the valuation functions of the Bureau of Local Government Finance.

Businessmen said that adoption of a uniform valuation standard and establishment of a single valuation base will correct the present situation of having multiple and overlapping real property valuation that has resulted in confusion and brought about huge transaction costs for the public and foregone revenues to the government.

They noted that conflicting land values causes delay and conflicts in right-of-way compensation for public infrastructure projects, make doing business for investors difficult and risky, and stunt the growth of an otherwise vibrant land market.

Also, the establishment of a central database of land transactions will make data available for better SMV setting. Regularly updated SMVs will ensure that real property goes to its highest and best use. This will also support the land use planning and zoning of Local Government Units.

Without the imposition of new or additional taxes, Package 3 will widen the tax base for property taxes and bring in additional revenues for both the national and local government units.

“The proposed reforms under package 3 will enhance transparency and credibility in the valuation standards in the country, and confidence in the land market,” they said adding that ultimately, the Real Property Valuation Reform will benefit all.

“We therefore call on the Senate for the immediate passage of this pending measure,” the business groups concluded.

The petition was signed by 11 business groups. These are American Chamber of Commerce of the Philippines, Inc. Australia-New Zealand Chamber of Commerce Philippines, Canadian Chamber of Commerce of the Philippines, Inc., European Chamber of Commerce of the Philippines, Japanese Chamber of Commerce and Industry of the Philippines, Inc., Korean Chamber of Commerce Philippines, Foundation for Economic Freedom, Philippine Chamber of Commerce and Industry, and Philippine Institute of Environmental Planners Rural Bankers Association of the Philippines.

Shenzhen luxury home price growth beats Hong Kong, London, New York and Paris as China’s post Covid-19 economic surge continues

- Traditional luxury property markets such as Hong Kong, London, Dubai, Paris and New York languished near the bottom of the rankings in first quarter
- Shenzhen’s soaring luxury prices have started to limit the options for affluent Chinese looking to upgrade their living space

Mainland China’s tech hub of Shenzhen recorded the fastest growth in luxury home prices in the world in the first quarter, up by 18.9 per cent over the same period a year ago and beating traditional prime property markets such as Hong Kong, London, New York and Paris, according to property consultancy Knight Frank.

Chinese cities Shanghai and Guangzhou also came second and third in the list of 46 cities, registering price growth of 16.3 per cent and 16.2 per cent respectively. Shenzhen and Guangzhou are two of the 11 cities in Beijing’s integrated economic and business hub initiative for the Greater Bay Area.

Traditional luxury property markets such as Hong Kong, London, Dubai, Paris and New York languished near the bottom of the rankings, placing 42nd to 46th, respectively, with falls of between 3.1 per cent and 5.8 per cent in prime prices over the period. Prime prices are defined as the top 5 per cent of the housing market in value terms.

"China was first to recover from Covid-19 with property prices rebounding in the second quarter of 2020," said Martin Wong, director and head of research and consultancy, Greater China, Knight Frank. "All first-tier cities were expected to lead home price growth following the Covid-19 pandemic with Shenzhen, Shanghai and Guangzhou having relatively less stringent policy restrictions than Beijing."

China's tough anti-pandemic measures – such as sealing off Wuhan where Covid-19 infections were first detected and lockdowns across the entire Hubei province with its 60 million residents – helped to contain the pandemic and enabled the economy to grow by 2.3 per cent in 2020, compared with a contraction in global output of about 3.3 per cent.

In the first quarter of 2020 Shenzhen was not even included in the index but prices started to rise in April, after the central government loosened liquidity to boost loan growth and the country's economy. Guangzhou ranked fourth while Shanghai was 24th in the list last year.

A simple fishing village four decades ago, Shenzhen is now home to China's largest companies such as games publisher Tencent Holdings, the 5G telecommunications device maker Huawei Technologies Co, the lender and insurer Ping An Group, and drone-maker DJI.

A luxury home in the city is typically a unit with a size of at least 200 square metres and priced at least 100,000 yuan (US$15,445) per sq m. This makes for entry level luxury homes priced at between 15 million yuan and 16 million yuan, according to Knight Frank.

The soaring prices have started to limit the options for affluent Chinese looking to upgrade their living space.

"My husband and I have been looking for a bigger home ever since Covid-19 hit last year as we are spending more time at home than before," said April Feng, 35, who works in fund management. "But the prices keep increasing. Our ideal home would be a 200 sq m unit with at least five rooms close to downtown [Shenzhen] with a price tag of 15 million yuan. But now, with this kind of budget, we may end up with just a 150 sq m home."

Soaring home prices have also triggered a slew of new property curbs, such as limiting banks' property-related lending, and more stringent requirements for Chinese developers seeking to borrow funds.

