VIETNAM 2023: OPTIONS FOR PROPERTY TAX REFORM

ADAM MCCARTY & PIER FERDINANDO CINOTTO

BD@MEKONGECONOMICS.COM

MEKONG ECONOMICS

MARCH, 2023

Table of Contents

Glossary

Term	Terms in Vietnamese	Definition
Land use certificates (LUCs) or Red Books	**Giấy chứng nhận quyền sử dụng đất (GCNQSDĐ) hoặc Sổ đỏ**	The 1993 land law granted five rights to users: the right to exchange, transfer, mortgage, inherit, and lease out the land. Land use certificates are known as “red books”, and concern all land not used for residential purposes. Since 2009, the functions of the red book have been taken over by the pink book (see below), but the red books still in validity do not need to be replaced.
Pink Books	**Sổ hồng**	A “pink book” is a form issued by the Ministry of Construction since 1994, the cover is pink with the content of residential ownership, hence the form is called “Certificate of ownership of housing and land use rights”. Before 2009, the pink book solely concerned residential land, while after, it also took up the functions of the red book (see above), and became the only official form for any type of land use. Since 2009, its colour has also been changed to a mixture of red and pink, known as “lotus pink”.
Appraised (assessed) value	**Định giá tài sản**	An evaluation (estimate) of a property’s market value that is executed by a real estate appraiser.
Land use tax (annual; Vietnam)	**Thuế sử dụng đất (hàng năm)**	A special type of property tax that is levied only on land and not on any structure attached to the land. Land use tax is an annual payment. Land **tax** is the additional amount paid every year after paying land use **fee**. Amount of land tax = (Taxable land area x Valuation of m2) x Tax rate. If a person pays Land **rent** or a Land use fee, they will still pay Land use tax. This tax falls under the General Department of Taxation’s category “House and Land Tax”.
Land Rent (Vietnam)	**Tiền thuê đất**	Rent [lease] paid to the local government instead of the central government by users for residential, commercial or other professional activities. The rental rate is fixed from the time that the land is first occupied. It is one lump-sum payment, or users can pay the rent for the entire lease in annual installments as well (McCluskey and Trinh, 2013). This tax falls under the General Department of Taxation’s category “House and Land Tax”.
Land use charge/ Land use fee	**Tiền sử dụng đất**	Once-off payment when land use is changed for any purpose. Since 2013, land use charge is only applicable to land allocation with collection of fees for residential land and cemetery park land, while all other types of land must be leased.

Land Use Right Transfer Tax	**Thuế chuyển nhượng quyền sử dụng đất**	This tax is payable once in order to register ownership by an individual or other legal entity, and is payable to the provincial tax authority where the individual is resident, or entity is registered (KPMG, 2020). This falls under registration fee (lệ phí trước bạ). This tax is not under the General Department of Taxation's category "House and Land Tax".
Market value	**Giá trị thị trường**	The amount that people would be willing to pay for the ownership of a property if it were to be placed on the open market. The precise market value is revealed when actually sold.
Property	**Bất động sản**	Property includes physical land, buildings, and any structures attached to the land.
Non recurrent tax (OECD)		Non-recurrent taxes are those levied once and for all. Specific examples of applying this definition are: taxes levied to take account of increases in land value due to permission given to develop or provision of additional local facilities by general government, any taxes on the revaluation of capital and once-and-for-all taxes on particular items of property.
Non tax [property] revenue (OECD)	**Thu nhập [từ bất động sản] không chịu thuế**	"Leasing of buildings and equipment" is classified by the OECD as "property income" under "Sales of goods and services". Property income may take the form of dividends, interest, land and other rents, royalties, or withdrawals from entrepreneurial income. Rents are revenue generated from natural resources, such as land, mining, or oil resources, when a government unit places these at the disposal of private or foreign entities.
Property tax	**Thuế bất động sản**	A type of recurrent tax levied on the assessed value of a property (land and/or buildings). Property tax is typically paid annually to the local authority.
Vacant land	**Đất trống**	Vacant land is assigned (owned) and designated for specific land use, but for some reason remains empty and is not yet developed.
Unused land	**Đất chưa sử dụng**	Unused land is land that has not been qualified or has not been determined for use for agricultural production, aquaculture, forestry, unspecified as rural, urban and specialized residential land and the State has not assigned to organizations, households and individuals for long-term stable use.
Public land	**Đất sử dụng vào mục đích công cộng**	Land for public works is public land used for construction of works and infrastructure systems to serve the community, specifically public works.

Executive Summary

Vietnam is planning for a revised Land Law in 2023, and in Decree 2161/QDĐ-TTg dated 22 December 2021, the Vietnamese Prime Minister called for research to be done in the area of property taxation reform. This paper is a contribution to this taxation debate, and by offering recommendations based on economic theory, relevant academic literature, and comparative international experiences, it puts forward three very significant policy reforms for Vietnam: first, the transition from the current system of lump payments for long-term land leasing to a new system of annualised, predictable, and stable taxation; secondly, the establishment of modern methodologies of market-led property valuation, somewhat modelled after Taiwan's online transaction database; and third, the increase of property tax rates to a level of 0.5%~0.75% of the assessed value, which was determined based on the experiences of countries in the region.

It is impossible to analyse and propose "good" taxation options without an agreement on the theoretical principles of "a sound tax system". Hence, this paper takes into consideration four main principles of a sound tax system: fiscal adequacy, administrative feasibility, economic efficiency, and theoretical justice. Throughout the analysis, these four principles are regularly employed as parameters to determine "good policy options" for Vietnam's property taxation, and all of the three proposed policy reforms are structured so as to lead to improvements in as many of the four principles as possible.

The current system of property taxation in Vietnam is the offspring of the 2013 revision to the Land Law, which, while once successful in fostering rapid land development and widespread domestic and foreign investment, is now beset by significant shortcomings. First, the system fails to collect sufficient tax revenues: in fact, Vietnam's revenue from property tax amounted to only 0.09% of GDP in 2017, much below the range of 0.3% to 1% of GDP of other regional middle income economies. Second, this revenue shortfall is primarily caused by the unique features of Vietnam's property taxation system, such as the country's preference for taxing only land and not property, and its overreliance on once-off long lease land use fees, which accounted for 82% of all property-related tax revenues in 2018. Third, these two shortcomings are exacerbated by Vietnam's unclear land valuation methodologies, which continue to significantly under-value Vietnamese land.

Aware of these shortcomings, the paper seeks to propose three significant policy reforms. The first main reform proposed by the paper is the transition from Vietnam's current system of lump payments for long-term land leasing to a new system of annual taxation. The current system in Vietnam presents a number of significant shortcomings, such as low tax revenue, skewed tax collection methods, and business uncertainty for commercial land developers, especially at times of lease expiration and renegotiation. For these reasons and more, the current Vietnamese model of land leasing is not common in the region, as no other ASEAN country employs such a system. The only other comparable country with a lump payment system is the People's Republic of China (PRC), which has however long struggled with the sustainability of its lump sum payment land leasing system, and has thus recently embarked on an agenda of land lease reform with annual payments. The paper argues that Vietnam could also consider to implement a transition to a recurrent payment system for land leasing.

The second main transformation proposed by the paper is the reform of the country’s current property valuation methods. Property values are now determined by provincial governments through the publishing of land price frames every five years, and the methodology behind these land price frames is unclear, unstandardised, and unaligned with market values. In practice, this leads to significant under-valuation of property and to business uncertainty for land developers, both of which then reduce tax revenue. As a solution, the paper proposes a range of property valuation reforms: (1) establish competent agency(ies) for land valuation; (2) upgrade and standardise the current system of land valuation up to the level of “International Valuation Standards”; and (3) understand and apply technology-based solutions for the assessment of market-based property values. For the latter reform, the paper uses the case of Taiwan’s online property transaction database to showcase how Vietnam could apply a very simple; low cost; highly-effective; and technology-based policy solution to property valuation.

The third reform is the increase of Vietnam’s property tax rates to a level of 0.5%~0.75% of the assessed value of property, to be levied progressively. This would not only bring Vietnam in line with the majority of countries in ASEAN, as displayed by the table below, but would also aid in boosting property tax revenues. Indeed, if property tax rates and tax exemptions similar to comparable countries in ASEAN were introduced in Vietnam, property revenues would rise to meet regional levels, resulting in a much-needed boost to local government revenues. Connectedly, the introduction of tax rate variation, such as for vacant land and residential property, would enhance considerations of efficiency and theoretical justice, whilst also contributing to the fight against land speculation.

Commercial land tax rates of five ASEAN nations + China

Country	Land tax rate (Commercial)	Flat/Progressive
Vietnam	0.03%	Flat
Indonesia	0.1% - 0.2%	Progressive
Thailand	0% - 1.2%	Progressive
Cambodia	1%	Flat
Philippines	0.5% - 1%	Flat
China	0.6 – 30 RMB/m2	Progressive

In terms of the implementation of the latter two property tax reforms, a comprehensive plan should be specified and implemented over a 15-year transitional period (World Bank, 2022). Key performance indicators, such as achieving property tax revenues equal to 1% of GDP by 2035, should be part of this comprehensive plan. As in China, new valuation systems and new, differentiated tax rates can start in the main urban centres as policy pilot schemes, and then be extended to the rest of the country in a piecemeal fashion.

