

Property Costs

There are various costs incurred from acquiring the property up to the disposal. The following table illustrates the costs incurred during three stages:

Stage	Tax	Expenses
Acquisition	Stamp Duty	Legal Fee Statutory Fee Financing Costs like legal fee & stamp duty for loan documents, valuation fee and bank processing fee.
Holding	Assessment Quit Rent	For Strata Title : Service Charge Sinking fund Insurance
Disposal	Real Property Gain Tax	Legal Fee Agency Fee

Property Taxes

Stamp Duty

In Malaysia, stamp duty is payable by the buyer for the transfer of property. The duty is also payable where the instrument of transfer constitutes a DEED OF ASSIGNMENT executed on sale or gift of the contractual interest on the property. The prescribed rate of duty is as shown below.

On the first RM100,000	- 1%
On any amount in excess of RM100,000 but not exceeding RM500,000	- 2%
On any amount in excess of RM500,000	- 3%

In the case of tenancy, the lease or tenancy instrument which secures annual rent not exceeding RM2,400 is EXEMPTED from duty and presentation of these instruments at a stamping office or centre is not necessary. The prescribed rate of duty on the instrument which secures annual rent exceeding RM2,400 is as follows:

When the lease is for a period	Duty Rate
Not exceeding one year	RM1.00
Exceeding one but not exceeding three years	RM2.00
Exceeding three years or for any indefinite period	RM4.00

(For every RM250 or part thereof in excess of RM2,400)

If the consideration for tenancy constitutes or includes a PREMIUM, additional duty is chargeable and it is calculated on the amount of the premium at the rate chargeable on immovable property.

If the lease provides for differential rent, please contact The Deputy Collector of Stamp Duty for further information.

In the case of financing, where secured by way of mortgage, charge, debenture and others, the duty on the principal security is calculated at the rate of RM 5.00 for every RM 1000.00 or part thereof.

For more information, please visit www.hasilnet.org.my

Assessment Rate (Council Rate)

Assessment is a form of property tax collected by the local authorities for the provision of services to the residents. The amount and classification of properties varies from one local authority to another. In most states, the amount of assessment tax is calculated based on certain percentage of annual value of the property. The annual value of a property is the total value of rents if the property is rented out in the open market. But in Johor the assessment is based on improved value. Improved value is defined as the price at which an owner is willing but not obliged to sell his house or in other words, the current market value which is determined by the local state valuation department. Local authorities then calculate the assessment tax on rates approved by the Council based on the different land use. Assessment tax is usually collected twice a year with penalty fee for late payments. The owner may be imposed further penalty of a percentage of the tax due upon the failure to settle the tax after the deadline.

In Kuala Lumpur, the tax is calculated as a percentage of annual value and varies with type of property as follows:

- For holdings within 36 sq. miles of Kuala Lumpur
 - o Commercial properties : 12% of annual value
 - o Residential properties : 6% of annual value
- For holdings beyond 36 sq. miles of Kuala Lumpur
 - o Commercial properties : 7% of annual value
 - o Residential properties : 6% of annual value

Quit Rent

Quit rent is a form of property tax levied by State Governments. The amount of quit rent varies from state to state and within each state it also varies according to locality and category of land use. Under each category of land use, there are again different rates depending on whether the land is located in a town or village.

The National Land Code makes it an obligation of the landowners to pay the quit rents by a certain date without being informed to do so. The last date for payment of quit rent varies from state to state, but most states have 31st May of each year as the deadline. Payments after the deadline are subjected to a penalty. Landowners who do not pay their quit rent by the deadline are also liable to lose their properties as the state can begin proceedings to forfeit the properties.

Real Property Gains Tax

Real property gains tax is charged on gains arising from the disposal of real property situated in Malaysia or of interest, options or other rights in or over such land as well as the disposal of shares in real property companies. The tax rates are as follows:

Disposal within Numbers of Years	Tax Rate		
	Permanent Resident	Non-Permanent Resident	Company
2	30%	30%	30%
3	20%	30%	20%
4	15%	30%	15%
5	5%	30%	5%
6 or more	nil	5%	5%

Citizens and permanent residents also enjoy an exemption of RM5,000 or 10% of the gains whichever is the greater, besides a one-time tax exemption on the gains arising from the disposal of one private residence.

Basic Calculation

Disposal Price less Acquisition Price = Chargeable Gain / Allowable Loss

(Chargeable Gain less 10% Exemption or RM5000) x Tax Rate = Tax Payable

** 10% Exemption or RM5000 whichever is higher is only applicable to individual*

Disposal Price = Selling Price less Permitted Expenses less Incidental Expenditures

Permitted Expenses include

- a) capital expenditure on enhancing or preserving the value of the property such as renovation or extension;
- b) expenditure on defending the property such as legal fee to defend the title

Incidental Expenditure include

- a) Professional fees such as commission or remuneration paid to agents, surveyors, lawyers, accountants and valuers for their services in relation to the sale of the property;
- b) Costs incurred for finding buyer such as advertisement costs.

Acquisition Price = Purchasing Price add Incidental Expenditures Less Compensation received

Incidental Expenditure include

- a) Professional Fees in relation to the purchase of the property;
- b) Cost of title transfer such as legal expenses and stamp duty,
- c) Costs incurred to find seller such as advertisement costs.

Compensation received (by way of insurance or otherwise) for damage, compulsory acquisition by government, destruction or depreciation of the property and deposit forfeited in connection with an intended sale of the property.

