



# VIETNAM - April 2018

---

**PROPOSED NEW PROPERTY TAX RAISES EYEBROWS IN VIETNAM ..... 1**

**EFFECTIVE SPENDING REQUIRED FOR PEOPLE’S ACCEPTANCE OF NEW PROPERTY TAX PROPOSAL ..... 2**

**CONSTRUCTIVE OPINIONS SHOULD BE HEDED WHEN DRAFTING PROPERTY TAX LAW ..... 3**

**LEGISLATURE HAS YET TO WEIGH PROPERTY TAX..... 4**

**VIETNAM’S PROPOSED PROPERTY TAX WON’T HIT THE POOR ..... 5**

**MINISTRY OF FINANCE PROPOSES NEW HOUSING TAX ..... 5**

---

## **Proposed new property tax raises eyebrows in Vietnam**

Experts are concerned that the tax will hit low income earners where it hurts.

Vietnam is considering imposing a new tax on people who own property worth VND700 million (\$30,700) or more.

The 0.4 percent tax has been proposed by the Ministry of Finance, which claims it will bring in VND31 trillion (\$1.3 billion) per year and help Vietnam “get in line with regulations on property tax rates in other countries.”

However, experts have expressed their concerns about the idea.

The new tax will be a burden on property owners, who already have to pay land use tax from 10 to 50 percent of their property's value, said Le Hoang Chau, chairman of the HCMC Real Estate Association.

It will also inflate house prices and have a negative impact on the market, Chau added.

In Ho Chi Minh City alone, 95 percent of properties are worth VND700 million or more, so the majority of homeowners will be hit by the tax, said Tran Khanh Quang, CEO of Viet An Hoa Real Estate Investment JSC.

"When unexpected moves like this hit the market, negative reactions can occur. However, it is still too early to predict the future," Quang said. He added that in the long-term, it could create potential risks for real estate investors.

Many Vietnamese people buy properties to lease them out, but if the law is approved, people will have to think hard before they buy due to the new tax, said Nguyen Quoc Hiep, CEO of GP Invest.

The resulting reluctance to invest will result in a slow real estate market, which currently accounts for 11 to 12 percent of GDP each year, Hiep added.

Many countries have a similar tax known as the millage rate, a figure representing the amount per \$1,000 of the assessed value of property, said Pham Sy Liem, former vice minister of Construction.

## **International Property Tax Institute**

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

However, there should be a more accurate way of calculating which properties should be taxed so that lower income people won't have to pay too much, Liem said.

We are aware that this could affect people who have high-value property but limited incomes, said Pham Dinh Thi, director of the Tax Policy Department under the Ministry of Finance.

To address this issue, an article will be added to the bill to allow people to defer their tax payments until as and when they sell the property, said Thi.

The ministry is planning to send its proposal to other departments for feedback, but it has already been met with public disapproval.

"I am already paying back a bank loan for my apartment. Now this tax!" said a VnExpress reader.

"What 'other countries' is the Ministry of Finance trying to get in line with? And do we have the same social welfare as them?" another reader questioned.

### Effective spending required for people's acceptance of new property tax proposal

The Ministry of Finance has proposed imposing a new tax on people who own property worth VNĐ700 million (\$31,000) or more.

The Ministry of Finance claims that the 0.4 per cent tax would bring in VNĐ31 trillion (\$1.3 billion) per year and help Viet Nam "get in line with regulations on property tax rates in other countries."

But does that get it line with the people?

Not likely.

Currently, there is no tax on owning a house. Land users must pay an annual non-agriculture land use tax at a progressive rate of 0.03 per cent to 0.15 per cent of the land price per square metre, determined by the state every five years.

The proposal means house owners will have to pay a new kind of tax for their house, apart from the land use tax they're paying now.

The finance ministry justified this new tax by saying that data from other countries show that the lowest property tax rate stands at 0.2 per cent, which makes Viet Nam's tax rate too low. Also, the new policy would help stabilise the property market, restrict speculation and increase efficiency in using properties.

Now let's take a look: The average wage per person in Viet Nam is around VNĐ3.2 million (\$150) a month. It's not easy to save up VNĐ700 million to buy a house – not to mention that in order to own a house of such value, owners will have to pay various types of taxes already. That includes a 10 per cent value added tax, 0.5 per cent land use tax and some other extra fees for necessary registration procedures.

