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GSTflash

RESIDENTIAL PROPERTIES TO COST MORE IN GST REGIME

The new GST regime that comes into effect on 1 April 2015 will have significant ramifications for the Malaysian property market. While analysts tend to agree that the new tax may cause a general increase in the cost of living, potential house buyers should also be aware of its ramifications for the property sector. Diagram 1 highlights the different GST treatment for residential and commercial properties.

Under the new tax ruling, property developers can neither charge GST on residential properties nor claim GST incurred on the costs of construction. Property developers are thus expected to seek to offset their GST incurred by increasing residential property prices. The mechanics of GST applied to supply of a residential property is illustrated in Table 1 on page 2.

In the case of a commercial property, the developer as well as the purchaser is required to charge and entitled to claim GST on the transaction respectively. The mechanics of GST applied to supply of a commercial property is illustrated in Table 2 on page 2.

On-going projects will be largely affected when the new system is in place while new development projects require advance planning to avoid negative effects on profit margin under the GST system.

WHAT IS GST INPUT TAX?

Input tax is the GST incurred by a taxable person on business purchases or acquisition of goods and services for business purposes. Any input tax incurred on the purchase of land and development of non-residential properties is claimable provided that you are GST registered and the property is:

a) used for the furtherance of your business,

b) to be leased out for the purpose of business, or

c) developed into non-residential properties for sale or for lease.

TRANSITIONAL ISSUES IN THE PROPERTY SECTOR

Property constructed or made available before GST implementation is not subject to GST. However the taxable property to be constructed or delivered after GST implementation will be taxable under the GST.
For unfinished properties, GST is applicable only to the unfinished portion of the property. A recognized person such as an architect will have to verify the portion of completed property. Failure to include the GST provision may result in the developer being unable to recover GST costs from the client.

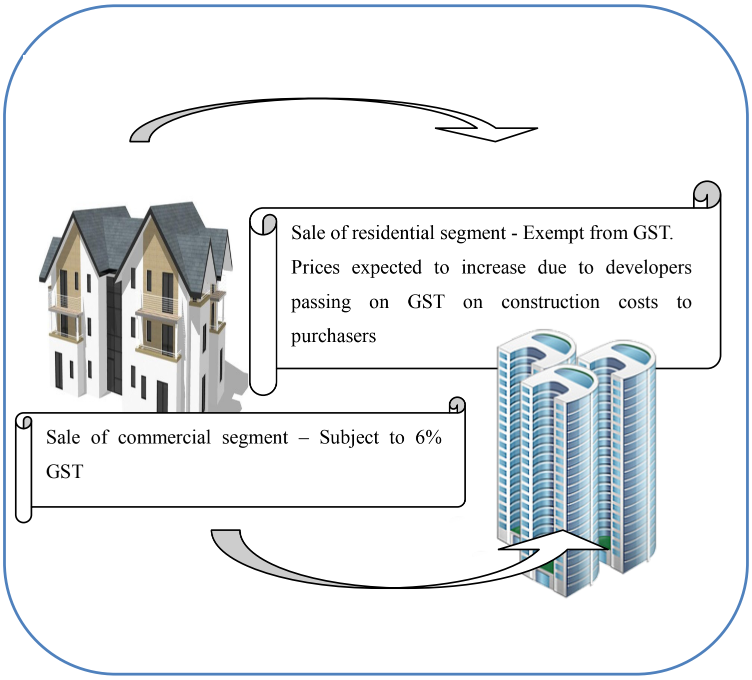


Diagram 1 - GST treatment for residential and commercial segments

TABLE 1: Mechanics of GST – Residential Property

				Tax Remitted to RMCD			
Price GST	: :	RM 3,000 RM 180	Importer	Output Tax	=		RM 180
Price GST	: :	RM3,300 RM 198	Main contractor	Output Tax Input Tax	= =	RM 198 RM 180	RM 18
Price GST	: :	RM3,900 N/A	Developer	Output Tax Input Tax	= =	RM 0 RM 0	RM 0
NO GST charged to Purchaser			Purchaser	**Total amount remitted to RMCD**			**RM 198**

- ❖ Importer will charge output tax of RM180.00 to be remitted to RMCD upon due date.
- ❖ Main contractor who bought from importer will have input tax credit of RM180.00 and output tax of RM198.00 to be remitted to government. Hence, net of GST is RM18.00.
- ❖ Developer cannot charge GST due to residential property is an exempt supply.
- ❖ GST is not payable by purchaser.