China Construction Bank, one of the four major state lenders, has raised its mortgage rate to 5.1 per cent from 4.95 per cent for a first home and to 5.6 per cent for a second home, which roughly translates into an extra 5,500 yuan in annual mortgage payments if a homebuyer borrows 5 million yuan, according to state-backed media outlets.

In Shenzhen specifically, residents with hukou can only buy a home if they have held the local household registration paper for more than three years. Families are restricted to owning two homes, while single people can only own one. Residents without hukou must pay more than five years of social security funds to buy a home. A points-based system prioritising first-time homebuyers is also in place.

These measures are likely to cool home prices in the short-term, although not in the mid- to long-term, according to James Macdonald, senior director, head of China research, Savills.

"Property curbs have been effective in controlling price growth in the first-hand mainstream and luxury markets in the past and there is nothing to suggest that they will not work this time as well," said Macdonald. "While the short-term market could see slowing price growth and lower transaction volumes, the mid to long term remains positive given the strong and growing base of end-user demand."

The limited supply of luxury homes in the top mainland cities is also likely to further boost prices, according to Nelson Wong, head of research at JLL in Greater China.

"Because of the wait-and-see attitude that developers took during Covid-19, there had been little high-end projects launched in the first quarter this year," he said. "At the same time, demand has been picking up as the pandemic worries continue to subside. In Shanghai, for example, the high-end residential segment saw 892 units sold in the first quarter, compared with 591 units in the previous one."

VIETNAM

Further scrutiny required before introducing property tax overhaul

To curb land speculation, some proposals regarding land-value taxation and progressive taxes based on the number of owned properties have been suggested, which experts believe could make it more costly for speculators to hold onto vacant sites in Vietnam.

Last month the Ho Chi Minh Real Estate Association (HoREA) proposed ideas of higher land and house taxation which could reduce land speculation and encourage business production, as well as yield higher revenues for the government.

The association suggested imposing higher income tax on the sale or transfer of houses and land rights after establishment to combat land speculation. Furthermore, setting a high tax rate for selling or transferring houses and land in the first year and keeping a high tax rate in the second and third years onwards was also consideration.

Moreover, the association noted that owners of property used for living are subject to the lowest tax rate, while people who own more underutilised houses and land that are not used for living or for businesses will be subject to progressive tax rates.

HoREA also suggested that the State Bank of Vietnam and other commercial banks implement stricter tightening of real estate-related credit.

However, the Ministry of Finance (MoF) believed that tax policies for the real estate sector must be more carefully studied and only introduced at an appropriate time to ensure feasibility.

"In order to contribute to improving the efficiency of state management on real estate, the study and completion of related tax policies is necessary. However, the sector makes up for the majority part of the whole economy, and its massive impact requires a wide range and collaboration of various relevant parties, ministries, and localities," the MoF noted in a response to the proposals.

"The MoF is continuing to study and synthesise international experiences, as well as identify problems and shortcomings in the implementation of tax laws related to real estate for better implementation of the National Tax system reform for the period of 2021-2030," the ministry added.

Tax policy can be an appropriate tool to monitor and control efficient transactions in the economy, for instance, high tax collection on transactions can lead to higher market sales or rent price, but limit transactions of real estate. The impact of such policies would therefore be significant to the real estate market, and affect buyers and sellers.

Nguyen Tan Tai, tax and corporate services manager at Grant Thornton Vietnam said, "Vietnam has regulations on personal income tax (PIT) on investment gain, specifically for real estate. The local authorities can consider appropriate tax rates periodically."

Tai noted that some countries have specific rules on tax on real estate, such as fixed rate on second homes in China and Canada; and progressive rate on house value and additional tax on second homes in the United Kingdom.

Last month, the New Zealand government also announced they would remove tax incentives for investors to make speculation less attractive. The moves come as surging house prices keep first-time buyers and people on lower incomes out of the market, raising concerns about growing societal inequality.

Tai explained, "Fixed tax rates on purchase of the second or the third house has been applied by many countries. This is an easy solution to apply and has been proposed in Vietnam the past. The increase in tax rate on property would be a major source of income and would come mainly from the rich, with little impact on those who do not own a house."

On the other hand, Tai added, instead of a progressive tax based on the number of owned houses starting with the second home, a progressive tax rate can be applied based on the value of following ones. This would not depend too much on the time of real estate ownership, Tai said, but would depend on the value of those following houses.

In the UK, anyone buying a second property would pay an additional 3 per cent on top of the relevant standard rate band.

"Regarding PIT from the transfer of the second property, the current PIT from real estate transfer is 2 per cent. We are of the view that the current Vietnamese tax policy is correctly and appropriately applied," Tai said.