For the transition to the annualised system of commercial land lease payments, moreover, the implementation should follow a more gradual approach. In order to not deprive domestic governments of much-needed tax revenues, new (greenfield) leases should be kept under the lump-sum land use fee system for a transitional period, while leases that have undergone more than 50% of their negotiated duration should immediately transition to the new recurrent annual property tax at 0.5~0.75% of market based value system with land use right time period extended without waiting for renewal. This way the government, having already collected the lump sum land use right fees previously, immediately adds an additional annual property tax revenue stream. Greenfield leases should only be introduced to the novel system once prior reforms to property valuation methods have been implemented, so that suitable market valuations may be used in the calculation of annual property levies.

With an open market data property valuation system, and an annual property tax rate of 0.5%~0.75% of property value, Vietnam will modernize its property tax collection schemes and ensure stable property based tax revenues.

Vietnam 2023: Options for Property Tax Reforms

1. Introduction

Vietnam is planning for a revised Land Law in 2023, and in Decree 2161/QDĐ-TTg dated 22 December 2021, the Prime Minister called for research to be done in the area of property taxation. This paper aims to be a contribution to this taxation debate. The focus of this paper is on non-agricultural property (land and buildings), and it offers recommendations based on both economic theory and on international experience, by comparing Vietnamese property taxation to the practises of the OECD and of other Asian countries.

The first Vietnamese Land Law was promulgated in 1988, and its most recent revision was in 2013. The first Land Law was a key event in the transition from central planning to a market economy in Vietnam. The distinction between agricultural and non-agricultural land was made clear, and farmers were given long-term use rights. The innovative introduction of long-term land leases facilitated foreign and domestic investments in rapid industrialisation. Subsequently, the real estate industry has been a robust engine of growth for the economy, fuelling the spread of urbanization, the rise of the middle class, and the expansion of other sectors through stimulating demand for consumption and acting as a bridge to credit.

Later revisions of the Land Law have been tailored responses to the rapid economic and social transformation that Vietnam has experienced in recent decades. Vietnam has also revised the formulas of tax calculation to become more aligned with international practices, and the Central Government has then placed more emphasis on the use of market information to estimate property values.

The 2023 revisions to the Land Law will have to respond to the changing economic realities and trends over the past decade. These include ever-growing numbers of large apartment buildings, the growing volume and value of non-agriculture land and buildings, and the rising uncertainty concerning government revenues from land leasing. However, an early draft of the 2023 Land Law seems to suggest that not much is to be changed in the area of property taxation: in fact, the State is still barred from collecting revenues from the value added of land that derives from land user investment (i.e., property), and the system of land valuation has remained the same for the purposes of non-agricultural land use tax calculations. If the draft Land Law does not undergo further revision, Vietnam might lose a great opportunity to address the issues that underlie its current land taxation system, as argued by this paper.

In this paper, we primarily focus on three non-agricultural property tax questions relevant to contemporary Vietnam: (1) What to tax, (2) How much to tax, and (3) How to value property. Moreover, we also zoom in on the issue of long-term land leases, arguing for the transition from the current one-off payment system to a recurrent payment model. The paper then concludes with ten feasible recommendations for the reform of Vietnam's property taxation system, which all seek to put the country on a path towards an efficient, sustainable, and just taxation regime.

2. Principles matter

We cannot analyse tax options without an agreement on the principles of “a sound tax system”. The principles of a sound tax system are fiscal adequacy, administrative feasibility, economic efficiency and theoretical justice (Grant Thornton, 2016). **Fiscal adequacy** means the sources of government revenue must be sufficient to meet government expenditures. **Administrative feasibility** entails that taxation laws should be effectively enforced with the least stress to the taxpayer, while minimising opportunities for corruption and over-reach. Moreover, administrative feasibility is enhanced if the tax regime is simple and transparent. **Economic efficiency** is achieved by a tax system that minimises distortions to market price signals, while encouraging property development and growth – which includes minimising land speculation. **Theoretical justice** means that a sound tax system must be based on the taxpayers’ ability to pay, and be generally perceived by the wider tax-paying community as reasonable and equitable: that is, fair.

A cross-cutting additional principle could be to “**keep it simple**”. Nobody likes paying taxes, which they often evade and avoid, and all taxes are disincentives - to invest (CIT: corporate income tax); to work (PIT: Personal income tax), and to consume (VAT: value-added tax). Indeed, to achieve various targeted policy objectives, tax regimes often become excessively complex. The same policy objectives, however, can be supported by government spending, which tends to be easier and more transparent. Hence, it is recommended that government spending should be complex, so that taxes may be simple, uniform and with few exceptions.

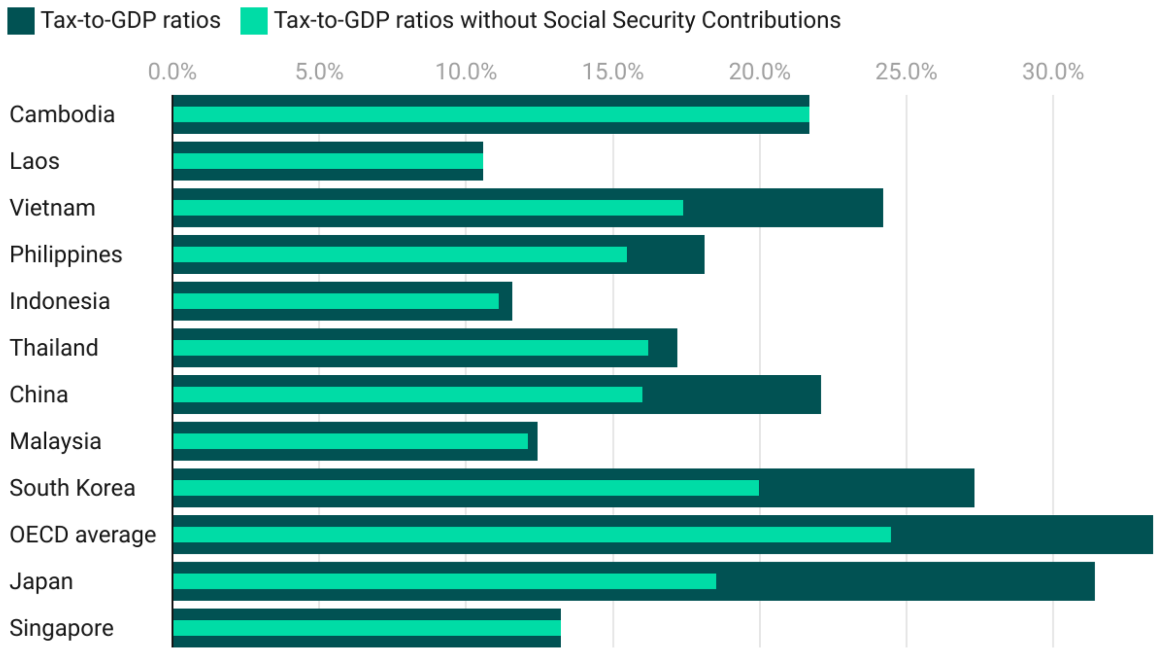
In the analysis below, we regularly refer back to these four principles as the parameters to determine “good policy options”. These principles, alongside recognised international trends and experiences, will be the main criteria used to identify the policy directions for Vietnamese property taxation in the future.

3. How much and what to tax? The international perspective

3.1 Total tax take

Vietnam's tax-to-GDP ratio is high relative to ASEAN and other comparator countries, as shown in Figure 1 below. The government, as might be expected from a socialist country, represents a significant part of the economy, and that is reflected in a total tax take equal to 24% of GDP – which is high for a middle-income economy,[1] but below the 33% average for all OECD (high-income) economies. We may therefore expect that Vietnam's total tax take will increase gradually in the future. Hence, the policy question to be considered is, should some of that expected increase come from higher property taxes?

Figure 1: Vietnam's tax-to-GDP ratio is healthy.



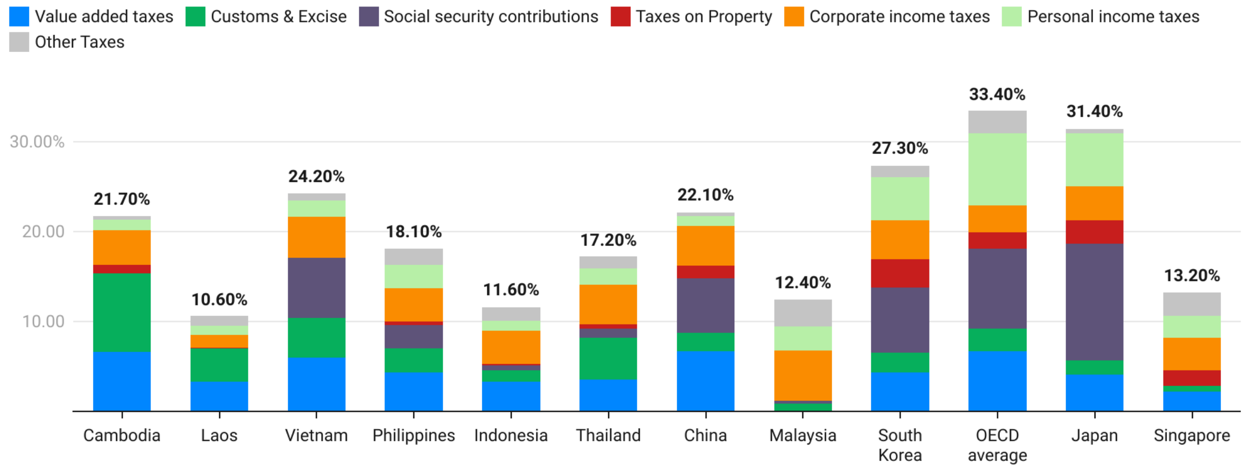
Note: The countries have been sorted by GDP per capita (poorest per capita at top).

