IPTI Xtracts

Property Tax and Assessment News from Around the World

MALAYSIA– May 2022

CONTENTS

UNDERSTANDING REAL ESTATE TAXES IN MALAYSIA

If you own property in Malaysia, you will be subject to other taxes on top of the rental-income declaration you must make on your tax return. (Envato Elements pic)
With tomorrow being the deadline for e-filing, the working population will likely be scurrying to declare their taxes. While rental income must be declared alongside other sources of income, if you own real estate in Malaysia, you will be subject to other property taxes as well.

These taxes are either paid one-off or on an annual basis at various times throughout the year. Here is a look at the different forms of taxes related to property ownership.

1. Rental income

Rental income is a form of taxable income derived from renting out a property. As per Section 4 of the Income Tax Act 1967 (ITA), all sources of income must be declared for tax purposes including rents, royalties and premiums.

Rent commencement dates start from the first day you rent out your property. Actual rental income is only assessed upon receipt.

Fortunately, rental income is valued at net basis, which means it is only taxed after certain deductible expenses. Taxes are not payable if rental income for the year has resulted in a loss.

Deductible expenses include payments for assessment tax, quit rent, interests on home loans, fire insurance premiums, and expenses on repairs or property maintenance.

Non-deductible rental income expenses include initial costs such as advertising for the property, legal costs of rental agreement, stamp duty, and the property agent's commission.

A property rented out at RM2,000 for 12 months has an annual rental income of RM24,000. If property repairs cost RM5,000, quit rent is RM50, and assessment tax is RM500, then net rental income is calculated as below:

(RM2,000 x 12) – (RM500 + RM50 + RM5,000)
= RM24,000 – RM5,550
= RM18,500 (net rental income)

Omitting or underdeclaring income taxes can land you in trouble. Section 114 of the ITA stipulates a fine of not less than RM1,000 and not more than RM20,000, or imprisonment for a term not exceeding three years, or both, as well as a penalty of triple the amount of tax.

2. Assessment tax

Known in Malay as "cukai taksiran" or "cukai pintu", this tax is collected twice a year by your local council. These funds are used for the upkeep and improvement of the city or municipality.

Assessment rates are calculated based on a percentage of the estimated annual rental value of your property. This percentage is determined by the local councils and varies in each municipality.

A general figure is 4% of the property's yearly rental value. Thus, a property with a rental rate of RM2,000 a month would have an annual rental rate of RM24,000, 4% of which would amount to RM960 in assessment taxes.

Since payments are made twice a year, a property owner would make two payments of RM480 over the course of 12 months.

Assessment tax is collected twice a year by your local council for the upkeep and improvement of the city or municipality.

3. Quit rent/parcel rent

Quit rent was previously charged to the joint management bodies of strata properties, which would pass on the costs to strata owners in the form of maintenance fees.

For an apartment block with 25 parcel units situated on top 5,000 sq ft plot of land, the quit rent of RM250 – at the rate of RM0.05 per sq ft – would be divided among all the parcel units. Annually, each parcel owner would only need to pay RM10 for quit rent.

From 2018, however, the system was abolished in Selangor, followed by Penang and Kuala Lumpur. Strata owners are now required to pay parcel rent, or "cukai petak", instead. Using the example above, each parcel owner would now pay a parcel rent of RM250 instead of RM10.

The charging of parcel rent directly to strata owners allows the land office to better track defaulters, and eases the sale and transfer of ownership for strata properties.

4. Real property gains tax (RPGT)

RPGT is a form of capital gains tax intended to curb property speculation. It is payable upon the sale of a property.

Owners who do not profit from the sale are not required to pay RPGT – for instance, when the selling price is lower or equal to the property's original purchase price.

As of this year, RPGT exemption is provided on the sale of a property from the sixth year onwards. The table below shows the RPGT rates based on the number of years the property is owned:

RPGT RATES	CITIZENS & PERMANENT RESIDENTS	NON-CITIZENS
Disposal in 1st year	30%	30%
2nd year	30%	30%
3rd year	30%	30%
4th year	20%	30%
5th year	15%	30%
6th year and onwards	0%	0%

5. Stamp duty

Stamp duty is payable upon the purchase of a property. It is a tax on legal documents such as the sale and purchase agreement (SPA), and instruments of transfer.

Stamp duty is charged as a percentage of the property price and is based on tiers as shown below:

Property Price	Percentage
First RM100,000 of the property price	1%
From RM100,001 to RM500,000	2%
From RM500,001 to RM1 million	3%
Everything above RM1 million	4%

Stamp duty calculators available online can assist you in determining the charges for your property.

Take note that loan agreements are also legal documents that come with a charge of stamp duty. The stamp duty on a loan agreement is a flat 0.5% fee applied on the full value of the loan.

First home buyers of residential properties are exempted from stamp duty on the SPA and loan agreements for residential properties priced below RM500,000.

The exemption applies to Malaysian citizens on any SPA completed between Jan 1, 2021 and Dec 31, 2025.