Developers cry foul over Johor property tax plan

A 'disastrous' move as it would result in the market being 'in limbo for a while'


Lim claims that the tax proposal would be a major concern to foreign investors


Syed Mohamed is seeking clarification


by KIMMY FOO

THE Johor government's proposal to increase property tax for foreigners in the state has left developers with projects in a daze and crying foul while foreign investors, particularly Singaporeans, are likely to adopt a wait-and-see stance until they see some clarity in the murky situation.

Iskandar Malaysia Investment Bhd (IIB), which seeks to attract investments to Johor's Iskandar Malaysia, is also understood to be taken by surprise by the announcement last week by new Johor Menteri Besar Datuk Seri Mohamed Khaled Nordin.

Its president and CEO Datuk Syed Mohamed Ibrahim declined to comment on the matter. However, a source within the investment arm of Iskandar Malaysia says that Syed Mohamed has made an appointment with Mohamed Khaled and the Johor state government to seek clarification and carry out "damage control".

Distinctive Group CEO Lim Ech Chan says: "I believe the whole Johor market and more so the developers in Medini and Puteri Harbour (in Iskandar Malaysia) are worried sick about the announcement. All developers can forget about launching [their Johor projects] in Singapore or other overseas markets."

Lim argues that it would be "disastrous and the market would be in limbo for a while" until the government comes up with a clearer policy on this tax issue. "It's unbelievable that such announcement was made when the foreign buyers are so confident and bullish about Iskandar Malaysia."

Last November, the developer signed a lease purchase agreement for 7.31ha with IIB to jointly develop its mixed development project, 18@Medini in Medini, Johor as well as another residential project called Iskandar Malaysia Residences.

Lim claims that the tax proposal would be a major concern to foreign investors. "Foreigners are most worried when the government has flip-flop policies on foreign ownership of properties. They are most worried about any form of taxes that the government may impose... they are uncertain about their investment returns."

The CEO of another listed property developer describes the move to increase tax on foreign property buyers as "crazy". He says such sudden moves by the authorities would not sit well with foreign investors. "It is very difficult to second-guess what the authorities are going to do next," he adds.

No big deal

However, Malaysia Property Incorporated general manager Veena Loh sings a different tune. "If the tax comes in the form of a levy and is not substantial, it will not be a major issue."

According to Loh, most Singaporeans buy properties in the range of RM1 mil with an expected capital appreciation of 30-40%. Assuming that the levy on purchase is increased to 2% from 1%, the capital appreciation remains attractive enough to investors.

She argues that Singaporeans do not mind paying higher taxes if the coffers are put into building better infrastructure such as walkways and community areas. Furthermore, it will enhance the property value. "At the end of the day, it is about how you utilise the tax."

A CIMB Research report last March states that as at end-2012, total property investments in Iskandar Malaysia stood at RM35.1 bil, with the domestic and foreign investment ratio at 63.8 to 36.2.

The bulk of the foreign investments come from neighbouring Singapore and prospective buyers from there are said to be adopting a wait-and-see attitude to purchasing Johor properties following the latest bombshell from Mohamed Khaled.

The proposed tax increase is expected to impact the Iskandar Malaysia region the most, as many foreigners, particularly Singaporeans, flock to buy properties there. Iskandar Malaysia's flagship development, Medini Iskandar Malaysia, spans 9.3 sq km and was set to be the catalytic and international mixed-used development in Nusajaya, Johor. With a permitted gross floor area of 182 mil sq ft, the projected gross development value in the area is to the tune of RM60 bil over the next five to 20 years.

IIB was set up in 2006 to promote, coordinate and bring investments into Iskandar Malaysia. IIB is a 60%-owned subsidiary of Khazanah Nasional Bhd while other major shareholders are Kumpulan Prasarana Rakyat Johor and the Employees Provident Fund (EPF), both holding 20% each.

Scanty details

Details of the impending tax are scanty but Mohamed Khaled indicated it is expected to be effective by year-end. Tax consultants say that as real property gains tax is under the federal government's jurisdiction, a new state-imposed property tax could come in the form of quit rent, assessment rates or a new law.

Should the new state-imposed tax come in the form of a higher stamp duty, Johor properties may be under-declared, says Lim Lian Hong, president of the Association of Valuers, Property Managers, Estate Agents and Property Consultants in the Private Sector, Malaysia.

In Malaysia, the stamp duty for properties is 1% for the first RM500,000 and 2% for the second RM500,000 and above. "If properties are under-declared, it will not be a true reflection of the real market value and the government will get less tax."

There are incentives in place for the developers in Medini, such as exemption to sell 100% of their products to foreigners and exemption from tax for five years.

Apart from the brouhaha over the proposed tax, a more worrying prospect is the emergence of a property bubble in Iskandar Malaysia. The CEO of a property developer points out that within six months, 10,000 homes were snapped up in Iskandar Malaysia, compared to Sri Hartamas in Kuala Lumpur which took 10 years to reach the same number of units.

When Iskandar Malaysia was initially conceptualised, it was a long-term catalytic partnership formed between the federal and state governments to attract foreign investors.

Through thick and thin, the marriage was supposed to see matters through. However, the question now arises whether the contentious move by the state government will lead to foreign investors' perception that Iskandar Malaysia's goalposts have shifted. FocusM

Talk to stakeholders first, say tax consultants

AT present, local and foreign investors have several taxes to consider when purchasing properties in Johor.

The taxes applicable now are income tax on the rental income earned from the letting out of the property, real property gains tax (RPGT) on the gains from the disposal of the real estate, stamp duty on the acquisition of the property and local council tax such as the quit rent and assessment based on the annual value of the property, says PricewaterhouseCoopers Taxation Services Malaysia senior executive director Steve Chia.

The current assessment rate imposed is 0.14% and 0.2% of the property value for residential and commercial properties, respectively.

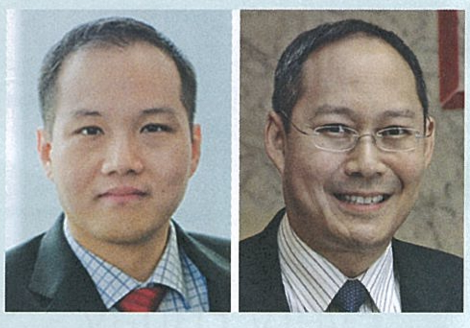
"However, currently, for properties in Johor, there is a RM10,000 levy on foreigners seeking to acquire the properties while locals are exempted," he adds. This levy was reduced to RM10,000 from RM100,000 when originally introduced in 1990s.

On top of that, head of tax advisory and executive director of BDO Tax Services Sdn Bhd David Lai says there is an "approval fee" upon the execution of the sales and purchase agreement (SPA) to a foreign purchaser for Johor state properties. "The approval fee is normally paid to the lawyer who would remit to the Johor Land and Mines Office within 30 days of SPA... It is more likely that the PTG may increase."

Lai also opines that tax is a major consideration for investments and that the effects of the proposed change will depend on the quantum of increase and how much it would affect the "after tax" investment cost and the net projected rental yields.

Both consultants believe that a detailed study is required before enforcing the state tax. "It is imperative that consultation of the private sector and the industry is sought to ensure that the interests of the various stakeholders are addressed," says Chia.

Lai adds: "The quantum of any increase must be analysed so that the state can fine-tune the quantum to achieve its objectives to curb price surges and generate greater revenue without adversely affecting foreign interest."


Chia (left) and Lai share the same sentiment over the proposal for a property tax for foreigners in Johor