[1] World Bank Income Classifications for the 2023 fiscal year. These numbers are calculated using the World Bank Atlas method. Low income countries earned $1085 or less Gross National Income (GNI) per capita in 2021. Lower middle-income countries earned between $1,086 and $4,255 GNI per capita. Upper middle-income countries earned between $4,256 and $13,205 per capita. High-income countries earned $13,205 or more GNI per capita.

3.2 Tax revenue structure

Figure 2 highlights how Vietnam's sources of tax revenues are in line with wealthier Asian countries and the OECD average. That is, most tax comes from social security contributions, CIT and VAT. PIT revenue makes a contribution too, but less than it does in more developed economies, and we may expect the PIT share to increase with time. What is noticeably missing in Vietnam, however, are revenues from taxes on property. Indeed, property taxes contribute about 1-3% of GDP in developed economies (1.4% in China, 1.8% OECD average), whilst in Vietnam they are practically trivial, as will be explored in Chapter 4. Although there is evidence that Vietnam's local land-related revenues have historically been underestimated (Shukla et al., 2011), there is still a clear argument for increasing property taxes in Vietnam, especially if comparable examples from the region are taken into account.

Figure 2: Tax structures as a percentage of GDP (2019)



Note: The countries have been sorted by GDP per capita.

3.3 Property tax and GDP level

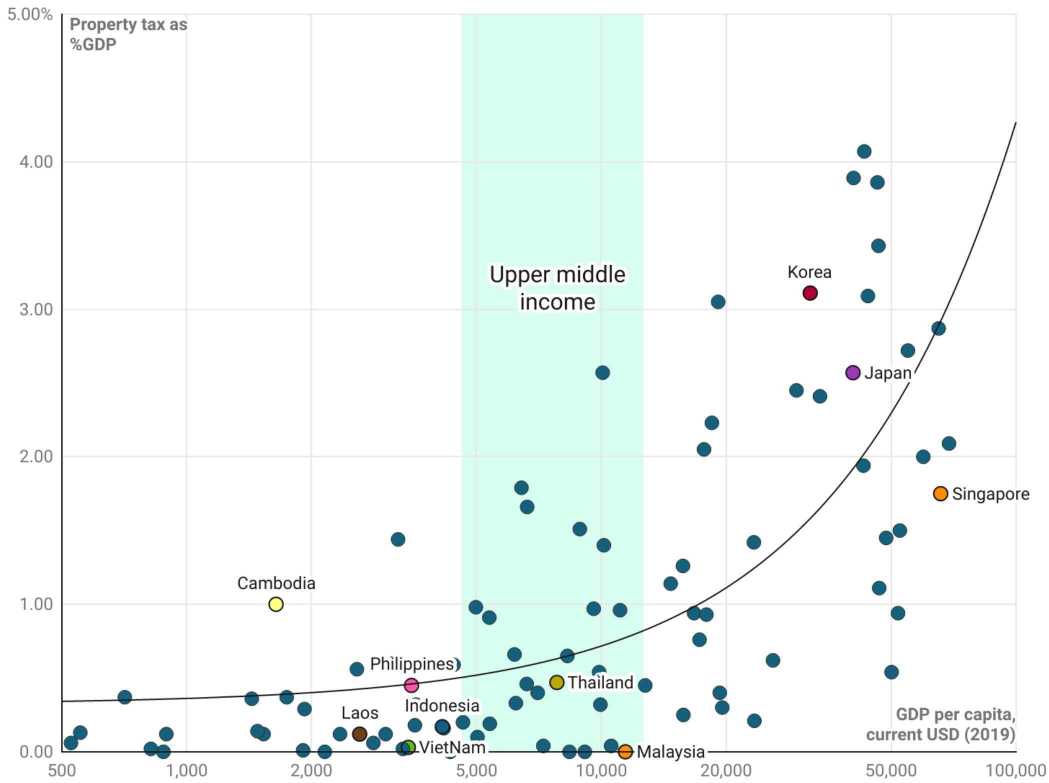
Vietnam's revenue from property tax is still among the lowest in Asia and in the world. In 2017, taxes and fees related to property amounted to only 0.09% of GDP. That puts Vietnam close to the bottom in Figure 3 (total property tax as a percentage of GDP), alongside mostly poor developing countries. Middle-income economies tend to be in the range of 0.3% to 1% of GDP (with China at 1.4%), while developed economies receive about 2% to 3% of GDP equivalent in property taxes. There are exceptions (e.g., Malaysia does not tax property, and Cambodia is already at 1% of GDP)[2], but the general trend seems clear: taxing property becomes a more significant share of government revenues as countries grow economically. This is further reaffirmed by Figure 4 below, which highlights the clear correlation between property tax levels and higher levels of GDP per capita. Moreover, Vietnam sits clearly below the regression line, indicating its status as a laggard in raising government revenues from property taxation, and further making the case for higher property taxes across the board.

[2] These exceptions are examined in the Annex, Box 2.

Figure 3: Taxes as percentage of total taxation in 2019

Note: The countries have been sorted by GDP per capita.

Figure 4: Property taxation rises with economic development



Created with Datawrapper

Theoretically, property taxes replace other taxes as countries develop because real estate markets become more transparent, and the professional valuation industry develops, facilitating databases that can accurately estimate the market values of particular land or buildings. This makes it administratively feasible to apply an equitable tax on property - which then follows the notion of "theoretical justice". In fact, a property tax is practically a tax on wealth, and can thus even have a more distributional impact by applying lower, or no, rates of taxation on owner-occupied homes.

A fair and uniformly-applied property tax system is also an economically efficient method to achieve the goal of fiscal adequacy, as it minimises distorting market price signals. For this reason, developed countries tend to move away from excise and import duty taxes, as shown in Table 1. Property taxes trend towards replacing trade taxes as countries become more wealthy, as an increasing share of developed countries' tax revenues comes from recurrent (e.g. annual) taxes on property. Annual taxes on buildings and land are also preferred over long-term leasing, particularly for commercial activities, because they substantially increase business certainty. In Vietnam, for example, foreign investors might have a 30-year land lease, yet wonder at the cost of renewal and have a cash-flow problem due to the once-off payment system currently in place.

Table 1. Global trends in Taxing Property and Imports.

Income classes (2023 fiscal year)	Mean GDP per capita 2019 USD	Avg Property Tax	Avg Recurrent Taxes on Immovable Property	Avg Non-recurrent Taxes on Property	Avg of Other Property Taxes	Mean Tax on Customs and Imports	Share of recurrent taxes as % property taxes
Low Income	730	0.12%	0.05%	0.00%	0.07%	1.80%	50%
Lower middle income	2,830	0.30%	0.11%	0.00%	0.19%	1.32%	38%
Upper middle income	8,130	0.67%	0.27%	0.01%	0.39%	0.99%	38%
High income	43,143	1.80%	1.09%	0.04%	0.67%	0.36%	60.80%

Source: OECD

4. Vietnam property taxation: Overview and theoretical principles

4.1 Overview of Vietnamese property taxation

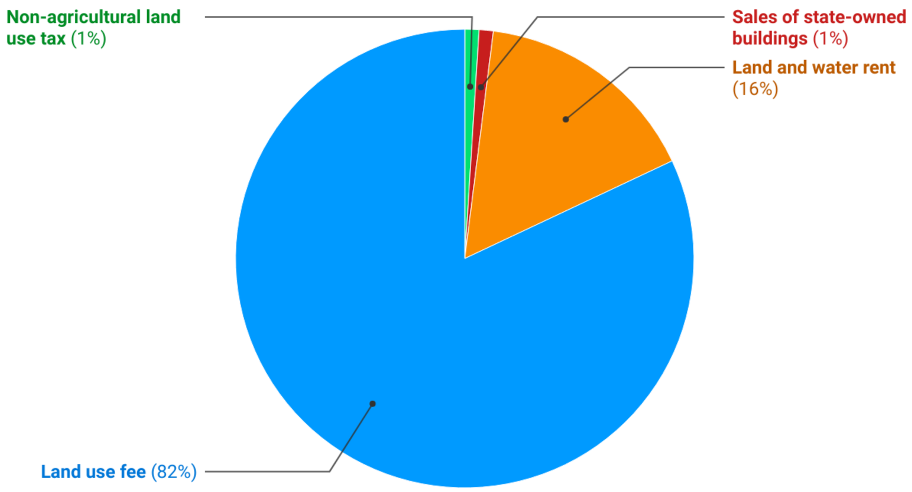
In Vietnam, the primary property tax currently in place is the "non-agricultural land use tax". The tax was first introduced in 1991 with the promulgation of the Ordinance on House and Land Use Tax. The most recent reform of the tax was passed into law by the National Assembly in 2010, which took effect on January 1, 2012 and has been used until today.