It's a lot of taxes already. One more thing to consider: In Viet Nam, people don't own land. People can only have a land use certificate. This means if you buy a property, you never really own it. In Viet Nam you lease it from the Government and the Government can always take that land back at any time.

And if the finance ministry wants to prevent real estate speculation, why not add a tax on second homes? Owning a house to live in is important to many people, even those who must scrimp and save to achieve the dream. A house of VNĐ700 million or VNĐ1 billion is often owned by those with low or average income – not those with high income. It's not fair to impose such a tax on people with lower income but ignore those with two or three more properties just because "it's difficult in Viet Nam to identify who has two or more houses", as the finance ministry once said.

### International Property Tax Institute

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or anyh opinions expressed in the articles.

It's true: People can't expect the Government to work for them for free – some types of tax collection are necessary to ensure effective operation of the Government. People can only be willing and happy to pay taxes if the collection is rational and they know their tax payment will be used effectively for the community's good.

In Viet Nam, people are often under-informed of how their tax payments are spent. When the gasoline taxes were increased, many people were opposed. I don't think they opposed the tax itself – they wanted to be properly informed of how the tax is going to be spent to protect the environment, how the air and the environment were going to be improved after raising the tax.

In this situation, the authorities need to be transparent on how the new tax will benefit people. Because collecting tax is not only for the sake of Government's spending, it must be used to serve the people and the community. If the finance ministry and the Government can prove to people that the tax is used wisely, effectively and transparently, I believe people would accept the new tax happily.

#### Alternative approach

Dang Hung Vo, former deputy minister of environment and natural resources, agreed with the property tax proposal. He said he thought it was necessary for the Government to improve infrastructure, public services and urban development. However, he argued the housing property tax should adopt an area-based approach rather than a value-based approach.

This can be seriously considered: taxes should focus on developed areas and should not create burdens for low-income people. A reconsideration and thorough review of the property tax proposal based on this approach would be better accepted by the people.

At the end of the day, too much tax collecting is a signal of ineffective government budget balancing. Tightening State spending is still a more acceptable approach when the authority is faced with budget problems.

Recently the Government has show its determination on this matter by setting a goal by 2021 to reduce the state payroll by at least 10 per cent compared to the 2015 figure. But the road is long and windy: Government auditors earlier this year urged state departments to tighten control of human resources after finding 57,175 public workers on the payroll are actually not needed.

People will accept reasonable tax payments – but the Government also needs to earn this with effective spending and zero tolerance for waste in its system.

Prime Minister Nguyen Xuan Phuc said in a meeting earlier this week that the Government would try to listen to people's voices and needs, mentioning the finance ministry's property tax proposal. Let's hope we will be heard, and answered.

#### Constructive opinions should be heeded when drafting property tax law

The Ministry of Finance (MOF) has announced its plan to build a law on property tax but its controversial provision of a housing tax has raised public concern and even opposition in recent days.

According to the MOF, the law is part of an effort to reform the tax system in a more inclusive way to create resources for socio-economic development.

A look at international experience shows that a property tax is currently levied in 174 out of 193 countries worldwide, mostly on land and housing.

Property tax is a significant source of government income, accounting for an average of 3-4%. The proportion is 8% of GDP in Japan and approximately 2% in a number of developing countries in Asia.

In Vietnam, revenues from property tax account for just 0.036% of GDP and the tax is currently applied to land only.

Although the property tax law has been formulated with lofty goals in mind, many people have expressed their concerns and even objections as soon as it was publicised. The most hotly debated provision in the draft law is the tax on housing, as the MOF proposes a rate of 0.4% for a home valued over VND700 million (US\$30,800).

#### International Property Tax Institute

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or anyh opinions expressed in the articles.

Under this regulation, most houses in cities and a significant number of houses in rural areas will be subject to the property tax. The majority of city residents will have to pay the tax because the prices of most houses in a city are above the VND700 million threshold. The public has also questioned the accuracy, equality and transparency during the evaluation of house prices.

During discussions on the draft law, some suggested that the tax should only be levied on second homes. But the MOF disapproved the suggestion, stating that it is not appropriate with Vietnamese conditions and requires the coordination of many agencies, particularly in the complexity of determining the second homes of individuals and organisations.

This argument has prompted the public to think that the MOF is seeking the easier option by taxing homes worth VND700 million or more.

The property tax is an effective instrument in many countries and in Vietnam it is a correct and necessary policy to help manage properties in line with international practices and the context of global economic integration.

