Vietnam Investment Review

Further scrutiny required before introducing property tax overhaul

22:24 | 17/05/2021

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.

Legal bottlenecks will be removed this year, the real estate industry believes. Photo: VNA

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.

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