REHDA Budget 2015 Wish List: **Accelerating Growth, E**

Rising cost of living and doing businesses, subsidy rationalisation and the impending implementation of Goods and Services Tax (GST) are among the major factors that must be taken into consideration in formulating Budget 2015, the final budget under the 10th Malaysia Plan. Themed "Accelerating Growth, Ensuring Fiscal Sustainability, Prospering the Rakyat", Budget 2015 is scheduled to be tabled on 10 October 2014.

As in the previous years, REHDA has been invited to submit a Budget Memorandum to the Ministry of Finance. The Budget 2015 Memorandum put forward by REHDA is reproduced below:

Goods and Services Tax (GST)

Whilst REHDA supports the introduction of GST to make the current taxation more comprehensive, efficient, transparent and business friendly, the imposition of GST would result in double taxation as land and property transactions are already subjected to stamp duty. This is particularly so in the case of non-residential property transactions, which attract GST at standard rate, and at the same time imposed with stamp duties.

With residential properties being an exempt supply, the imposition of GST will increase input prices due to disallowance of input tax credits, adding to the cost of development and resulting in overall increase in house prices. Such costs will eventually be passed on to house buyers in terms of higher pricing. GST in its current form, will have adverse impact on the affordability of housing to the public at large.

Proposal by REHDA

- Pursuant to our earlier proposal, REHDA reiterates that property transaction be treated as follows:

Residential	Zero rated or Standard rated
Affordable housing	Zero rated
Non-residential, commercial & industrial	Standard rated

- Residential properties of which the selling price is RM400,000 and below to be considered affordable housing and regarded as taxable supply and such supply to fall under the GST (Relief) Order.
- This will mitigate the increased cost for affordable housing and provide status quo opportunities to the target groups to purchase the properties and own houses which are comparable in the pre-GST regime.
- This will also help the Government to meet the objectives of the National Housing Policy while the property industry would be encouraged to provide more affordable housing.

Real Property Gains Tax (RPGT)

Although the intent of revising the RPGT rate from 10% – 15% to between 15% – 30% depending on year of disposal is aimed at curbing speculation in certain market segments, in reality the presence of speculation activities in the market is insignificant. Such activities are only active in certain hot spots targeted by speculators.

The revised rates are punitive to genuine buyers who may want to upgrade or relocate within the first five years of acquisition. These buyers will delay the decision to sell, thus reducing supply in the secondary market, and will also affect demand for new properties as they have to hold on to their original property longer to avoid high RPGT imposition.

Proposal by REHDA

- REHDA urges the Government to revert to the RPGT rates charged prior to 2007 as follows:

Category of disposal	RPGT Rate
Properties sold within 2 years	30%
Properties sold in the 3rd year	20%
Properties sold in the 4th year	15%
Properties sold in the 5th year	5%
Properties sold in the 6th year and above	0%

- REHDA also proposes that RPGT rate applied should be the rate prevailing at the time of purchase and not at the time of disposal, in line with the principle of informed judgement based on facts available at time of investment.

RM1 million Threshold Price for the Purchase of Residential Properties by Foreigners

The foreign ownership threshold increase from RM500,000 to RM1 million may be detrimental to the promotion of property acquisition by foreigners.

In many urban areas outside the Klang Valley, Penang and Johor Bahru, there is very limited supply of properties above RM500,000 while properties above RM1 million are almost nonexistent. Places such as the East Coast of West Malaysia, most parts of Sabah and Sarawak, Langkawi and Melaka may be of interest to foreign buyers due to their natural attractions and heritage status but foreigners may not be able to find suitable homes (especially smaller built-up low maintenance strata properties suitable for retirees and MM2H residents) in the said price threshold in these areas.

Proposal by REHDA

- A tiered pricing threshold approach would be a more practical and efficient way of promoting foreign investment in Malaysian property without compromising the interest of local buyers.
- REHDA proposed that a 3-tier pricing threshold be adopted according to the state and degree of urbanization of the related property as follows:

Tier I	Threshold for highly urbanised areas (WP Kuala Lumpur)
Tier II	Threshold for urbanised areas (Selangor, Melaka, Negeri Sembilan, Johor, Penang)
Tier III	Threshold for less urbanised areas (Perlis, Kedah, Perak, Pahang, Kelantan, Terengganu, Sabah, Sarawak)

Non-Facilitative Financing Policies

The reviews of financing guidelines have negatively impacted buyers' ability to secure financing:

- » **November 2010:** Maximum margin of financing of up to 70% for housing loans of third property onwards
- » **January 2012:** Borrower assessed based on net income rather than gross income
- » **July 2013:** Maximum period for housing loans reduced from 45 years to 35 years
- » **2014:** Total ban of Developers Interest Bearing Scheme (DIBS)

Feedback from the market revealed that while there is strong interest in new launches, there are many cases of end-financing rejection faced by buyers, leading to cancellation of purchase.

