Article 51, paragraph 6 of Article 63, paragraph 1 of Article 66, paragraph 2 of Article 66, Article 71, and Article 81 of the Water Resources Law on the national water resources information system and database; basic water resources investigation activities; establishment, appraisal, approval, and adjustment of comprehensive planning for basic water resources investigation; organization for conducting basic water resources investigation; preparation, appraisal, approval of inter-provincial river basin comprehensive planning; list of inter-provincial river basins requiring planning; review and adjustment of inter-provincial river basin comprehensive planning; water source protection zones; determination of groundwater exploitation thresholds; groundwater protection; water resource regulation and distribution; project scale, procedures, authorization for approving water transfer plans; operation procedures for dams, reservoirs, inter-reservoirs; objects, scale, regime, parameters, monitoring indicators for water resources exploitation, water quality and implementation roadmap; list of lakes, ponds, reservoirs, areas not to be filled in; prevention of erosion, landslides along riverbanks and lakeshores; water resource accounting and implementation roadmap; coordination, monitoring of water resource exploitation, use, protection activities; prevention, control, and mitigation of water-induced damages; organization and activities of river basin organizations.

The Decree applies to agencies, organizations, communities, households, and individuals engaging in activities related to the provisions specified in the decree on the territory of the Socialist Republic of Vietnam ▪

**TRẦN TÂN**

## 1. INTRODUCTION

The vacant land tax is proposed by countries as a tool to reduce speculation, encourage land transactions to ensure the efficient overall use of land in cities. This perspective has a traditional origin from Henry George, the first to propose the idea of taxing vacant land in his work "Progress and Poverty" in 1879. He believed that holding vacant land was one of the causes of social inequality and economic crises at that time. According to Henry George, imposing a vacant land tax would encourage landowners to use the land for development purposes and make the overall economy more efficient, creating more wealth for society to address inequality. Today, from the perspective of urban development, many economists continue to support the use of this tool to change the behavior of private areas and prevent speculation, increase the housing supply. World Bank research (2016) on the vacant land tax in some countries shows that while the motivation for implementing a vacant land tax in developed countries is to address declining investment, in developing countries it is to combat speculation. In developing countries, although vacant land exists in cities for various reasons, rapid population growth along with urbanization processes make speculation the main reason for unused land. This is reflected in cases in Brazil, China, Colombia, South Korea, the Philippines, and Taiwan...

In Seoul (South Korea), when land prices increased by 136% in 1978 mainly due to speculation, the government responded by imposing a tax on vacant land. Any plot of vacant land left for more than two years would be subjected to a high real estate tax of 5%, 7% if vacant for 3 years, and 8% if vacant for 5 years, instead of the standard 2% if not left vacant. In 1979, the city of Pittsburgh (Pennsylvania, USA) imposed a vacant land tax six times higher than the tax on land in use, which resulted in positive outcomes in bringing land into use. Pittsburgh's building permits increased by 70.4%, while the average of 15 other cities decreased by 14.4% from 1979 to 1989. Washington DC also implemented an annual additional tax of 5%, higher than the basic tax rate of 0.83%. Similarly, Bogotá (Colombia) applied a tax rate of up to 30% for unused land. Furthermore, there were regulations stating that vacant land for more than two years could be reclaimed by the city and put up for public auction. As a result, in 2003, it was estimated that after the implementation of the vacant land tax, only 2,000 - 2,200 hectares out of the total 36,000 hectares in Bogotá remained vacant (Arujo de Larangeira 2003).

Real estate tax in general and vacant land tax in particular, besides their role in combating speculation, are also proposed to increase revenue for the city government (except for some exceptions like Latvia and Chile where it is a source of revenue for the central government). This stems from the tax management aspect, where compared to the central government, local governments understand the location, characteristics, and reasons for vacant land in order to design appropriate vacant land taxes. From a benefit-based tax perspective, there is a direct connection between the public services provided by local governments, which residents benefit from through local real estate taxes, making it easier for residents to accept.

# Taxing urban vacant land: International experiences and policy implications for Vietnam

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*Currently, the Ministry of Finance is studying the draft Law on Real Estate Tax, which includes provisions for taxing second homes and taxing vacant houses and land in accordance with international practices. This article provides a perspective from international experience on vacant urban land, also known as vacant land tax (VLT). This type of tax is primarily issued by local governments with the aim of generating additional revenue for the city government and combating speculation, especially in developing countries.*

## 2. URBAN VACANT LAND TAXATION METHODS

*Tax on land value:* Tax on land value in general has been tested in about 30 countries (Dye and England 2010). In essence, this is an "implicit automatic" mechanism to significantly higher tax vacant land, as there is no distinction between vacant land and developed, used land (valuable houses or other construction works).

*Tax based on market value*: This type of tax is levied on a reasonable estimated market value including the land value and the value of assets attached to the land (land improvement value). Although the market value can be reflected through sales transactions, in reality, it is very difficult to separate the value of land and the value of land improvements.

