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CONTENTS

PROPERTY TAX NOT UNDER CONSIDERATION, MINISTRY OF FINANCE CLARIFIES	1
PROPERTY TAX WILL NOT PREVENT SPECULATION: EXPERTS	2
PROPOSED NEW PROPERTY TAX DIVIDES OPINIONS	4

PROPERTY TAX NOT UNDER CONSIDERATION, MINISTRY OF FINANCE CLARIFIES

The Ministry of Finance has clarified that it is not considering a new property tax to allay developers' anxiety following recent reports it is doing so.

On February 24 it had written to government agencies and localities seeking feedback on several laws, including on real estate.

It had asked if it should combine the laws on use of agricultural and non-agricultural lands, impose a new housing tax and consider a law on taxing assets in general, including real estate.

But in a release Monday it said this was a routine evaluation of the implementation of laws as directed by the Prime Minister's Office.

If any agency or local government wants a property tax, it would report that to the government for consideration, it said.

Taxing property has been discussed often by officials and experts in the past.

The chairman of the National Assembly, Vuong Dinh Hue, had last September called on the central province of Thanh Hoa to study the creation of such a tax in urban areas.

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In 2018 the ministry had proposed taxing properties of high-income people, but it attracted public disapprobation, with many warning poor people could get hurt and the rich might not be affected much.

In 2017 the government had considered a tax on housing units in HCMC but again faced opposition.

Most experts that VnExpress spoke to agreed that a property tax is needed to stop the surge in prices in recent years, but developers are concerned about the negative impact on the market.

Dang Hung Vo, a former Deputy Minister of Natural Resources And Environment, said the current taxes and fees on real estate are too low and a new property tax is needed, but warned that people with many properties would try to delay its imposition.

PROPERTY TAX WILL NOT PREVENT SPECULATION: EXPERTS

Imposing property taxes on houses is not a radical solution to build a healthy market, experts say. Taxation will make the real estate market, which is in difficulties because of legal problems and short supply, become even more deadlocked.

Nguyen Quoc Khanh from the Vietnam Realtors' Association said that investment and trading of real estate are taxed. These include land use fees, corporate income taxes, transfer taxes and property registration taxes. All these kind of taxes and fees are taken into account when setting selling prices.

If the State imposes a property tax, the market will be seriously affected. The housing prices will be higher because of the additional tax, which will make both investors and clients wary. If so, the market will become frozen, with no transactions.

The lack of transactions will also affect local budget collections. The revenue from land transfer transactions and land use fees account for a significant proportion of budget collections. As such, property taxes not only will not help increase state budget collections, but also kill sources of revenue.

Tran Van Thanh from N.T Real Estate said that the Ministry of Finance (MOF) needs to consider carefully when proposing a new kind of tax at this sensitive moment. For the real estate market, it's necessary give time to businesses to prepare for new policies.

In 2009, Vietnam applied a new policy under which real estate was not a production sector and therefore the sector could no longer easily access bank loans. As a result, many real estate businesses faced difficulties, with led to bad debt. Some businesses even went

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bankrupt because of the policy, which affected the construction and, building materials industry, and workers.

Thanh warned that property taxes will restrict transactions in the commercial housing sector, and there will only be transactions of housing for accommodation and few transactions for business purposes.

The tax will also lead to a shortage for the leasing sector because of high taxes, and will not encourage investment.

The impact will stifle the growth of the real estate market, an important business field of the economy which affects 40 other industries such as construction, cement and steel manufacturing.

He said that in Vietnam, the housing market segment is developing well with supply still far behind demand and there is no sign of an overly hot market caused by speculation.

“I think MOF needs to consider the situation carefully before proposing the taxation, especially when businesses are in difficulties because of the pandemic.”

Dinh Trong Thinh from the Vietnam Finance Academy also thinks that it is not the right time to impose that kind of tax at this time.

