Headline	Perpetual 5percent RPGT: A tax on inflation		
MediaTitle	Focus Malaysia		
Date	29 Jun 2019	Color	Full Color
Section	News	Circulation	16,405
Page No	22	Readership	49,215
Language	English	ArticleSize	978 cm²
Journalist	Chang Kim Loong	AdValue	RM 15,010
Frequency	Weekly	PR Value	RM 45,030

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- **Genuine** owners are now taxed for having 'diligently preserved' their properties beyond the grace period of five years
- **Those** intending to upgrade their homes will be deprived of the use of the 5% profit to buy a new property

Perpetual 5% RPGT: A tax on inflation

by
Chang Kim Loong

Previously no RPGT was payable beyond the fifth year.

When Finance Minister Lim Guan Eng announced the perpetual 5% Real Property Gains Tax (RPGT) for Malaysians and 10% for foreigners and companies, it caused reverberations across the industry.

However, low-cost, low-medium-cost and affordable housing priced below RM200,000 and sold after the fifth year of ownership are exempted.

The National House Buyers Association (HBA) acknowledges the challenges faced by the new government in tabling its maiden Budget 2019 in view of the slowdown in the global and regional economies as well as the steep drop in the value of the ringgit and the country's financial health after taking over the federal government following the resounding victory in GE14.

It is overall a commendable budget in view of the financial mess left by the previous government. Malaysia is moving forward in the right course to reset its financial status which focuses on institutional reforms in Budget 2019, except for the ill-advised issue that relates to RPGT.

The "big impact" announcement was the perpetual imposition of RPGT on disposal of property (with gains) after the fifth year.

HBA is dismayed that genuine owners are now taxed for having "diligently preserved" their properties beyond the grace period of five years.

With the budget announcement, it simply means the government has proposed to impose a RPGT of 5% for gains on disposal of properties held for more than five years by Malaysian citizens and permanent residents.

For non-citizens and companies, the RPGT rate will be increased from 5% to 10%. This reflects badly on the Pakatan Harapan government as the previous RPGT regime was more equitable and fair where no RPGT was payable beyond the fifth year.

Properties are always seen as more than just a "roof over your head" but also as a long-term financial investment to hedge against inflation and to provide financial security in our golden years.

By charging a RPGT rate for people who have held properties for six years or more, the government is effectively imposing "tax on inflation" and this seems to punish genuine long-term investors.

'A pound of flesh'

Many affected property owners may not even be investors but merely individuals who may wish to upgrade their property several times in their lifetime in their quest to secure better accommodation. They will be deprived of the use of the 5% profit to defray the cost of acquisition of the new property.

There are occasions when property owners may wish to sell their properties, which they had invested in with their hard-earned money for the following reasons:

- to finance their children's education overseas;
- to upgrade their current premises from an apartment to a link house;
- to change their environment and surroundings because of health reasons; and
- constrained to sell off to finance their children's businesses and ventures.

Let us consider the impact of inflation and RPGT under the following scenario:

Scenario 1

Albert inherited his late father's property in Bangsar in 1989, some 30 years ago. It was then valued at RM300,000. The property's value in 2019 is RM2,400,000 and the value as of Jan 1, 2000 (government's proposed initial point of valuation) is RM800,000. Assuming no other deductible cost, the gain on disposal is RM1,600,000 and the RPGT payable at 5% is RM80,000.

Scenario 2

Ahmad purchased a double-storey link house in Kajang in 2004 for RM240,000 and wishes to dispose of it to upgrade to a bigger house. The current market value of the property is RM520,000 and assuming there is no other deductible cost for simplicity sake, the gain on disposal is RM280,000 and the RPGT payable at 5% is RM14,000.

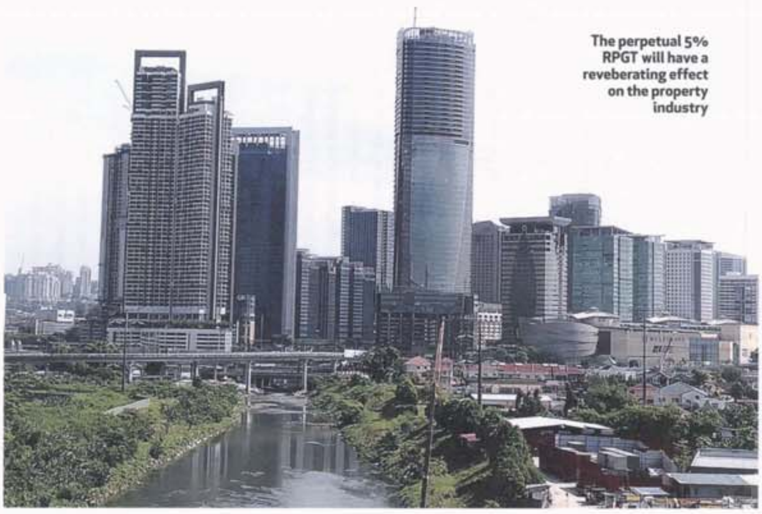
At first glance, it may appear that both properties have enjoyed a whopping increase in market value and the RPGT of only 5% seems reasonable. However, this is a deceptive and simplistic view as the market value increases during these periods include normal capital appreciation and inflation.

Property has always been touted as the best hedge against inflation and the increase in property prices is also expected to be higher than the gain from putting the money in the bank. Accordingly, save for times of prolonged economic downturn, property prices are always expected to increase or else, all property investors and financiers will be sitting on equity losses.

As for inflation rates from 2000 to 2018, let's use a prudent base rate of 3.0% per year. However, as consumers, we all know the difference between the so-called official inflation rate and the real rate of inflation due to declining purchasing power of the ringgit. Accordingly, we have also done a sensitivity analysis of the inflation rate, from the base rate of 3.0% up to 5.0% per annum.

Based on an inflation rate of 3.0% per year from 2000 to 2019, a property that was valued at RM800,000 in 2000 would be valued at a minimum of RM1,402,805 in 2019. If this property was subsequently sold at RM2,400,000, the actual gain less inflation is only RM997,195 and not RM1,600,000 and the RPGT of RM80,000 is actually effectively taxed at a rate of 8%.

If we were to consider the real rate of inflation to be, say 4.5% per year, the same property that was valued at only RM800,000 in 2000, would have been valued at RM1,846,288 in 2019 and selling the property at RM2,400,000 only produces a nett effective gain of RM553,712. The RPGT of RM80,000 represents a whopping 14.4% of the



The perpetual 5% RPGT will have a reveberating effect on the property industry