Impact of GST Treatment on the

In view of the GST implementation in April 2015, REHDA has submitted a Memorandum to the Ministry of Finance's GST Implementation Office on 20 February 2014 to highlight our concerns on the impact of GST, in particular on the affordability of housing to the public at large as well as propose recommendations to ensure that GST will not add to cost development.

In summary, our proposals to the Ministry include:

1 :: GST Relief Order to be applied to Affordable Housing

- 2014 Budget: Residential – Exempt
  Non-residential – Standard
- Escalating house prices poses a major challenge for house buyers.
- Prices of residential properties will be affected by the implementation of GST especially residential properties under the affordable housing category – home ownership by target groups will be a bigger challenge.

Industry's Request

- Residential properties of which the selling price is up to RM400,000 to be considered affordable housing and regarded as taxable supply and such supply will fall under the GST (Relief) Order.
- This would mitigate the increased cost for affordable housing and provide 'status quo' opportunities for target groups.

2 :: Fixed Allocation for Residual Input Tax Credits for Mixed Development

- Many development projects today are mixed developments where infrastructure such as roads and drains are built to serve both residential and non-residential properties.
- Developers will need to apportion based on turnover in order to recover residual input tax credits.
- Partial exemption rules will create onerous and in certain cases commercially impractical burden for developers to apportion.

Industry's Request

- To allow developers to adopt a fixed allocation – either build up, land area (acreage) or any other method (segregation between residential and commercial property development) in claiming residual input tax credits.
- This would help ease the administrative burden when claiming residual input tax.

3 :: GST Zero Rating to Major Cost Components of Property Development Projects

- Introduction of GST will inevitably increase the price of inputs for property development sector due to disallowance of input tax credits on the exempt supply of residential property.
- While GST technically should not impact the businesses of building materials suppliers, it would have significant impact on their cash flow. Suppliers may end up passing financing cost in the form of increased prices of their supplies.

Industry's Request

- To extend GST zero rating to major cost components of property development projects such as steel bars, iron, cement, concrete and aggregate sand or consider provisions for some relief to the suppliers to help them deal with the cash flow issue.

4 :: Rationalisation of Stamp Duty on Transfer of Real Properties

- The imposition of GST would add another layer of cost on property transactions as there are already existing multiple 'taxes' imposed such as RPGT, Stamp Duty, CIDB levy and Service Tax.
- The government is currently reviewing the stamp duty rates and is considering an increase of stamp duty rate to 4%.

Industry's Request

- The stamp duty on transfer of real properties to be maintained at the current rate of maximum 3% instead of the proposed increase to 4%.

5 :: Transitional Provisions for the Property Industry

- Taxable supplies made under contract with no opportunity to review treated as zero-rated supplies for 5 years from date of GST implementation provided conditions are satisfied.
- However, it is commercially impractical for property developers to comply with all the conditions as developers enter into long term contracts.

Industry's Request

- Supplies made under all types of contracts prior to the announcement of GST (Budget Day 25 October 2013) to be entitled to the transitional provision granting zero-rating.
- For SPAs of land entered prior to Appointed Date (1 April 2015), payments received or invoices issue prior to Appointed Date where the supply of land is made available after Appointed Date will not attract GST

Property Development Industry

6 :: Extending the GST Joint Venture Scheme to Property Developers

- Currently the GST Bill does not consider joint venture between land owner and property developer to be a joint venture for GST purposes.

Industry's Request

- Joint venture between land owner and property developer should also be considered as a joint venture for GST purposes and the treatment for the GST joint ventures should be extended to cover joint venture arrangements involved in real property transactions.

7 :: Group Registration for Companies that Provide Mixed Supply

- The conditions for group registration are too restrictive and because of the condition that each company in the group must be making wholly taxable supplies or incidental exempt supplies, property developers and other businesses making mixed supplies are unable to register as a GST group.
- As such, these companies have to charge GST on intragroup supplies made between companies in a group and are unable to obtain relief.

Industry's Request

- The conditions for GST group registration be relaxed to allow companies making mixed supplies to register as part of a GST group.

8 :: Consistency Requested on the GST Classification for Properties

- There are a variety of properties which have mixed usage, for example SoHo, SoFo, SoVo, SoLo, etc.
- SoHo may fall under Schedules G or H of the Housing Development (Control and Licensing) Act but Customs authorities considers it as a commercial property where GST has to be charged.
- In the absence of a GST clause in the SPA, developer will be forced to bear GST and not allowed to pass the GST cost to purchasers.

Industry's Request

- For avoidance of ambiguity, any property under Schedules G or H of the Housing Development (Control and Licensing) Act is considered as a residential property for GST purposes to ensure consistency between the Act and the GST provisions.

9 :: Definition of "basic fittings" in the Supply of Residential Properties

- Supply of residential properties with "basic fittings" is considered exempt supplies whilst "extras" supplied with the residential property to be charged separately and to be standard rated.
- There is ambiguity of what constitutes "basic fittings" and "extras".

Industry's Request

- Basic fittings be defined as fittings which are included in the Architect's drawings which are to be submitted to KPKT for AP and DL.

Conclusion:

REHDA supports the Government's efforts to raise revenue for the rakyat through the implementation of GST since the Government has promoted GST as a transparent, efficient and progressive taxation system. Furthermore, GST has often been referred to as a 'fairer' and 'more equitable' tax.

However, due to some measures which are highly prejudicial and unfair, REHDA has requested the Ministry of Finance to give serious consideration to the proposals submitted as the implementation of GST in its current form will cause financial hardship, adding to the cost of development resulting in overall increase in house prices as such cost will eventually be passed on to house buyers.