However, it is necessary to look at the specific conditions of Vietnam when implementing the law, especially ending the state management agencies' mindset of choosing the easy way, which places more burden on the people and creates loopholes that can be exploited in the process of evaluating house prices and determining those exempt from the tax.

In addition to expanding the tax base, the MOF needs to take bold action to reduce expenditure and prevent the loss and waste of government revenues in order to ensure a healthy and sustainable budget.

Although it is only an initial draft, the functional agencies should continue to listen to constructive opinions so as to fine-tune the law and develop an implementation roadmap appropriate with Vietnam's socio-economic reality.

### Legislature has yet to weigh property tax

The National Assembly has yet to look into a draft law on property tax which would force individuals to pay the tax on their personal assets, a stance opposite to an announcement by the Finance Ministry last week, Tuoi Tre newspaper reports.

Pham Dinh Thi, head of the Tax Policy Department under the Finance Ministry, said at a press conference last Friday that the ministry was considering imposing the tax on houses, land, and movable properties.

However, NA General Secretary Nguyen Hanh Phuc told Tuoi Tre newspaper on April 17 that he had got the news about the controversial proposed tax from local news outlets and social media. The proposal was made known by a department-level spokesperson of the Finance Ministry.

"In the process of policy making, research and suggestion, they (the Finance Ministry) could come up with plans and proposals. The problem here is that there is something wrong with the way they send their message to the public," said Phuc.

He emphasized that the NA Standing Committee gave feedback on the 2018-2019 lawmaking program on Monday. No official proposal for the draft law on property tax was made.

Nguyen Duy Hung, deputy head of the Government Office, also confirmed with the newspaper that the Government has no intention to either take a look at the draft law on property tax or forward it to the NA for consideration.

Earlier, he announced at an NA Standing Committee meeting on Monday that the main priority of Prime Minister Nguyen Xuan Phuc and the Government is to amend and issue laws aimed at implementing administrative reforms, removing obstacles, and creating favorable conditions for local residents to do business.

As stated by Thi at the press conference last Friday, the draft law would require that all houses valued at higher than VND700 million (US\$30,700) would be subject to a tax rate of 0.4% on the amount above the threshold, while luxury cars, yachts, and planes worth over VND1.5 billion (US\$65,800) would also be affected.

Moreover, the ministry suggested two methods to determine a taxable threshold, either by remaining housing value or by area.

### International Property Tax Institute

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or anyh opinions expressed in the articles.

Taxing properties by area is simple and makes it easy to determine the payable tax amount. However, it covers owners of low-value or makeshift houses and homes in rural areas but may skip houses of higher value in cities.

If the tax is imposed on houses of over 100 square meters, owners of nearly 1.9 million shanty houses and those in rural areas will be subject to the tax, according to the 2011 statistics of the National Housing Development strategy until 2020, with a vision for 2030.

Therefore, the ministry is in favor of the tax calculation based on the value of houses to ensure fairness among homeowners. Accordingly, houses whose value exceeds VND700 million or VND1 billion would be taxed 0.3% or 0.4%.

With the rate of 0.3%, the ministry expects to collect VND22.7 trillion from owners of houses worth over VND1 billion, or VND23.3 trillion from those houses costing more than VND700 million. Meanwhile, the tax rate of 0.4% would help generate VND30.3 trillion to VND31 trillion respectively.

The ministry is more inclined towards a 0.4% tax rate for houses which are valued over VND700 million, according to Thi of the Tax Policy Department.

In addition, the ministry proposed not taxing the second home, as it is not in line with the current reality, and might adversely affect the local real estate market.

### **Vietnam's proposed property tax won't hit the poor**

Authorities claim the tax only aims to combat land speculation by high income groups.

Low income earners will not be affected by a proposed property tax, which would only apply to those who own property worth VND700 million (\$30,700) or more, authorities said.

The 0.4 percent tax was proposed last week by the Ministry of Finance, which claims it will add VND31 trillion to the state coffers each year and help Vietnam "get in line with regulations on property tax in other countries."

"The proposed law is aimed at high income groups to combat land speculation and to ensure that land and house owners will actually use their properties," said finance minister Dinh Tien Dung on Friday.

Low income people will not be affected by the proposed bill, and financial transparency in property management will be guaranteed, Dung said.

The objective is to restructure and expand budget revenue while also reducing spending, the minister said.