He said people and families are experiencing a tough period because of Covid-19 with revenue decreasing. Therefore, imposing a property tax at this time won't be supported by people and businesses.

HOREA (HCM City Real Estate Association) Chair Le Hoang Chau, said, in most countries, land is privately owned and a 'land use fee' doesn't exist as in Vietnam.

In legal documents, a land use fee is not a kind of tax, because it is stipulated in the Land Law. But it is collected to give to the state budget. If a property tax is imposed, new taxes would be heaped on old ones.

Removing bottlenecks

MOF, when proposing the property tax, believes that this is a solution to help prevent speculation, thus helping the real estate market develop well. But according to Nguyen Duc Lap from the Real Estate Research and Training Institute, the bottlenecks in the legal framework and the enforcement of regulations are the major reasons hindering the development of the real estate market and raising prices.

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In 2022, real estate prices are expected to continue rising and supply-demand imbalance will become more serious, especially in Hanoi and HCM City.

He believes that the most radical solution to the problem is simplifying legal procedures and increase the supply. The supply will create healthy competition which helps to reduce prices and brings more opportunities for people to own houses.

It's also necessary to urge local authorities to speed up the approval of investment in projects, which will help improve supply.

Regarding long-term solutions, in addition to the standardization and optimization of the regulations to make the market healthy, it's necessary to use tax as a tool to regulate supply and demand, and real estate prices.

Instead of putting one more burden on people and businesses with a new kind of tax, Vu Dinh Anh, an economist, said favorable conditions for the real estate market to recover after the pandemic are needed. The most important thing is improving the financial capability of real estate firms by recovering revenue and profits, as well as increasing their stockholder equity and core capital.

Anh believes that policies on tax payment postponement, tax and land use right fee reductions, and reductions of tax obligations will help real estate firms recover their financial capability.

PROPOSED NEW PROPERTY TAX DIVIDES OPINIONS

A new property tax that authorities are considering to prevent land speculation has evoked a mixed response with developers opposing it, saying the market could be negatively impacted.

After the Ministry of Finance earlier this month solicited opinions on the proposal, most analysts VnExpress spoke to supported the idea of hiking taxes on property amid the surging prices and speculation.

Currently there is a land-use fee, with ownership of all land technically vesting with the government, and no property tax.

Dang Hung Vo, a former deputy minister of natural resources and environment, said now is the right time for a new tax on property, pointing out there is only a 0.03-percent tax on non-agricultural land, which is too low compared to 1-1.5 percent in other countries.

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The low property tax has been taken advantage of by rich people to widen the wealth gap, he said.

For the tax to work, the government needs to ensure that the rich pay more for their property while the poor pay a low or even no tax, he said.

Since the doi moi economic reform in the 1980s, land prices have risen by 300-400 times, he said.

People are now pouring three or four times more money into land than business, he said.

"Land speculation has been rising, and prices have been surging, which are the main causes of inflation".

Le Hoang Chau, chairman of the Ho Chi Minh City Real Estate Association, said a property tax would ensure a fair and transparent real estate market.

But to tax property, the one-time land use fee buyers have to pay needs to be lowered from the current 10 percent of an apartment, 30 percent of a house and up to 50 percent of a villa, he said.

Other requirements are a system to list owners and all their properties, and ensuring that all property transactions are done through bank accounts, he said.

"The market needs to be regulated well before authorities consider taxing."

Nguyen Van Dinh, chairman of the Vietnam Real Estate Association, said such a tax should have been imposed a long time ago to prevent speculation.

However, real estate industry insiders expressed concern about the tax proposal, warning it could affect the market.

The head of a real estate development company in eastern HCMC, who asked not be named, said the tax should prevent land speculation but not hamper the development of the market, which could have a knock-on effect on many other industries.

The CEO of a property developer in District 1 said the high annual land-use fee coupled with the new tax could become a burden on property owners.

Vo warned that people with many properties would try to delay imposition of the tax.

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