Proposal by REHDA

- Innovative financing schemes for home buyers should be encouraged to facilitate home acquisition where REHDA is proposing the following:
  - Cheaper financing for first time home buyer;
  - Tiered payments - pay less now, pay more later when salary has increased;
  - More flexible criteria, not merely focusing on net income at the current time but to also take into account higher salaries in the future, other income, bonuses, etc;
  - Introduce new home buyer friendly financing schemes – lower interest rates, longer loan tenure; and
  - Encourage innovative home financing packages such as DIBS to assist buyers lower their entry cost of home ownership.
- The application of DIBS is aimed at helping ease buyers' cost of home acquisition and not having to pay interest and rentals at the same time during construction period and this is especially useful to help first time home buyers take the first stop on the home ownership ladder.
- Schemes such as DIBS should be allowed across the market and if implemented under proper guidelines is an instrument to assist homebuyers in facilitating their acquisition with smaller initial outlay.

Review of Stamp Act

REHDA highlighted the industry's grave concern on the proposed amendments to the Stamp Act 1949 as follows:

i) Imposition of ad avalorem duty on Sale and Purchase Agreement (SPA) or similar instrument

Imposition of ad valorem duty on the SPA will exert additional upfront financial burden on buyers and further widen affordability gap.

Below is an illustration of the initial upfront payment involved in the purchase of a RM500,000 property with 90% margin of financing payable upon signing of the SPA:

10% purchase price	RM500,000 x 10% = RM50,000	50,000
Legal fee for SPA	First RM150,000 x 1% = RM1,500 Balance RM350,000 x 0.7% = RM2,450	3,950
Stamp duty for SPA	First RM100,000 x 1% = RM1,000 Balance RM400,000 x 2% = RM8,000	9,000
Legal Fees for loan facility agreement	First RM150,000 x 1% = RM1,500 Balance RM350,000 x 0.7% = RM2,450	3,950
Stamp duty for loan facility agreement	RM450,000 x 0.5% = RM2,250 (90% financing)	2,250
Misc (disbursement, preparation of SPA documents, service tax, etc)		1,000
TOTAL (RM)		**70,150**

Proposal by REHDA

- The existing practice of stamp duty payable upon transfer of strata property be retained instead, to avoid further pressures on the rakyat's cost of living issue.
- Stamp duty payments can be made upon collection of vacant possession and property transferred to the buyer shortly thereafter.
- This proposal will facilitate early transfer of strata property without compromising the rakyat's affordability.

ii) Proposed increase stamp duty rate for property which value is in excess of RM1,500,000

The proposal to introduce a new tier of stamp duty rate at 4% for properties valued at RM1,500,000 and above will be another impediment to house purchasers. Rising cost of development due to increased land and construction costs has resulted in higher property prices and in most cases, buyers of these properties are mostly from the upper middle income group. The proposed increase is punitive to this group of rakyat who have been the strong support to the country's economic activities and major individual income tax payers. The implementation of the new tier will also hurt business operators purchasing commercial properties such as retail lots and shop houses, especially where commercial property transactions are also imposed with 6% GST by April 2015.

Proposal by REHDA

- Transaction of real properties have been on the rise particularly in terms of value, which without doubt has resulted in higher duty payable to LHDN. The average growth in transaction volume and value from 2008 to 2013 is 4% and 13% respectively. With the increased number of transaction at higher property value, collection will continue to rise.
- REHDA proposes that instead of introducing a higher percentage for the upper tier, the band of the lowest tier should be expanded to also include properties up to RM500,000 which has now fallen in the affordable housing category and to reduce the rate.
- The proposed rates by REHDA are:

Transaction Value	Existing Rate
1st RM100,000	1.0%
Between RM100,000 to RM500,000	2.0%
In excess of RM500,000	3.0%

Transaction Value	New Rate Proposed by REHDA
1st RM500,000	0.5%
Between RM500,000 to RM1 million	1.0%
In excess of RM1 million	2.0%

nsuring Fiscal Sustainability, Prospering the Rakyat

- Expansion of the band and rate reduction are not only more holistic and reflective of the current market price but also fairer to help keep homeownership costs low without significantly affecting the revenue to the Government. This change would also help reduce the additional burden caused by the imposition of 6% GST effective 1 April 2015.