But experts said low income earners will also be hit because most property in Vietnam is already worth more than the proposed threshold.

In Ho Chi Minh City alone, 95 percent of properties are worth VND700 million or more, so the majority of homeowners will be hit by the tax, said Tran Khanh Quang, CEO of Viet An Hoa Real Estate Investment JSC.

The Ministry of Finance collected VND120 trillion in land and housing related fees and taxes last year.

Land use tax accounts for the largest proportion of state income, about 6.6 percent. It has been increasing every year, from VND45.1 trillion in 2015 to VND79.5 trillion in 2017.

### **Ministry of Finance proposes new housing tax**

The Ministry of Finance has proposed a tax on houses depending on their construction value as part of a draft law on property tax.

### **International Property Tax Institute**

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or anyh opinions expressed in the articles.

Under the proposed law, there are two options: imposing tax on houses with construction value of either more than VND700 million (US\$30,800) or VND1 billion (US\$44,000).

The proposed tax rate is 0.3 or 0.4% annually, with only the surplus construction value above the proposed threshold to be taxed.

For example, if the threshold is set at VND700 million, the owner of a VND1.7 billion (US\$74,800) house would have to pay tax on VND1 billion, equivalent to VND3-4 million (US\$132-176) per year.

The construction value of a house is determined by factors including its type, scale and how many years it has been in use since construction.

If the tax on houses worth more than VND700 million is applied, the finance ministry will be able to collect property tax of about VND23.3 trillion (US\$1.01 billion) to VND31 trillion (US\$1.4 billion) per year.

If the second option is approved, the tax collection is estimated to vary from VND22.7 trillion (US\$987 million) to VND30.3 trillion (US\$1.3 billion).

The ministry currently favours taxing houses worth more than VND700 million at a rate of 0.4%.

According to Pham Dinh Thi, director of Ministry of Finance's Tax Policy Department, data from other countries show that the lowest property tax rate stands at 0.2%. However, countries mostly apply high rates like Indonesia's 0.5% and 1-2% in the Philippines.

He said taxing houses and trade-service construction work will impact enterprises' production and business. The draft is scheduled to be submitted to the National Assembly for feedback in 2020.

The ministry is also seeking to increase land tax. Under the same draft law, land taxes in some categories might rise by multiple times compared with those currently stated in the Law on Non-Agricultural Land Use Taxes.

For example, housing land might get a 0.3 to 0.4% tax rate, ten times higher than current minimum rate of 0.03%.

The draft law on property tax also proposes tax on personal vehicles such as planes, yachts and cars worth more than VND1.5 billion (US\$65,000).

Truong Thanh Duc, chairman of the BASICO Law Firm, said a property tax law is necessary, however, "people's incomes must be taken into consideration when studying the law enforcement," he said.

Dang Hung Vo, former Deputy Minister of Environment and Natural Resources, agreed with the land tax hike by ten times, saying that housing land tax of 0.4%, 0.5%-tax on business, trade and service land are reasonable. In the future, it could be increased to 0.7 to 1%.

If land tax is high, land prices will fall, while if the tax is low, speculative hoarding might happen. If the tax is high, anyone who wants to buy land must consider whether they can afford the tax or not, he said.

However, he opposed the housing property tax proposal, adding that developed countries impose housing tax depending on house area (not on value).

Nguyen Anh Tu, a State officer living in Hanoi, said that a house in Hanoi and HCM City cannot be bought for less than VND700 million.

"I had to borrow 70% of the house value from the bank to afford the payment, not to mention additional fees. Now if I have to pay an annual property tax, I don't know when I could pay off the debt," he said.

Finance and banking specialist Nguyen Tri Hieu said imposing tax on land and houses is crucial to create equality in owning properties. However, the property tax law should require land tax only.

### International Property Tax Institute

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or anyh opinions expressed in the articles.

“People already pay personal income tax. There will be overlapping taxes if we require people to pay tax on the money they use to buy a house,” he said.

Le Hoang Chau, President of Ho Chi Minh City Real Estate Association, said if the law takes effect, the real estate market will be impacted, slowing business and investment activities.

Disagreeing with the proposal, the Ho Chi Minh City Real Estate Association proposed no tax on houses worth less than VND1 billion to support low-income and low middle-income people.

Chau also proposed a 0.4%-tax on housing land, apartment building land and houses worth more than VND1 billion.

### **International Property Tax Institute**

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or anyh opinions expressed in the articles.