TABLE 2: Mechanics of GST – Commercial Property

				Tax Remitted to RMCD			
Price GST	: :	RM 3,000 RM 180	Importer	Output Tax	=		RM 180
Price GST	: :	RM3,300 RM 198	Main contractor	Output Tax Input Tax	= =	RM 198 RM 180	RM 18
Price GST	: :	RM3,800 RM 228	Developer	Output Tax Input Tax	= =	RM 228 RM 198	RM 30
Taxable person pays 6%			Taxable person	**Total amount remitted to RMCD**			**RM 228**

- ❖ Importer will charge output tax of RM180.00 to be remitted to RMCD upon due date.
- ❖ Main contractor who bought from importer will have input tax credit of RM180.00 and output tax of RM198.00 to be remitted to government. Hence, net of GST is RM18.00.
- ❖ Developer similar to wholesaler, net GST to be remitted to government is RM30.00.
- ❖ Taxable person is paying GST of 6% (RM228.00) based on the final price that is charged by the developer.

CHANGE OF USE – CONVERSION FROM A RESIDENTIAL BUILDING TO A COMMERCIAL BUILDING: GST IMPLICATIONS.

Residential buildings are exempted from GST. However, if the building owner converts the residential building for commercial purposes, then the building will be subjected to GST and input tax claim is allowable. Consequently, sale of the building after the conversion is subjected to GST.

CLAIMING INPUT TAX FOR THE INCIDENTAL SUPPLIES OF THE MAIN DEVELOPMENT PROJECT - LANDSCAPING, ROADS, SCHOOL, POLICE STATION AND OTHER PUBLIC AMENITIES

- Input tax incurred on such works can be claimed as it is attributable to the supply of the main development.
- Claim can be made for portion related to commercial and industrial properties.
- Not allowed to recover input tax for residential properties due to it is an exempt supply.

Essentials of GST Registration

"Mandatory Registration"

HOW DOES MANDATORY REGISTRATION WORKS

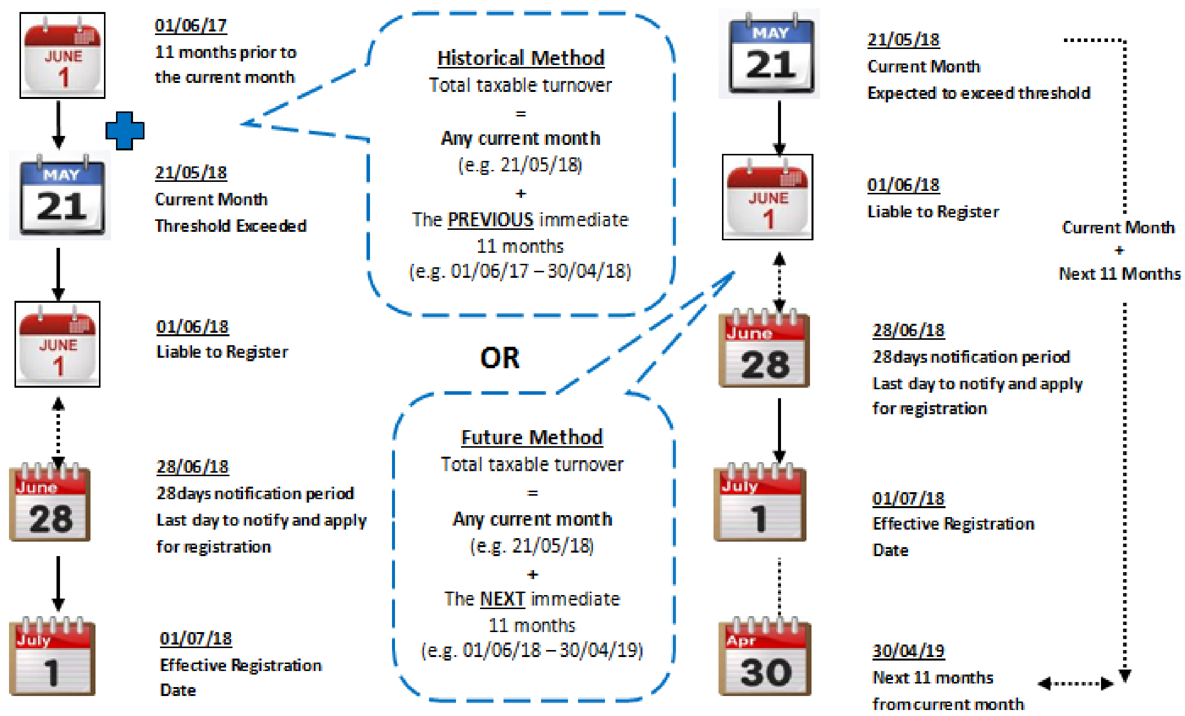
Any person who is in business that has exceeded the prescribed annual turnover threshold of RM500,000 on making taxable supply of goods and services is liable to register.