According to the 2010 Law on Non-agricultural Land Use Tax, there are three components to the calculation of land tax liability: the land area, unit price of land as published by provincial People's Committees, and a tax rate which varies depending on the purpose of usage and the land area, as seen below. Taxpayers can be any individual, household, or business entity who have been granted a right to use residential and commercial land. There are tax exemptions and reductions given to investment projects in certain industries, taxpayers in areas with high poverty rates, and war invalids.

In Vietnam, taxes pertaining to real estate are classified as local taxes, collected, retained and reinvested by subnational governments. In the group of real estate taxes, the land use tax is the only type that requires recurrent payments from taxpayers. The limited revenue that these recurrent property taxes generate, therefore, has led local governments to rely more on single-event charges, especially the land use fee, to maintain a sufficient budget. This does not only leave less room for land revenues to grow (McCluskey and Trinh, 2013), but it also fosters long-term business uncertainty, as investors find themselves negotiating on leases that are decade-long with little information about the value of the land, or of the appraisal methods of local governments.

Reinforcing the point made above, Figure 5 below highlights just how little of the country's overall revenues from land and housing charges in 2018 came from recurring taxes - just 1%. Instead, one-off fees accounted for the vast majority of overall revenues, with the land use fee single-handedly accounting for 82% of all land and housing-related revenues in Vietnam.

Figure 5: Revenues from land and housing charges in 2018 (agricultural land use tax excluded)



Created with Datawrapper

As mentioned above, tax rates applied to non-agricultural land are determined by Vietnam's Central Government and stay universal across all regions. Details about the rate scheme are summarized in Table 2.

Table 2. Tax rates for different types of non-agricultural land.

Land use	Tax rate (%)
Residential	
Land area within the quota	0.03
Land area within three times the quota	0.07
Land area exceeding three times the quota	0.15
Non-agricultural production and business	0.03
Used for improper purposes or unused	0.15
Illegally occupied	0.20

Source: 2010 Non-agricultural Land Use Tax (No. 48/2010/QH12)

In general, if a parcel of land is of a reasonable size, legally occupied, and put into the right use, the applied tax rate is 0.03%, regardless of what purpose it is used for. More specifically for residential land, a higher rate applies if the area exceeds a metreage quota chosen by People's Committees at the local level. For instance, in Hanoi province, a quota of 120 m2 has been set for urban land, meaning that plots of land above the threshold will pay higher tax rates. Note that land that belongs to investment projects, if registered and approved by the relevant government agencies, is not considered "unused" for tax liabilities. Multi-story buildings, apartment buildings, and underground structures are all taxed at 0.03%.

Based on the current tax base, the rates as shown above are too low for revenue from the non-agricultural land use tax to be significant. The shortfall of revenue from this source is a challenge for local governments in securing enough funds for the provision of public goods.

Furthermore, there is a lack of variation in the way the tax rates are structured. For instance, commercial land and residential land (within a certain threshold) are currently taxed at a flat rate of 0.03%. However, while the former generates recurring incomes for the owner, the latter does not. In addition to land usage, the current system does not allow the rates to vary from one location to another. Such a setting implies that if local governments wish to increase revenue from the non-agricultural land use tax, the only way for them to proceed would be to arbitrarily adjust the price table until the desired level is reached, which conflicts with the Central Government's intention of keeping the appraised values in line with market shifts.

Finally, the tax rate on vacant and unused land is currently too low to effectively discourage speculative behaviour. According to a report by the Vietnam Association of Realtors, property prices in Vietnam were rising at an average rate of 10% annually between 2014 and 2020. This means that the expected gain from property holding is at least 300 times higher than the cost incurred from paying the land use tax, which represents an attractive investment prospect for speculators. Indeed, recent data from a real estate company suggests that 80% of buyers in the real estate market are accumulating immovable properties as a form of investment rather than for direct use.

While the government has recently implemented credit tightening to limit capital flows into real estate, such a policy may put an abrupt stop to a booming market and risk triggering a banking crisis. Many economists have instead voiced their support for a novel property tax, especially a tax that is levied on vacant land or unused land, as a tool to fight speculation.

4.2 Theoretical principles for Vietnam's property reform

From our analysis of the current Vietnamese system and of different taxation models around the world, we recommend the Government of Vietnam to adopt a more comprehensive base for the recurrent tax levied on non-agricultural property. Instead of focusing on only land, we suggest taking into consideration the combined capital value of both land and properties built on it, based on three principles mentioned in Chapter 2: **fiscal adequacy**, **economic efficiency** and **theoretical justice**.

A tax base that includes both land and improvements to both land and property would allow revenue from property tax to grow proportionally with the expansion of the population and investments in local infrastructure. Local governments, therefore, can reduce their reliance on intergovernmental transfers and single-event fees, which lack room to grow and will be unstable depending on the condition of the economy. Thus, this solution fulfills the principle of **fiscal adequacy**.

While local governments in Vietnam have made efforts to evaluate land using capital-based methods, the prescribed land prices have never come close to prices in the market, an issue which will be discussed in more detail in Chapter 6. Expanding the basis of property tax from land only to both land and improvements would make it easier for assessors to apply market information, and thus limit the use of arbitrary calculations. Another advantage is that a tax rate based on market prices would discourage excessive real estate speculation and prevent a banking crash. This recommendation fulfills the principle of **economic efficiency**.

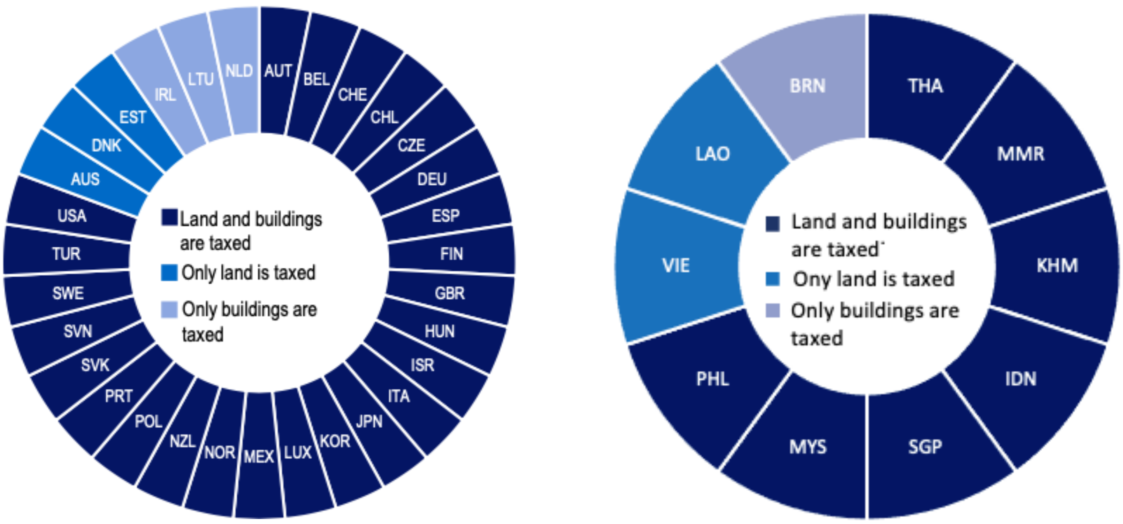
As demand for housing and commercial properties in large cities quickly rise with the influx of labour from remote regions, property in urban areas has significantly appreciated in value, to the benefit of the owners. However, this means that the price hikes are more likely to have come from the natural process of urbanization rather than from the development that the owners put into their land. Therefore, many economists have been considering property tax as a wealth tax: by increasing funding for public goods, property tax distributes individual gains generated by collective movements of a community from the haves to the have-nots. Given that a large share of property value lies in the structures attached to land, the tax would promote equity better when these structures are included in the tax base. The practice of taxing land and buildings thus reflects the principle of **theoretical justice**.

5. Property tax issues and options

5.1 Land and buildings

In most countries across the world, and unlike the current legislation in Vietnam, the norms surrounding property taxation are to tax both land and buildings. Indeed, as shown in Figure 6 below, 80% (25/31) of OECD countries and 60% (6/10) of ASEAN countries tax both land and buildings, while only Australia, Denmark, Estonia, and Laos follow Vietnam's peculiar model of solely taxing land.

Figure 6. OECD and ASEAN norms on property taxation.



(a) OECD (b) ASEAN

Source: The OECD plot was produced by OECD (2021). The ASEAN plot was created by the authors of this report based on data provided by McCluskey, Bahl and Franzsen (2022).