Further Incentives for the Adoption of 'Industrialised Building System (IBS)'

Whilst IBS is beneficial in addressing labour issue and at the same time ensuring quality and speedy delivery, there are drawbacks hindering developers in adopting IBS:

– usage of IBS will result in 5 to 20% increase in cost depending to project. Due to lack of economies of scale and higher cost of IBS, usage of IBS is not feasible unless a project is sizeable enough;
– issues on quality such as leakages at joints, inconsistency of products (sizes, etc), façade/finishes limited designs;
– lack of IBS component suppliers;
– sustainability of IBS component manufacturers;
– limited availability of open manufacturers or open supply;
– high initial cost to set up factories and machineries;
– lack of skilled workers to operate and maintain IBS system;
– general market perception associating IBS with low quality homes (buyers not confident of IBS projects);
– lack of incentives provided to developers for the adoption of IBS;
– legislation, guidelines, requirements, etc impede the adoption of IBS systems and products;
– high custom duties on transportation vehicles, lifting equipment, etc; and
– infrastructure (roads, bridges, etc) capacity restrictions result in inefficiencies in transportation leading to increased cost of doing business.

Proposal by REHDA

- To have an open system or open supply to ensure that IBS manufacturing sector is not monopolised by a few big companies to encourage competitive pricing.
- Ensure adequate IBS components producers located strategically in the Northern, Central and Southern regions to supply sufficient availability of IBS products to support the construction industry. The Government should provide special funds to small and medium industries to create a ready supply of such materials.
- The Government and its agencies to ensure their projects adopt the IBS system and components thus ensuring economies of scale. The cost of producing the IBS components can be reduced and at the same time encourage more manufacturers to set up plant.
- CIDB to lead the IBS initiative by providing comprehensive and systematic training programme. Incentives to be given to pioneer manufacturers/installers who venture into IBS.
- Awareness programme for contractors to change negative mindset and for the public, awareness on the advantages of IBS as well as promoting buyers' confidence in IBS projects.
- Currently, the only incentive provided to developers for the adoption of IBS is a CIDB levy relief. Further incentives would have to be provided for the accelerated adoption of IBS such as:

  Planning, Design and Approval
  » fast lane approval for IBS projects;
  » fast track approval from Bomba and SIRIM on IBS components;
  » higher plot ratio/density;
  » guidelines and requirements such as planning guidelines, building by-laws, Bomba requirements, etc should facilitate the use of IBS systems and products; and
  » no additional provisions beyond what is required - current land requirements by some technical agencies are larger than what is needed.

  Construction and Implementation
  » sales tax exemption for all accredited IBS materials to make them more price competitive;
  » tax relief for IBS trainings;
  » double tax allowance for capital expenditure, including all machinery and equipment incurred by developers in adopting IBS;
  » double tax allowance for the increased portion of construction costs due to IBS system adoption;
  » GST exemption for IBS construction;
  » reduction of custom duties to encourage adoption of mechanization and automation;
  » review of permissible load carrying capacities – higher load required and strength of bridges to accommodate heavier vehicles – economics of scale;
  » government subsidy for affordable housing using IBS construction; and
  » waiver of low cost housing or increase selling price to meet current construction cost.

  Completion (Incentives to Purchasers)
  » 100% bank loan for house buyers; and
  » stamp duty exemption for house buyers.

  Others
  » Special funding from the government to ease IBS construction and development such as to fund infrastructure cost for IBS projects, low cost house discount, price rebate, training, etc; and
  » Special loans with low interest rates for IBS manufacturers/developers meeting the 50% mark of IBS in building.

Cost of Doing Business – Imposition of Capital Contribution Charges on Developers

Currently, developers are required to pay various capital contributions such as sewerage, electricity, water, telecommunications, CIDB, levy, surrender land, construct facilities as well as comply to other planning requirements, all of which are added to developer's costs.