How to Determine Your GST Turnover Threshold

There are 2 methods to determine the taxable turnover:-

1. *Historical Method*

2. *Future Method*



WHAT IS VOLUNTARY REGISTRATION?

"Voluntary Registration"

Any person who intends to register but has annual taxable turnover below RM500,000 (not required to register) can opt for voluntary registration subject to the approval from Director General.

Once registered, you are required to charge and collect GST on the taxable supplies and at the same time are entitled to claim input tax credit. Moreover, you are required to be remained in the system for at least 2 years from the date of approval except for certain circumstances approved by Director General.

"Group Registration"

ARE YOU QUALIFIED FOR GROUP REGISTRATION?

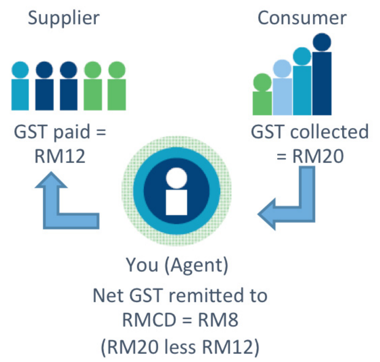
Eligibility for group registration:

- Each company must be registered individually before they can be grouped as a singled registered person.
- Each company must be making wholly taxable supplies.
- One company controls each of the other companies through holding more than 50% of issued share capital.

"Are you GST ready?"

AGENT OF THE GOVERNMENT

Businesses registered as taxable persons remit GST collected and claim GST paid, with the tax borne by end consumers. Effectively, businesses perform the role as an agent for the Royal Malaysian Customs Department in collecting and remitting GST.



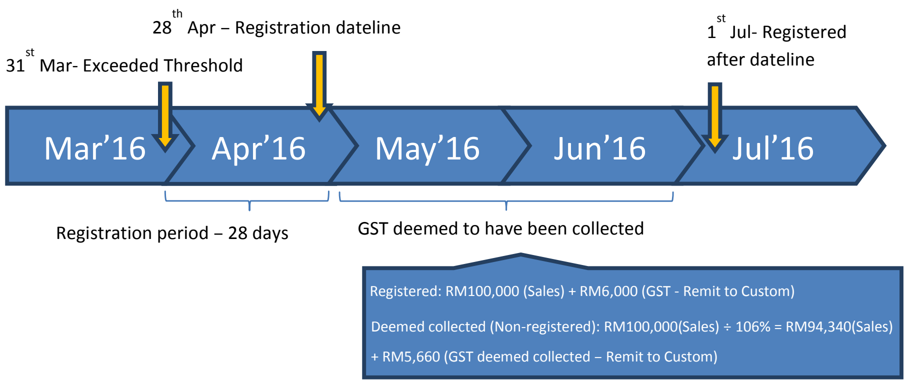
Remittance of GST

WHY SHOULD YOU BE CONCERNED?

A taxable person is considered an agent for the Royal Malaysian Customs Department (RMCD) in that he is responsible for collecting GST on behalf of the RMCD and is required to remit the net GST payable immediately on the due date. Prudent cash-flow management is crucial to ensure that cash belonging to RMCD is not treated as belonging to the taxable person.

WHAT IF I DO NOT COMPLY WITH REGISTRATION REQUIREMENTS?

A taxable person who has exceeded the proposed threshold is required to be registered within 28 days under the GST Act. Failure to do so may incur a late registration penalty based on the schedule to the right.



Sample Registration Timeline

Late registration period	Amount of penalty (RM)
1 – 30 days	200
31 – 60 days	450
61 – 90 days	750
91 – 120 days	1100
121 – 150 days	1500
151 – 180 days	1950
181 – 210 days	2450
211 – 240 days	3000
241 – 270 days	3600
271 – 300 days	4250
301 – 330 days	4950
331 – 360 days	5700
Exceeding 360 days	6500

Late Registration Penalty Rates

To register and enquire, please
Call 03 2279 3088 (Su Ching/Penny Tang)
or visit www.gst.uhy.com.my

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