While there are certain advantages to solely taxing land - such as a pro-investment bias and low administrative costs - there are also important shortcomings to relying on such a narrow tax base. In fact, the annual revenue from the non-agricultural land use tax in Vietnam has consistently been meagre, averaging at only 0.03% of GDP and about 0.13% of the national budget between 2016-2018. These are modest contributions compared to the roles played by property taxes in other Southeast Asian economies at the same level of development. In Indonesia, for instance, the recurrent land and building tax amounted to 0.28% of GDP in 2018, while, in the Philippines, the share was estimated to be 0.35% of GDP in the same year (McCluskey, Bahl, and Franzen, 2022). The gap further widens when the comparison is extended to more developed systems in Asia. Singapore, for instance, collected 0.92% of its GDP in 2018 from the recurrent tax levied on immovable property (ibid, 2022). However, it is worth noting that Singapore is less likely to be a good policy example for Vietnam, given its high level of economic development, and its nature as a compact, all-urban, small city-state.

Another issue with the uncommon land-only tax base is related to land valuation. Since land and improvements are usually sold together, especially in urban areas, it is complicated to determine the market value of land separately from the property on it. In many countries, assessors would have to rely on the sales of vacant land, which has become increasingly scarce in Vietnam, or set the value of land to be an arbitrary fraction of total property value. In either case, setting the tax base to only land would require some compromise to be made to the integrity of land valuation, which could result in taxpayer discontent.

An interesting case study of a land taxation and valuation model similar to Vietnam, yet on a path towards evolution and reform, is China's property tax system. As explained in-depth in Box 1 below, China's property tax system is made up of five land-related taxes, alongside a system of public land leasing that accounts for over 40% of local tax revenues. Wary of the risks of over-reliance on long-term land leases, the Chinese government has commenced a process of reform towards a market-valued, annualized property tax system, and Vietnam should observe the outcomes of such reforms.

Box 1: China's property tax system is moving to a new model

China has five types of taxes levied on land-related property. The Farmland Occupation Tax and Land Value added tax (LVAT) are collected one-time at the stage of land acquisition and transaction. At the possession stage, the Urban and Township Land Use Tax and Real Estate Tax are collected annually, while the Deed Tax is levied once upon property transfer. All five taxes accounted for 23.2% of Chinese local tax revenues in 2016, which compares quite negatively to the over 40% raised by public land leasing in the same year (Liu, 2019). The real estate tax in China is not levied on the appraised value of the property, but is fixed at 1.2% of the original purchase price, or at 15% of the rental income made from the property. Owner-occupied residential houses are exempt from all property taxes.

In 2010, each province was required to choose one city and experiment with novel ways of conducting property taxation. While the principle of property appraisal based on purchase price was not reformed, additional measures to tax non owner-occupied real estate were introduced, alongside policies linking property taxation to local market averages. The two main pilot projects were conducted in Shanghai and Chongqing.

Depending on how much the apartment sold for, Shanghai's annual pilot tax ranged from 0.4% to 0.6%. It applied to all homes owned by non-residents, as well as second homes owned by Shanghai residents. Similarly, the annual tax in Chongqing ranged from 0.5% to 1.2%, depending on the purchase price of the apartment and its relationship to the local market average. This entailed that the apartment owner paid more taxes if their home was much more expensive than the average market price in their area (BOFIT, 2011).

Moreover, at the moment China is devising how to tax apartments bought as investments (hence, not owner-occupied), given that so much wealth has been invested in apartment construction in recent decades. In doing so, investment and construction speculation may be reduced, and (equitable) tax revenues increased. Vietnam faces similar issues, so may learn from the Chinese experiments, if successful.

5.2 Rate variation and tax exemptions

Moreover, in most countries studied in this research, but not Vietnam, governments take into consideration the purpose for which a property is being employed when setting the tax rates. In fact, the most common practice is to tax commercial and industrial property at rates higher than property reserved for residential purposes, so as to promote affordable housing.

In Thailand, the ceiling rate for residential property, as mandated by the central government, is 0.3%, while the maximum rate levied on commercial property is four times as much (1.2%). In Taiwan, land and buildings are taxed separately, and both with fluctuating rates depending on the type of usage. For land, the tax rate is 0.2% for self-use residential land (given that certain conditions are met) and 1% for land used for industrial production. With buildings, instead, the commercial rate is between 3 and 5% of the assessed value, while the residential rate is only between 1.2 and 3.6%.

The Singaporean property tax system does not only differentiate between commercial and non-commercial property (which is taxed at a flat rate of 10% of the annual value) but also between residential properties occupied by the owner and not occupied by the owner. Starting in 2023, the rate applied to owner-occupied residential property ranges from 0% to 23% while that for non-owner-occupied residential property is between 10% and 27%.

Since property tax is perceived as a wealth tax, it is very common for the higher burden of tax to fall on more financially well-off individuals. There are different ways to incorporate this intention into the design of a property tax.

Thailand, for example, provides a complete exemption for residential properties of which the owner is listed on the house registration book and the total property value does not exceed 50 million THB. In Singapore, the first 8,000 SGD of a property's annual value is not taxed. The remaining value is divided into multiple brackets and taxed using a progressive scheme. For example, beginning January 1, 2023, a property valued at 50,000 SGD will be taxed at 0% for the first 8,000 SGD, 4% for the next 22,000 SGD, followed by 5% for another 10,000 SGD, then finally 7% for the remaining 10,000 SGD.

Note that countries tend not to apply the progressive tax rate structure to commercial and industrial properties, to avoid any adverse impact that it might have on economies of scale.

5.3 Economic efficiency options

Given that one of the purposes of property taxation is to promote efficient land use, many countries have adopted the policy whereby undeveloped, vacant land is taxed at a higher rate than land being put into use.

According to Taiwan’s Land Tax Act, vacant parcels are subject to an additional tax payment equivalent to 2-5 times the basic tax amount levied on used parcels with the same characteristics. In Thailand, the maximum tax rate allowed for empty land and buildings is 1.2%, the same rate that is applied to non-residential and non-agricultural properties. However, if a property is left unused for 3 consecutive years, the rate will increment by 0.3% every 3 years until it reaches 3%. In metro areas in the Philippines, there can be a surcharge of up to 5% on the assessed value of a property if left vacant. Quezon City, for example, taxes the owners of idle land next to national roads at 3% per year (Hass and Kopanyi, 2017).

5.4 The role of sub-national authorities

In many of the countries that we studied, the ‘localness’ of property tax is not only observed in how the tax is collected and spent, but also in how local governments are entrusted with the authority to choose the rates and through which determine their tax incomes. Usually, the national government oversees this process by mandating ceiling rates to avoid excessive tax collections in local constituencies.

In Thailand, for instance, the Land and Building Tax Act introduced in 2019 stipulates that the tax rates are determined by local authorities, but also that the tax rates must not exceed 1.2% for commercial properties and 0.3% for first homes. Within Indonesia, the Regional Taxes and Retribution Law allows the rates to vary regionally, but also requires the maximum rate for all types of properties to be set at 0.3%. Meanwhile, in Taiwan, the rates can be set by county or city halls, but must first be approved by the local People’s Assembly.

6. Property valuation methods and options

The valuation challenge is a complex issue. Property valuation in high-income economies is a complex process, requiring quality databases and skilled professionals. Hence, it is something for Vietnam to systematically work toward, step-by-step. In this chapter, we outline Vietnam's present valuation system, and consider options for a more market-led system, including by surveying the valuation methodologies of China and ASEAN countries.

6.1 How Vietnam values property

In Vietnam, land value is determined and recorded primarily at the provincial level, but with guidance from the National Government in the form of a 'Land Price Frame' that sets the boundaries within which land valuations must be fixed. In line with the Land Law of 2013, each provincial People's Committee publishes a new land price table every five years, detailing government estimates per square meter. These values are then used to calculate property tax liabilities and compensation amounts for compulsory purchase orders for any investment projects. However, the specific method for calculating land values is not clear. Evidence suggests that the exact methods of valuation differ from province to province and that local government value estimates are only 20-30% of the market rates. For instance, according to the provincial government land records in Hanoi for the period 2020-2024, the highest land price is only 188 million VND. In Ho Chi Minh City, for the period 2020-2024 the government values the highest land price as only 162 million VND, while the highest market based price is between 0.8 and 1.2 billion VND.

In practice, this means tax burdens and government compensation amounts are lower than they should be, thus substantially reducing tax revenue. The following table summarizes the key issues with the current Vietnamese valuation system.

Table 3. Key issues with Vietnam's current property valuation system.

Issue	Explanation
Lack of applied valuation standards and consistent methodology	Legislation on valuation methods is unclear, with different provinces and state agencies adopting different methods. Neither the central government's 'Land Price Frame' nor the Land Price Lists of the Provincial People's Committees are based on standardized mass land valuation methods. Details are lacking, with methods poorly outlined in official documents and training materials.
Lack of reliable market data	There is a broad absence of reliable sales data for determining the accurate market value of property, although this is slowly improving.
Low quality of valuation professionals	As of 2021, there are 411 appraisal companies with 2353 appraisers in Vietnam, but only a few are trained up to international standards. The very low level of qualifications and ethics enforced by the professional association of valuation professionals has led to several cases of wrong-doings surrounding price appraisal (Anh Tuyet, 2021).

Moreover, beyond the above-mentioned issues of property valuation, Vietnam also suffers from challenges in its property management system. Generally, in order to levy property tax, the property management system must accurately identify taxable objects; but, in Vietnam, many people do not register the land in their name, but in their family members' name, and the current property management system is unable to meticulously spot and address these shortcomings. Hence, it is crucial to have a unified and transparent real estate management system throughout the country, or a transition to a property tax system similar to developed economies will not be feasible.

