

17 AUG, 2020

Big no for vacancy tax

The Malaysian Reserve, Malaysia



Big no for vacancy tax

The vacancy tax could discourage future initiatives out of fear of wrong investments

by HARIZAH KAMEL

IMPOSING vacancy tax on developers could deter the country's upcoming initiatives.

Institute for Democracy and Economic Affairs senior fellow Dr Carmelo Ferlito does not think that the proposed tax is a good idea.

"First and foremost, it is a violation of property rights. Developers or individual owners should be free to dispose of their property in the way they think is best: Hoard, use, rent or sell.

"A vacancy tax would set a dangerous precedent, suggesting that the government has the authority to interfere with the disposal of

property rights when it thinks such disposal is not going in a 'socially desirable direction.' Ferlito, who is also Centre for Market Education CEO told *The Malaysian Reserve (TMR)* recently.

He said such a tax should be avoided, adding that oversupply is a dynamic of the market process which proceeds through business fluctuations.

"An oversupply means that entrepreneurial wrong decisions were made, and those entrepreneurs need to deal with them.

"It will suggest developers move in a different direction or to bear the economic consequences," he said.

Ferlito added that the vacancy tax could discourage future initiatives out of fear of wrong investments and therefore discourage entrepreneurial initiatives that could be successful.



Ferlito says such a tax should be avoided, adding that oversupply is a dynamic of the market process which proceeds through business fluctuations

In a recent Dewan Rakyat sitting, Deputy Federal Territories Minister Datuk Seri Edmund Santhara Kumar said the government will

study a proposal to impose the tax on developers to address the number of unsold luxury condominium units in the Klang Valley.

According to data by the National Property Information Centre, there were 2,260 unsold condominium units within the Klang Valley, of which 498 comprised luxury units worth at least RM1 million as of the second quarter of 2018.

CBRE Group Inc and CH Williams Talhar & Wong Sdn Bhd MD Foo Gee Jen said a vacancy tax usually comes with a speculation tax to curb the excessive increase of house prices and is limited to residential property.

"It is not known to apply to other classes of asset. A vacancy tax is normally targeted at 'absence ownership', mostly foreign buyers in a specific local market.

"In Malaysia, instead of being burdened with tax, the vacant

property enjoys a rebate for assessment under the Local Government Act," he said.

Foo said the country currently needs more foreign investment, so a vacancy tax will be counter-productive.

The objective of a vacancy tax is to ensure that owners rent out their properties and do not impose high rents, Knight Frank Malaysia Sdn Bhd MD Sarkunan Subramaniam told *TMR*.

"If we introduce a vacancy tax, property owners who are already suffering in this oversupplied market will be forced to reduce their rent so low that it will be detrimental to the property market," he said.

He added that it would be very difficult to monitor vacant properties and that there is no reason for Malaysia to impose a vacancy tax at the moment.