Allowable loss

Allowable loss means a loss made after the disposal. Tax relief shall be allowed in respect of the following accrued:

1. If the disposal price is less than the acquisition price.
2. If the disposal price is equal to the acquisition price

Exemptions

The following disposal of real property which do not fall under Real Property Tax Act 1976:

1. Transferring ownership from husband to wife (wives) or vice versa
2. Inheritance of real property from deceased
3. Transfer of ownership from an individual to a company where he or she has shares in the company.
4. Transfer of an asset as collateral for loan.
5. Compulsory acquisition by Government under any law. (Eminent Domain)
6. Disposal of assets as charity.

For more information, please visit www.hasilnet.org.my

Property Expenses

Legal Fee

For transfer of property, the seller and buyer usually engage the services of lawyer respectively. For the preparation of documents for the transfer of a property, the fees are based on the value of transaction and the charge is as set out by the schedule below:

For first RM150,000	– 1%
Next RM850,000	– 0.7%
Next RM2,000,000	- 0.6%
Next RM2,000,000	- 0.5%
Next RM2,500,000	- 0.4%

The above scale of fee also applies to preparation of loans agreement. In addition, the lawyers can make additional charges such as reimbursements for postage stamps, telephone calls, photocopying facilities, etc.

Statutory Fee

Statutory fee refers to charges payable to statutory bodies for the purpose of obtaining approval for transfer of property. For example, consent of State Authority and FIC approval.

Certain amount of fee (usually will not exceed RM500) is required to obtain developer consent for transfer of property pending issuance of title.

Financing Costs

Financing costs will be incurred when obtaining bank credit facility to finance the purchase of property. Certain banks may charge an amount of RM100 as processing fee.

For completed property, a valuation report is required by the financing institution to substantiate the market value of the property. For valuation fee, please visit www.lppeh.gov.my.

Service Charge & Sinking Fund

The contribution of service charge and sinking fund is applicable to strata-titled property. It varies to the standard of common facilities, services, density, category, etc. For condominium, the service charge is in the range of RM0.15 – RM0.60 per sq. ft. whereas RM0.03 – RM0.10 per sq. ft. for sinking fund.

Insurance

Insurance in the form of fire insurance and public liability is necessary for strata-titled property. The contribution of insurance is apportioned to the entitlement of unit share for the particular property.

Estate Agency Fees

Generally, the estate agency fee is payable by the party who appoints the service of an agent. In Malaysia, the estate agency fee is usually payable by the seller or landlord. The scale of agency fee applies to any sale or purchase of secondary property by way of private treaty, tender or any other mode of disposal or acquisition is as follows:-

- (i) 2.75% on the first RM 500,000
- (ii) 2 % on the residue over RM 500,000

The minimum fee shall be RM1,000 per case.

As for tenancy, the scale of fee is as follows:

Duration of Tenancy	Maximum (Fee equivalent to)
Up to 3 years	1.25 months gross rental
Exceeding 3 years up to 4 years	1.50 months gross rental
Exceeding 4 years up to 5 years	1.75 months gross rental
Exceeding 5 years	1.75 months gross rental
Exceeding 5 years (without option for renewal)	1.75 months gross rental
Exceeding 5 years (with option for renewal)	1.75 months gross rental plus 0.25 months rental for every additional year

The minimum fee shall be equivalent to 1 month rental.

For tenancies less than one year, the fee may be calculated on a pro rata basis. For rent reviews, 50 % of the fees chargeable under lettings

In addition, the estate agent can make additional claims for the cost or expenses actually incurred under certain circumstances.

For more information, please visit www.lppeh.gov.my.

Income Tax of Rental Income

Rental income derived from properties situated in Malaysia is subject to income tax.

Tax deductible expenses

The general principle governing the deductibility of expenses is that the expenses must be revenue in nature, and uncured wholly and exclusively in generating the income. Expenses deductible from rental income include:

Assessment rates,
Quit rent;
Fire & burglary insurance premiums;
Repairs and maintenance expenses;
Tenancy renewal cost
Loan interest to finance acquisition of property
Rent collection costs

Non-deductible Expenses

- Commission paid to estate agent for securing first tenant, but the commission paid for securing subsequent tenants should be deductible.
- In the case where furnitures, fixtures and fittings are included in the rented property, the costs of the initial purchases are not tax deductible. However, the cost of replacing such assets will be accorded tax deduction as a concession by the tax authorities.
- Costs of obtaining finance, including legal costs and stamp duty on new loan transactions.
- Capital repayment of loan
- Cost of renovation of improvement to property.

Capital allowances

Capital allowances are not available for residential and commercial buildings. Capital allowances may be claimed on qualifying capital expenditures incurred on plant and equipment used in a business of letting property.

The net rental income, after deducting the qualifying expenses, would be taxable either as a business source [Sec4(a)] or a rental source [Sec4(d)].

Business Source [Sec4(a)]	Rental Source [Sec4(d)]
<p>Letting of 3 units and above of commercial property and the total area is 1000sf or more.</p> <p>Letting of 2 units and above and the shophouses are located in a commercial area.</p> <p>Letting of 4 units and above and the units are well maintained, but excludes those rented out to employees and company directors.</p> <p>Assessable on the preceding financial-year basis if such period does not coincide with the calendar year-end. For example, rental income received as business income for the year ended June 30 03, will be assessable in Year of Assessment 2004.</p> <p>Capital allowances can be claimed on qualifying expenditure incurred on certain types of buildings as well as plant & machinery used in the business.</p>	<p>Assessable on the strict calendar-year basis, that is, the 12-month period ending Dec 31 of the receding year.</p> <p>Any excess of expenditure over income cannot be carried forward as a loss for set-off against the income of the following year;</p> <p>A claim for capital allowances (tax depreciation) on qualifying assets is not admissible.</p> <p>Assessment on separate tenancy basis. The deficit arising in one tenancy cannot be set off against the surplus arising from another tenancy.</p>

Exemption

Exemption is given to taxpayer for one residence owned and occupied by him.

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