6.2 The international perspective

Institutional arrangements

The best practices from other countries suggest prioritizing the establishment of National and Provincial Land Valuation Agencies or Councils. Such councils or agencies typically evaluate the land value determined by valuation service providers, set the education qualifications needed for the practice of land valuation, license practitioners of land valuation, and resolve disputes and complaints about land prices. Efforts are made to ensure that these appraisal councils are kept independent and objective by minimizing the interference of the national State's administrative apparatus within the councils.

Implementation arrangements

In terms of implementation, best practices also require clarity and consistency in terms of valuation methods and of associated legislations. Methods should be standardized across provinces, and every effort should be made to maintain transparency in data storage and processing. Market capital rates are the internationally preferred measure of land value, as they are indexed over a period of several years and corroborated against current sale prices. In the UK, for instance, property taxes are based on a wide assessment of land completed in 1993. Current valuations are calculated from this base level and then monitored using GIS mapping and in-person land visits. In Denmark, land is valued using a four step process:

> Step 1: collect and index six years of market transaction data. Data is collected from cadastral records, GIS data, and building and site data.
> Step 2: find neighbours and calculate an average neighbourhood price based on local sales and own sales.
> Step 3: correct for property-specific features including age, size, and construction.
> Step 4: value individual land plots.

This technical approach is designed to prioritize transparency and thus allows landowners to appeal a given valuation within three months of the assessment.

A similar, if more tailored, approach to transparency in property valuation is represented by Taiwan's property transaction online database, described in depth in Box 2 below. One of the primary advantages of Taiwan's method is its employment of low cost and easily-accessible technology for the benefit of market and government transparency, something that Vietnam could not only really need, but also feasibly implement. Hence, Taiwan's case should serve as a pertinent example for Vietnam, and Vietnamese policy-makers would be well-advised to heed the success of this open market data property valuation system.

Personnel arrangements

Good practice also emphasizes the training of a cadre of independent valuation professionals. In Thailand, in the wake of the 1997 real estate crisis, the State assigned to the 'Thai Valuation Association' the task of building a professional labour force of highly-qualified appraisers and valuers with excellent professional ethics. Indeed, similar efforts would be needed in Vietnam for transitioning towards a stronger valuation system.

Box 2: Taiwan's property transaction online database

In response to both rife housing speculation and to mounting fears of government opacity in the property market, **Taiwan's** Department of Land Administration in the Ministry of Interior has introduced in 2012 a government-run property transaction database. The database, available online on the Ministry website, enables public access to all property transactions occurring in Taiwan, allowing users to sort out properties by address. The online access is free of charge for users, while the offline download of data incurs costs of up to NT$2000. Due to privacy regulations, all data is released with a one-month delay from the transaction, and all relevant personal information is redacted; moreover, all data releases surrounding 'special dealings' (i.e., transactions with excessively-skewed purchase values) are further delayed to allow for government cross-checks and investigations.

There are several, clear benefits to Taiwan's public database approach. First and foremost, the approach bolsters the transparency of Taiwan's real estate market and governance, as it enables Taiwanese citizens and analysts alike to freely and easily access all data related to property transactions in the country, thus also reducing the risk of criminal activity. Second, it lowers the transaction costs of operating in Taiwan's housing market, as it builds trust in the efficiency and soundness of the real estate market. Third, it targets the issue of property speculation, as it gives the state more power to oversee and investigate potential abuses.

In terms of the approach's constraints, one might argue that such systems are viable only in rich developed economies. That argument is less valid nowadays. Vietnam is very technology-capable, with quick advances being made in e-government. An important feature of strong e-government are databases, either for internal use or public use. Public access to such data is not typical in Vietnam, but it should become more common as the example above explains.

7. Transition to recurrent taxation for commercial land leases

7.1 Introduction

One of the primary features of the 1988 Vietnamese Land Law was the maintenance of public ownership over all Vietnamese land, with the corresponding introduction of leases for long-run land use rights. Through such a combination of policies, the Vietnamese state was able to keep full ownership over its land - in line with the socialist ideology - while also facilitating (private) foreign and domestic investments to promote rapid industrialisation. By allowing long-term leases (20-30 years) for a modest once-off fee, the Vietnam government promoted rapid development of industrial and commercial land, which in turn contributed to Vietnam's successful economic growth performance of the last thirty years.

The situation, however, is now very different in 2023. Vietnam has further embraced free market reforms, urbanisation rates have risen across the board, and the real estate sector is now a complex and hefty part of the economy. And, most crucially, the supply of new state land for leasing is running out. Yet, despite revision of the Land Law in 2013, and the draft publication of the 2023 Land Law, the state regulations about leases for long-term land use rights have not changed at all, and provincial governments still require land developers to pay locally-determined once-off fees for both greenfield and renewals of long-term leases for Vietnamese public land. In this chapter, we outline reasons and options for moving from the one-time payment for long-term commercial and property leases to an annual taxation model. This includes a discussion of the theoretical benefits and costs of transition, as well as a scoping of how ASEAN+ countries lease and tax such land.

7.2 Theoretical arguments for a new taxation model for commercial land

When we consider the main principles of good tax models (fiscal adequacy; administrative feasibility; economic efficiency; and theoretical justice), the present Vietnamese approach was very effective in encouraging investors in the 1990s (low tax, long leases, relatively easy to implement), but was weak on “fiscal adequacy” (i.e., little revenue raised). But now that leases are up for renewal, a number of complicating issues emerge. If Vietnam wants to raise higher government revenues, a hefty once-off fee for 20-30 years would impose a serious cash flow problem for most investors. A higher fee spread over 20-30 annual payments removes this investor cash flow problem, gives a regular annual income to the Government, and a higher Government income over the whole lease period. The transition would be from giving cheap long-term leases with limited once-off fees to raising significant revenue by allowing investors ongoing paid access to industrial and commercial land. This is, practically, a transition from government subsidies to kick-start development in the 1990s, to having investors pay a stable “fair share” for access to land in middle-income Vietnam.

The renewal of leases also introduces a land valuation problem: How to value industrial and commercial land leases for the purposes of a large 20 to 30-year renewal single payment? Without guiding market prices, present lease holders might be forced to pay excessive once-off renewal fees, and the door is open to both corrupt practices and lower government revenues. With central guidelines in place, however, in combination with scope for flexible implementation by provinces, previous once-off lease fees can move smoothly to a new annual tax model. This increases state revenue, reduces business uncertainty, and gives a regular annual income at the provincial level. Central guidelines should be guided by market price signals, such as annual rents in industrial parks and export zones, in order to determine reasonable annual taxation rates.

7.3 ASEAN and regional comparisons

According to a 2020 report on “Land Ownership in ASEAN” (Zico Law, 2020), all countries in ASEAN, apart from Vietnam and Lao PDR, allow for private ownership of land. As such, in these countries’ citizens and, in most cases, foreign investors can buy the land for business purposes and hold it in perpetuity.

The Laotian system is similar to that of Vietnam, as it allows for both permanent use-right of land to its citizens, and for temporary concession or lease of land to both its citizens and foreigners. However, when it comes to temporary concessions or leases, which are usually timed between 20 to 50 years, the Laotian government requires payment of the fees on an annual basis, rather than via a one-off payment (Wellmann, 2012). This is justified through a rationale of revenue stability and business certainty, so that both local governments and land developers in Lao PDR may continue their long-run operations without having to worry about unexpected disruptions to their long-term leases (ibid, 2012).

The only other country in Asia to use a one-time payment system for its long-term land use rights leases is the People’s Republic of China (PRC). The PRC, like Vietnam, features public ownership of all land, thus mandating the purchase of temporary land use rights by private parties from Chinese provincial governments. The Chinese system also includes one-time payments for land use rights leases (Stein, 2017). These policies have been the subject of substantial debate, not only in terms of their fiscal sustainability (Liu, 2020), but also of their apparent failure to plan for the incoming “renewal problem” (Stein, 2017). These are the same challenges that Vietnam faces, and the Vietnamese government should study the evolving policy debate within its northern neighbour.

7.4 What should the annual model be?

In the move to charging annual fees for long-term commercial land use rights, a new model must be specified, including details of how to transition from the previous to the new. We can look to Indonesia, Thailand, Cambodia, and the Philippines for a guide on a new system.

Determining a "fair share" for annual fees

Currently, the one-time payment for land leases is determined in a non-transparent manner by provincial authorities. Given the small numbers of leases and the lack of market prices, valuation is subjective. The investments already made by the present lease holders make open bidding difficult. Determining a "fair" annual fee on a long-term lease is easier.

The Vietnamese land tax rate for commercial land is set at a fixed rate of 0.03% of assessed value. However, as discussed above, this rate is too low and contributes very little to local government revenues. A better guide is to look at some ASEAN countries. Table 4 below summarises the land tax rates for five ASEAN nations, alongside an indication of whether the tax regime is flat or progressive (e.g., a higher rate applies to larger land areas).

Table 4. Commercial land tax rates of five ASEAN nations.