Proposal by REHDA

- Private utility companies including water concessionaires, IWK, TNB and Telekom should not be imposing capital contribution charges on developers as developers are already required to lay infrastructure in their development projects and bring in new customers to the utility companies.
- These utility companies should revise their own capital to be recovered via tariff based on consumption through federal funding from general taxation.
- Reduction in cost of doing business for the industry so that eventually property prices can be managed at more affordable levels.

Abolishment of Mandatory Delivery of Low Cost Housing

Increase in construction costs has made the cross-subsidization model for provision of low cost units unsustainable.

Presently, the average cost to build low cost housing (including land cost) is estimated as follows:

» Strata: RM120,000 – RM180,000
» Landed: RM150,000 – RM250,000

Both the above are sold at a controlled price of RM42,000 maximum.

Although cross-subsidies for low cost units have gone up to more than RM100,000 per unit, they are still being sold at a controlled price of RM42,000 maximum, making the cross subsidization model unsustainable. Eventually, such increase is passed on to buyers of other segment within a project, pushing house prices up further.

Proposal by REHDA

- As Malaysia is moving towards affordable housing provision in line with its agenda to become a developed nation, Budget 2014 has allocated RM1.7 billion to the 1Malaysia Housing Programme Corporation (PR1MA), Syarikat Perumahan Nasional Berhad (SPNB) and the National Housing Department to build 123,000 units of affordable housing.
- It is proposed that developers be relieved from the role of providing low cost housing and that such role should be reverted back to the Government and implemented via its agencies i.e. SPNB and State Economics Department Corporations (SEDCs).
- The Government to provide the lower income group with social/transit housing to enable them to eventually purchase affordable housing as their income increases over time.
- The distribution and re-sale of subsidised housing must be properly controlled so that the benefits are accorded to only the deserving parties. Moratorium must be imposed on the re-sale of subsidised housing to ensure that the pool of supply is adequate and buyers do not profiteer from such subsidised units.
- Private sector developers should be allowed to focus on market driven products.

Revision of the Bumiputera Quota Policy

REHDA urges the Government for a more practical and transparent guidelines to ensure a more consistent implementation of the Bumiputera quota policy and its release mechanism.

Proposal by REHDA

- The Bumiputera quota should be standardised across all states and should not exceed 30%.
- Implementation of a standardised, structured and transparent Bumiputera quota release mechanism. The automatic release of unsold Bumiputera units to the open market shall be given upon:
  » 50% to be released after 6 months from the sales launching date, 25% to be released after 12 months, and the balance 25% to be released after 18 months; and
  » blanket release for all completed unsold Bumiputera lots.
- Developers should not be penalised with any form of levy or payment to any authorities or their agencies as a result of these quotas not taken up by the target group.
- No imposition of new conditions on titles for Bumiputera units as it will only create restriction-in-interest on the property and be viewed by the market as un-preferred property. This has even resulted in Bumiputera purchasers preferring to buy non-Bumiputera units.
- Bumiputera quota achieved based on sales irrespective of whether the units sold to Bumiputera were the identified lots or not.
- Bumiputera discount should not be applicable to high end properties as the discounts accorded to such high end properties would in fact be subsidised by other categories of property and eventually borne by buyers of those categories including buyers of affordable housing.

Greater Promotion of Sustainable Development – GreenRE

GreenRE, a green rating tool established by REHDA, is aimed at promoting greater adoption of green practice and technology amongst the industry players and offers practical and efficient solutions to green certification at affordable costs to the industry.

Currently, with the exception of Iskandar Malaysia, the Government gives incentives to buildings certified only by the GBI.

Proposal by REHDA

- GreenRE to be accorded incentives and benefits similar to other local green rating tool to encourage more developers to adopt green features in their development.
- GreenRE is established with the main focus to widen the industry's participation in adopting green technology and practices by making it more affordable and practical.
- The Government's support in this noble effort through incentives provision will accelerate the achievement of the country's green agenda.

Build-Then-Sell (BTS) 2015

In an effort to address the problem of project abandonment, the Government had announced the mandatory implementation of the Build-Then-Sell (BTS) as a single delivery system by 2015.

BTS as a single delivery system would have serious repercussions which will not only affect developers but also all stakeholders involved from the Government to house buyers, financial institutions, consultants, contractors, building material suppliers and etc.

Impact to Industry
» Shrinkage of supply;
» Reduced contracts and jobs;
» Higher construction costs; and
» Uncompetitive industry.

continues on page 8