



# VIETNAM - September 2017

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## Taxing second-home owners must be studied carefully

The Ministry of Finance’s intention to impose a so-called asset tax on second-home owners must be studied carefully to prevent negative impact on the real estate market, which still lacked transparency, experts said.

The Ministry of Finance is seeking to tax second-home owners to prevent speculation.

Recently, the finance ministry said it would compile a law on asset tax, including taxes on owners of more than one house, to limit speculation as well as wasteful use of real estate assets.

This stirred the realty market which only recently escaped a prolonged frozen period to enter recovery thank to a combination of support measures, but currently still lacked market information transparency.

“Viet Nam does not have adequate market information, which will make it difficult to tax second-home owners effectively. It is not the right time to impose asset tax on home owners,” property expert Dang Hung Vo said.

According to Matthew Powell, director of property services firms Savills Ha Noi, many countries now imposed taxes on second-home owners, but in Viet Nam, caution was required.

At present, Viet Nam’s real estate market was stable, thus, the tax imposition could cause a decline in market demand and purchasing power, he said, adding that tax should be applied only when there was significant imbalance between market supply and demand.

Vu Van Phan, deputy director of the Housing and Real Estate Management Department under the Ministry of Construction, said the real estate market was especially sensitive to policy changes.

For the long-term, the imposition of asset taxes, including home-ownership tax was necessary, but when to tax, how to tax and who would be taxed needed to be studied thoroughly, Phan said.

Phan added that purpose of imposing tax would be to prevent speculation and encourage home owners to use their assets more effectively.

Tax land or home?

Phan said the Government currently imposed tax on non-agricultural land at a rate of 0.03 per cent of the Government’s fixed land prices (much lower than the market price). The tax rate on non-agricultural land was too low to encourage land owners to use their assets with efficiency and prevent speculation, compared with the rate of around 1 per cent in many countries, Phan said.

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A report by the Ministry of Finance revealed that collection of land use fees in Viet Nam accounted for 0.03 per cent of the country's gross domestic product and 0.15 per cent of the State budget revenue. In comparison, collection from asset taxes accounted for around 4 per cent of Canada's GDP and 3 per cent of the United States'.

According to Phan, tax on non-agricultural land could be considered a kind of asset tax, thus, it was necessary to ensure there was no overlap with the new tax on home owners, adding that there would be two options -- replacing the tax on non-agricultural land or amending it towards taxing land with houses.

According to Nguyen Van Phung, director of the Large Taxpayers Management Office under the General Department of Taxation, it was important to develop a transparent and healthy real estate market to support tax collection.

### Low land taxes prompt rich to hoard money in houses

Meanwhile, the land user only has to pay VND5.82 million every year.

Under the non-agricultural land use tax law, which took effect on January 1, 2012, non-agricultural land, including housing land in urban areas, is subject to tax. The tax rate is 0.03 percent of the land price set by local authorities, applied to the land area within the limits.

Meanwhile, the 0.07 percent tax rate is applied to an excessive area which is no more than three times higher than the limit, and a tax rate of 0.15 percent is applied to an excessive area more than three times bigger than the limit.

Under the non-agricultural land use tax law, which took effect on January 1, 2012, non-agricultural land, including housing land in urban areas, is subject to tax. The tax rate is 0.03 percent of the land price set by local authorities, applied to the land area within the limits.

The land price set by local authorities, or the taxable price, is equal to 30-40 percent of the market price.

Therefore, the tax that landlords pay to the state budget is modest. An MOF report said that the source of revenue from land use tax just amounts to 0.03 percent of GDP and 0.15 percent of the state budget's total receipts.

A house covering an area of 100 square meters on Dong Khoi street, for example, has the land price set by local authorities at VND194 million per square meter though the market price is VND1 billion.

As such, the taxable value of the land would be VND194 million x 100 square meters, or VND19.4 billion, and the tax the landlord has to pay would be VND19.4 billion x 0.03%, or VND5.82 million a year.

MOF is attempting to impose this kind of tax in the future, saying that the tax is being applied in many countries. Asset tax collection brings 2 percent of total revenue of the state budget from tax collection in OECD countries, 4 percent in Canada and 1-3 percent in the US. In other developing countries, the figure is 0.6 percent.

The ministry emphasizes that it is necessary to impose a property tax in order to create a stable source of revenue for the state budget.

According to HoREA, the land use right fees account for a large proportion in housing costs – 10 percent of apartment costs, 30 percent of houses and 50 percent of villas.

Therefore, it would be unreasonable if MOF imposes a property tax but doesn't amend the policy on land-use right fees.

The association has proposed replacing the 'land-use right fee' with 'land use right tax' with the fixed tax rates, suggested at 10-15 percent of the land price set by the local authorities.

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