Country	Land tax rate (Commercial)	Flat/Progressive
Vietnam	0.03%	Flat
Indonesia	0.1% - 0.2%	Progressive
Thailand	0% - 1.2%	Progressive
Cambodia	1%	Flat
Philippines	0.5% - 1%	Flat

The Vietnam rate is clearly low, and the assessed value of land is a conservative estimate. A tax rate of between 0.5% to 0.75% of the appraised land value would seem reasonable when compared to ASEAN countries. Policy objectives could justify a progressive tax. For example, a 0.75% tax rate for land in cities and close provinces, and a 0.5% rate for all other provinces.

Land value appraisal

The introduction of a fair, consistent and transparent land valuation system is necessary to ensure reasonable state revenues and reduce corruption. The current methodology used for Vietnam's non-agricultural land use tax is a regime based on land price tables published every five years. The applied methodology behind the tables is unclear, and is not managed at the central level. The Vietnamese system has long undervalued land prices, with studies showing that government estimates were only 20-30% of market rates in some urban areas.

In ASEAN, as seen in Table 5 below, we see a great deal of diversity in terms of approaches to land value appraisal, although most other countries tend to delegate land value appraisal to central government agencies (e.g, Thailand uses the Treasury department, Cambodia the Ministry of Economy and Finance, and the Philippines uses the Commissioner of Internal Revenue). This approach guarantees that a universal methodology is used across the board. This avoids competitive devaluation, also known as “race to the bottom” dynamics, where provinces offer very low land use fees to attract investors away from other provinces. Also, apart from Cambodia, other countries in Table 5 have shorter update times for land value appraisal than Vietnam, thus ensuring valuations that are closer to the market value.

Table 5. Appraisal agencies and update times of five ASEAN nations.

Country	Appraisal Agency	Appraisal Update Time
Vietnam	Provincial governments	5 years
Indonesia	Local revenue offices	3 years
Thailand	Treasury department	4 years
Cambodia	Ministry of Economy and Finance	5 years
Philippines	Commissioner of Internal Revenue	3 years

Given the regional practices noted in the Table above, we recommend that the power and responsibility to appraise the value of Vietnamese land should be guided by the Vietnamese central government, so as to have one common valuation methodology for tax purposes. The appraisal updates could be done more frequently, although this is a less urgent issue.

Before moving forward to a summary of the “good model” characteristics described so far, we would be amiss if we failed to explain the exclusion of the PRC from the above analysis. In fact, the reason China was not included in the discussion on commercial land tax rates and on land appraisal agencies is that, just like Vietnam, it has a heterodox system of land taxes.

First off, there is no land tax rate in the Chinese land taxation system, neither for commercial nor for residential land. There exists, however, an “urban and township land-use tax”, which calculates land tax rates based not on property value, but on property metrage and location. Yet, this is a complex taxation model that yields very little revenue for provincial and local governments, which have to then rely on public land leasing to finance spending (Liu, 2019).

Moreover, there is also no centralised, nor decentralised, system of land value appraisal in the PRC. In fact, either land meterage and location (as in the above case) or land sale value (as in the case of real estate tax), are employed in China in lieu of appraised value (PWC, 2022), although there have been long-running discussions of reform.

Summary of good model characteristics

In conclusion, given the experiences and best practices of Vietnam's regional neighbours, we suggest the following characteristics as being part and parcel of a "good model" for Vietnam's new recurrent taxation system:

Viable model for annual taxing of long-term industrial and commercial land use in Vietnam	
Tax rate	0.5% - 0.75% of the appraised value, levied progressively and annually.
Tax exemptions	Could consider for non-profit occupants and other special circumstances.
Land appraisal	Centralised appraisal agency that specifies the methodology for provinces to apply, and eventually, a 3-year land value appraisal update time period.

7.5 The transitional process to move to an annual model

Given the reliance of Vietnam's local tax systems on the current lump-sum system, the new system should be implemented gradually. For example, new leases should be kept under the lump-sum system for a transitional period of around 15 years (as recommended by World Bank, 2022), while the leases that have undergone more than 50% of their negotiated duration should immediately transition to the new recurrent system, without waiting for renewal. Greenfield leases should only be introduced to the novel system once the above-mentioned reforms to property valuation methods have been implemented, so that suitable market valuations may be used in the calculation of annual property levies.

A gradual, yet effective, transition would allow Vietnam to avoid the negative effects of the "renewal problem" currently being experienced in China (Stein, 2017). Renewals with once-off fees cause cash flow problems for investors, and generate uncertainty because how much they will have to pay is not clear until the final year. Investors value certainty, and are willing to pay more, so long as the cost is spread over time and the taxation level is reasonable compared to other regional countries.

8. Policy recommendations for Vietnam

8.1 Tax rate recommendations

In this chapter, we highlight ten property tax policy options for Vietnam moving forward. Notably, the recommendations are in line with the World Bank's own advice for the reform of the 2013 Land Law, as expressed in World Bank (2022). Moreover, they also move beyond what is included in the most recent 2023 Land Law draft, as they are all set in the context of a transition to taxing both land and other invested assets. The other broad recommendation is that property taxes as a percentage of all taxes should increase from the present near-zero to about 6% (or about 1% of GDP) by 2035 (World Bank, 2022). All land taxation should be increased, and long-term land leases should be replaced by annual rents. Then, the move to taxing real estate can start by taxing houses not occupied by owners by first testing in urban areas, such as central Hanoi and Ho Chi Minh City.

1. Increase tax on vacant and unused land

As discussed in Section 3.1, there exists a large gap between the costs and potential benefits of land holding, making speculation sometimes an immensely profitable business. Hence, it naturally follows that, to disincentivize speculation, the costs of holding onto land without any intention for development must be comparatively high, so that gains from land sales will no longer be attractive enough for people to pursue speculation. A higher tax rate on unused and undeveloped land serves this goal, while at the same time providing additional positive externalities, such as more affordable housing and improved cadastral record-keeping. As a result, taxing vacant or unused land follows the principle of "**economic efficiency**".

2. Allow for rate variation.

We suggest that the government employs different tax rates based on the assessed value of a property and of the purpose it serves. For geographical variation, while locally determined property taxes seem to be working well in other countries, Vietnam in the short run might not be ready for the implementation of the same policy, given the local governments' lack of experience with designing their own taxes and the absence of mechanisms to prevent under or over collections. We therefore recommend more research to be done in this area, so as to better understand whether property tax rates should be set at the local level and how that can be best done in Vietnam.

For residential land, Vietnam already has in place a system whereby tax rates increase with the displayed wealth level of the owner. However, instead of using land area as a proxy of wealth, we suggest using the appraised value of land, on condition that the appraised value does not stray too far from the market value. The application of appraised values aligns better with the government's intention of using capital value as the basis of tax and ongoing efforts to improve the techniques of land valuation. Furthermore, the government could consider using more than 3 tax brackets to better capture the gaps between different wealth classes, whilst also introducing preferential policies for ethnic minorities (World Bank, 2022).

3. Differentiate between residential and non-residential properties.

As discussed in Section 3.2.2, the current land use tax, or any future property tax, would be more equitable if the calculation of tax liability incorporates the revenue-generating potential of each type of property. This entails that the owners of commercial and industrial properties should carry more tax burden than homeowners as long as the size of the residential property stays within a reasonable threshold. As far as regional practices are concerned, the difference between the two types of properties should be about 2-4 times the rate applied to residential properties. Incorporating this law will demonstrate the principle "**theoretical justice**".

4. Adjust the rates slowly.

While our recommendations entail that Vietnam should levy higher tax rates on commercial, industrial and vacant properties, the rate changes, if approved, should happen moderately and gradually, especially for properties in use. In planning for the tax reform, we suggest the government of Vietnam consider the Thai model, in which there was a transition phase of two years between the end of the old system and the start of the new one. During this transition phase, property owners in Thailand were taxed at heavily-reduced rates: the maximum rate was less than one-half of the ceiling rate for commercial properties, and only one-third for residential land and buildings. Such an approach would prevent sudden market shifts, and allow some time for taxpayers to cope with the new situation.

8.2 Property valuation recommendations

5. Reform the management institutions and organizations of the State's agencies for land valuation by establishing competent agencies for land valuation at the national and provincial levels.

The responsibilities of land valuation agencies' should not only include the management of land valuation, but also the licensing of approved appraisers/valuers, the implementation of standardised systems, and the resolution of disputes and complaints regarding land pricing. In organising the roles and activities of the appraisal councils, it is fundamental to ensure their independence and objectivity, and minimise interference by the state's administrative apparatus. This practically entails that council members hailing from the non-state sector should account for more than 50% of the membership. Incorporating this solution meets the "**theoretical justice**" principle.

6. Ministries and organizations of the Central Government should closely coordinate to upgrade and standardize the current system of land valuation.

Legislation must be transparent about the way in which valuation assessments will be made. Every jurisdiction should have a manual that clearly specifies the way in which assessments are to be carried out, and that lays out an approach that will be acceptable to the courts. This should be done with the goal of applying the 'International Valuation Standards'. Thus this arrangement fulfills the principle of "**administrative feasibility**," which states that tax laws and regulations must minimise opportunities for corrupt practices.

