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SST exemption leads to cost savings, but house prices depend on other factors too

PETALING JAYA: While the exemption of sales and services tax (SST) on basic building materials, which constitute 67% of the cost of a residential housing project, will definitely result in savings, the extent of cost savings will only be known after the full list of SST-exempt materials is released by the Royal Malaysian Customs Department.

In welcoming the government's move to exempt construction services and materials from SST, Construction Industry Development Board Malaysia chief executive Datuk Ir Ahmad Asri Abdul Hamid told *SunBiz* that the exemption is expected to have a positive impact in reducing the cost of construction.

"For a typical residential project,

building materials contribute to 67% of construction costs, while labour is at 31% and machinery and equipment make up 2%," he said.

"However, we will need to validate the percentage of cost savings through a simulation based on the full list of materials with SST which will be released by Customs."

Meanwhile, Master Builders Association Malaysia president Foo Chek Lee said the association is hopeful that exemptions could potentially lead to a drop in selling prices of houses, although this will depend on several other factors besides materials cost.

He is hopeful that it would also be a positive move to stimulate the growth of the property market, which is also

dependent on the economic situation and ease of securing loans for a project.

"Under the goods and services tax regime, contractors claim input and output tax for materials and services. On the superficial there is some saving in the construction cost but the construction cost varies from the methodologies used in the construction of different projects and there is no 'one size fits all' construction methodology.

"We view this as a positive move to improve and to encourage contractors to adopt more innovative construction methodology," he explained when asked how the previous tax regime impacted construction cost. - by **V. Ragananthini**