*Apply additional tax on vacant land*: This type of tax is based on market value, where the land value is estimated separately from the land improvement value to expand the tax base, or impose a higher tax rate.

*Taxation by area:* Real estate taxation based on area often includes tax tables calculated per square meter for real estate clusters in different areas. In this system, additional tax on vacant land may apply a simple rule such as doubling the tax rate for vacant urban land. Area-based taxation is commonly used in countries where the real estate market is underdeveloped, making it difficult to determine market values.

*Real estate transfer tax*: This type of tax is applied in most countries and is based on the total transaction value. However, to limit speculation in rapidly developing cities, the tax can be imposed on net profit, meaning taxing the difference between the purchase and sale values. To do this, clear records of land transfers over a long period are required.

## 3. EXPERIENCE ON TAXING VACANT URBAN LAND

Different countries have different ways of defining vacant land and different priorities for vacant land tax.

In fact, in many countries, vacant urban land is rarely green vacant lots in developed cities. Instead, vacant urban land often appears in the form of commercial properties such as parking lots. In Seattle, USA, 12.5% tax has been imposed on parking lots since 2010 to encourage owners to bring these plots to the market and allow developers to build high-value real estate. Developed cities often do not have much vacant land; instead, building investors need to demolish old buildings, clear the land to construct new buildings such as apartments, offices, commercial buildings, or industrial facilities.

Among these cities, Bogotá city (Colombia) has successfully developed a vacant land tax: In 2003, it was estimated that only about 2,000 - 2,200 hectares out of the total 36,000 hectares of the city were still vacant. The success of the tax is attributed to strict time constraints, which means that vacant land will face a tripled tax rate over a 10-year period if there is no development. There is also a provision that land left vacant for no more than two years can be reclaimed by the city and put up for public auction.

Despite economists not denying the potential use of vacant land tax as a tool to guide land use, prevent speculation, many people believe that unused land is not necessarily a market malfunction signal, and vacant land tax is not entirely an effective tool to encourage efficient urban land use. Taxing vacant land may be neutral for owners in encouraging them to use it immediately or continue holding the land for future use. Landowners may choose to keep the land vacant and pay the tax if the opportunity cost of putting the land into use is higher than the annual land tax. A World Bank study (2016) highlighted the difference between growing cities with increasing populations and stagnant cities with declining populations. For example, some cities in the US have a lot of vacant land, but taxing vacant land for owners weakens rather

**Table 1: Experience in identifying vacant land and tax rates**

| Localtion | Type of land subject to vacant land tax | Tax rate |
|---|---|---|
| Harrisburg City, Pennsylvania, America | Property tax is divided into:<br>- Land applies to all types of land<br>- Asset attached to land | - Land: 3% of assessed land value<br>-Asset attached to land: 0,5% of assessed asset value |
| Seoul city, South Korea | - Surcharge tax on vacant properties.<br>- Vacant land for at least 2 years. | 2% for used land<br>5% if land left vacant for 2 - 3 years.<br>7% if land left vacant for more than 3 years<br>8% if land left vacant for more than 5 years<br>9% if land left vacant for more than 7 years<br>10% if land left vacant for more than 10 years |
| Marikina city, Philippines | The land area is larger than 1,000 square meters, half of which is still unimproved. Residential plots, regardless of land area, half of them is still unused or unrenovated. | Additional tax at the rate of 2.5% per annum on the assessed value of the property |
| Bogotá city, Colombia | Zoning: Land that is urbanized but not yet developed, land that is urbanized but has no construction work. | 2004:<br>- Vacant land: tax rate 1.2%–3.3% of assessed land value.<br>- For land that has been used in urban areas, the rate is from 0.4% (residential use) to 1.5% (financial institutions)<br>In 2016, for vacant urban land, the tax rate is 30% |
| Ireland | The tax applies to land that is vacant, suitable for the provision of housing and located in an area where there is a need for housing | In 2018, the tax rate was increased from 3% to 7% of the market value of vacant land. |
| Washington DC, America | Vacant land | In 2017, the tax rate is 5% of the market value of vacant land |

*(Source: World Bank 2016)*

than improves the development of the city. Minneapolis - Saint Paul (USA) faces economic stagnation, the population shifts from the city center to the suburbs, so taxing vacant land becomes counterproductive. In particular, San Francisco has a tax incentive program to transform vacant lots into public gardens, serve the community instead of imposing additional taxes on vacant land.

In terms of increasing revenue for the city government, many economists also doubt the feasibility of vacant land tax. Real estate taxes in general, and vacant land tax in particular, are politically sensitive, and designing and implementing vacant land tax is very complex. Political challenges have led to more than 30 countries worldwide applying land value taxation, but not all of these countries have a specific tax on vacant land (Dye and England 2010). The Democratic Republic of the Congo is an example, the Land Tax Law stipulates taxing vacant land in different localities based on the attractiveness for settlement, so different tax frameworks exist for each area, and the responsibility for paying this tax lies entirely with the landowners. However, land evokes a sense of familiarity and land use is closely tied to many cultural aspects in people's lives. In reality, in 2008, less than 1% of the revenue collected by the Tax Department was from land tax, and very little was from vacant land tax due to political sensitivity and enforcement difficulties (Nwezwanga 2009).