7. Improve knowledge and understanding of technology solutions for assessing market-based property values.

The application of ICT and GIS mapping systems can manage spatially-identifiable land and data related to buildings, especially if pertaining to transaction information. This would make valuation methods more reliable and efficient. In this instance, Vietnam can learn a lot from the experience of Taiwan's property transaction online database, which should be employed as a successful case study for the enhancement of property valuation transparency.

8. Upgrade the professional education and training of appraisers/valuers.

Vietnam should prioritize the training of appraisers/valuers in accordance with international standards to build a team of senior appraisers/valuers with audited professional and ethical qualifications. The State's competent agencies should support the introduction of accredited programs of valuation within universities and colleges (Anh Tuyet, 2021).

8.3 Land leasing recommendations

9. Transition from a one-time payment system to an annual taxation model.

As outlined in depth in Chapter 7, a transition from the current one-time payment system for long-term land leases to an annual taxation model would be very beneficial for Vietnam. As such, we recommend the transition from a one-off to a recurrent payment system, which is to be introduced gradually for currently-running leases, and over a transitional period of 15 years for greenfield leases, so as to avoid excessive shocks on Vietnam's taxation system.

10. Apply "good model characteristics" to the new annual lease system.

In transitioning to an annual taxation model, Vietnam will need to introduce new tax rules for the new system, as the existing ones are sub-standard. As such, the paper recommends that the new annual lease system follows the "good model characteristics", defined above through the examination of comparative regional experiences. The characteristics include a progressive tax rate of 0.5% to 0.75%, a tax exemption regime for property held by non-profits, and a centralised land appraisal system with a 3-year value update time period.

9. Concluding comments

Based on our analysis of the current land use tax system and examples from international best practices, we have provided a number of policy recommendations that the Central Government of Vietnam could consider for the upcoming reforms. The recommendations are based on the three main aspects of a property tax, which are the definition of the tax base, of the tax rates, and of property evaluation. Also, recommendations on the transition from the current one-time payment system for long-term land leases to an annual taxation model were also provided to address the mounting challenges of uncertain lease renewals.

For the tax base, we recommend expanding taxable objects from only land to including both land and any structures attached to it. For the tax rates, we suggest increasing tax liabilities for owners of vacant, undeveloped, and unused land to control speculation. Additionally, there should be a distinction between the rates applied to commercial, residential and dual-purpose properties. For property valuation, we recommend strengthening the application of technology (such as in Taiwan's online database case study), more training programs for professional appraisers, better coordination between the Central Government and local authorities, organizing administrative reforms within the State's agencies, and ensuring independence and objectivity of land appraisal councils through a minimization of interference by the State's administrative apparatus. Finally, for commercial land leases, we recommend a quick transition to an annual taxation system, which is to be shaped after the "good model characteristics" displayed in the paper. These include a progressive tax rate of 0.5% to 0.75%, tax exemptions for properties held by non-profits, and a centralised land appraisal system with a 3-year value update time period.

In terms of the order of implementation, increasing the rates on the aforementioned types of properties can be the first step, as it can have a direct impact on speculative incentives. However, the transition to a recurrent taxation system for land leases should be accomplished gradually, with quick reform for currently-running leases, and with a 15-year transitional period for new leases. The next step would be revising the tax base definition, based on which valuation procedures can be determined. However, before implementing any radical change, we suggest the government first conduct pilot testing in several locations to better understand the effects the change might have on individual taxpayers and the market as a whole. According to what is found, further adjustments will be made to foster the system's efficiency and fairness.

10. Annex

Box 3: Unconventional land tax systems in Cambodia, Malaysia and Australia

Cambodia is interesting as property tax revenue is rather high for such a developing country. It demonstrates that higher revenues can be raised before having particularly strong systems and capacities in place.

Cambodian total tax revenues were equal to 17% of GDP in 2017, mostly from VAT taxes. Property taxes contributed about 5% of taxes, amounting to US$97 million in 2017. This came from once-off ownership transfers, but also from annual taxes on industrial land and housing. In 2017, all evaluated land prices (for tax purposes) were increased by 30%. In recent years, then, Cambodia increased local resource mobilisation by improving revenue administration and tax collection through better skills and systems, and not through new or increased tax rates. This included bringing all properties, particularly high-value ones, into the land registry, and improving the administration and collection systems.

In **Malaysia**, property tax is due on all property, including shops, factories, and agricultural land. Local jurisdictions are responsible for collecting property tax, which varies depending on the specific jurisdiction. A local property tax, which is based on the annual rental value of a property, is thus determined by local authorities, generally at a rate of 6% for residential properties, and is payable in two instalments annually. Significantly, when a tax is owed by either the owner or a tenant of the property, and the amount is determined by the user's individual circumstances, the OECD classifies such taxes as income taxes, not property taxes. As a result, OECD figures show that Malaysia earns zero income on property tax.

Also, the real property gains tax (RPGT) applies to properties sold less than five years after purchase. Those sold less than two years after purchase are subject to 10% RPGT and those sold between two and five years after purchase are subject to 5% RGPT. In the case of stamp duty on the transfer of the ownership right, for the first RM 100,000 (USD 33,333), the stamp duty is 1%. For the next RM 400,000 (USD 133,333), the stamp duty is 2%, and for anything over RM 500,000 (USD 166,667), the stamp duty is 3% (Pornchokchai, 2015).

Australian property is taxed at both the state and council (municipal) level. Taxes are payable by property owners, and not charged to renters.

Local council rates are payable, depending on each local government, usually on a quarterly basis and called “council rates”. "Council rates" are assessed each year on a property's value. Local governments of each state can levy a property tax on homeowners by using a different combination of the *unimproved land value; land value or site value; improved value of land and buildings; rental value of land and buildings* except for the Australian Capital Territory (ACT). In the ACT, only land is taxed.

All State land tax regimes exempt the principal or main residence of homeowners from tax. This exemption (and the heavy reliance by State governments on stamp duty) has long been seen as inefficient and inequitable from a taxation and housing policy perspective, and as undermining urban density and housing affordability goals.

For land purchased for use in a business or profit-making activity that deals in land, any sale proceeds are treated as ordinary income, and may also be subject to the Goods and Services Tax (GST). Otherwise, land is generally seen as a capital asset that may be subject to Capital Gains Tax (CGT). The main or principal residence of homeowners is exempt from CGT.

11. Bibliography

Anh Tuyet (2021). "Nhức nhối" thẩm định giá, Bộ Tài chính quyết ra tay [Wrongdoings in price appraisals force the Ministry of Finance to intervene]. VnEconomy.

BOFIT (Bank of Finland) (2021). BOFIT Weekly - Yearbook 2011. Available at: https://helda.helsinki.fi/bof/bitstream/handle/123456789/8587/169677.pdf?sequence=1&isAllowed=y.

Grant Thornton (2016, December 20th). Taxation of 'passed-on' GRT. Available at: https://www.grantthornton.com.ph/insights/articles-and-updates1/lets-talk-tax/taxation-of-passed-on-grt/.

Hass, A.R.N. & Kopanyi, M. (2017). Taxation of Vacant Urban Land: From Theory to Practice. Policy Note July 2017. London: International Growth Center.

KPMG (2020). Vietnam Tax & Legal Handbook. Available at: kpmg.com.vn.

Liu, Z. (2019). Land-based finance and property tax in China. *Area Development and Policy, 4*(4), 367-381.

Liu, Z. (2020). Municipal finance and property taxation in China. *OECD Fiscal Federalism Studies Local Public Finance and Capacity Building in Asia.* Issues and Challenges: Issues and Challenges, 175.

McCluskey, W. J., & Trinh, HL. (2013). Property tax reform in Vietnam: Options, direction and evaluation. Land Use Policy, 30(1), 276-285.

McCluskey, W., Bahl, R. & Franzen, R. (2022). *Strengthening Property Taxation Within Developing Asia.* Asian Development Outlook 2022: Mobilizing Taxes for Development. Manila: Asian Development Bank.

Pornchokchai, S. (2015). *Recent Theories and Practices of Real Estate Assessment (for tax purposes) and Appeal Mechanism in the ASEAN Region*. Presented at the 2015 PRRES Congress, January 18-21, 2015, Kuala Lumpur, Malaysia.

PWC (2022). *Corporate - Other taxes, People's Republic of China.* PWC Tax Summaries.

Shukla, G. P., Pham, D. M., Engelschalk, M., & Le, T. M. (2011). *Tax Reform in Vietnam: Toward a more efficient and equitable system* (No. 26851). The World Bank Group.

Stein, G. M. (2017). *What Will China Do When Land Use Rights Begin to Expire.* Vanderbilt Journal of Transnational Law, 50, 625.

Wellmann, D. (2012). Discussion paper on the legal framework of state land leases and concessions in the Lao PDR. *Vientiane, Integrated Rural Development in Poverty Regions of Laos (IRDP) under the Northern Upland Development Programme (NUDP), under IIZ IRDP.*

World Bank (2022). *Draft World Bank Group's Recommendations on Revision of the Land Law 2013 for Sustainable Development (2022 Version).* World Bank Group.

Zico Law, (2020). *Land Ownership in ASEAN.* ASEAN Insiders Series, September 2020.