Designing and implementing vacant land tax is always a challenge for every country. This is because the necessary information to identify unused land, assess land value may not always be readily available, especially in many developing countries (Bird and Slack 2004). In reality, taxing vacant land requires a lot of time and effort from experts to distinguish between the value of the land and the value of the structures on the land, and without sufficient land and real estate transaction records, it is almost an impossible task. These challenges require enhancing the capacity of land administration and valuation officials. Developing and maintaining a land management system to implement fair and efficient vacant land tax will increase compliance costs, but it is a prerequisite to be able to bring policies into life.

## 4. POLICY IMPLICATIONS FOR VIETNAM

Based on the experience of some countries in designing urban vacant land tax policies, Vietnam needs to focus on the following points:

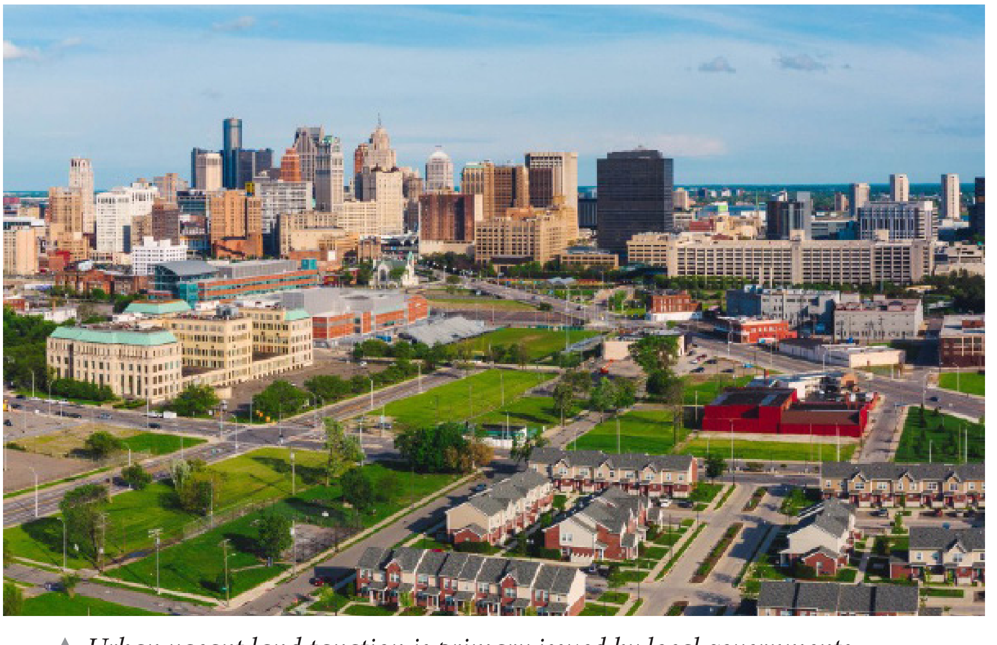
(1) Real estate tax can be created in the direction of implementing progressive tax rates and separately assessing land, real estate on the land for taxation. Taxing based on progressive tax rates for each part will ensure a high regulatory goal with large-valued houses and land, and be fairer to those with lower real estate values. In particular, it is necessary to impose very high tax rates on urban vacant land in densely populated, developed cities to limit land speculation in cities such as Ha Noi and Ho Chi Minh City.

(2) Regarding the individual income tax policy on real estate transfers, which currently stands at 2% of the total transaction value, this is a simple and transparent tax calculation method that many countries apply. However, to ensure the policy's main goal of market regulation, prevent land speculation, and fairness for investors, the Ministry of Finance needs to study taxing intonet profits (transfer price minus purchase price and related expenses) when the real estate market is professionally managed and transparent, and land and real estate on the land of the people can be digitally managed.

(3) It is necessary to specify the requirements of Resolution No.18-NQ/TW dated June 16, 2022, which is "establish mechanisms and methods for determining land prices based on market principles" in the regulations guiding the implementation of the Land Law (amended). The responsible agency drafting these regulations needs to thoroughly study the methods of determining land prices and the applicable cases and conditions, thereby ensuring the stability and feasibility of the regulation.

(4) To encourage local governments to pay attention to real estate tax revenue in general and urban vacant land in particular, it is necessary to allow localities to use 100% of this tax revenue to develop the economy and ensure social equity (for example, developing housing markets for low-income individuals).

(5) Enhance the capacity of local governments in investigating, collecting information about land parcels, market land prices, and land valuation methods… is crucial in determining the success of real estate tax in general and vacant land tax in particular ▪



▲ *Urban vacant land taxation is primary issued by local governments*

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