

IRAS CIRCULAR

INVESTOR'S GUIDE TO PROPERTY TAX



**INLAND REVENUE
AUTHORITY
OF SINGAPORE**

Published by
Inland Revenue Authority of Singapore

Published on 22 Jun 2006

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PROPERTY TAX INFORMATION KIT

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AN INVESTOR'S GUIDE TO PROPERTY TAX IN SINGAPORE

1 Introduction

1.1 Property Tax

Property Tax (PT) is a tax on immovable properties (i.e. land and buildings). It is administered by the Inland Revenue Authority of Singapore (IRAS)¹. It is payable yearly by 31st Jan each year. The amount of PT payable per year is computed based on a percentage (Tax Rate) of the Annual Value (AV) of the property.

1.2 Tax Rate for Property Tax

From 1 Jul 2001, the tax rate is 10%.

1.3 Definition of Annual Value

The Property Tax Act (PTA)² defines AV of a house, building or land or tenement, not being a wharf, pier, jetty or landing stage, as the gross amount at which the same can reasonably be expected to be let from year to year, the landlord paying the expenses of repair, insurance, maintenance or upkeep and all taxes (other than Goods and Service Tax); for a wharf, pier, jetty or landing-stage, it is the gross amount at which the same can reasonably be expected to be let from year to year, the tenant paying the expenses of repair, insurance, maintenance or upkeep.

Where it is inappropriate to determine the AV of a property using the primary definition, the Chief Assessor (CA) can choose to adopt the statutory formula based on 5% of the estimated value of the property, including buildings or as if it were vacant land with no buildings erected or being erected thereon. Properties assessed under the statutory formulae are vacant land, petrochemical plants, pharmaceutical plants and oil refineries.

The AV is determined in the same manner regardless of whether the property is let, wholly owner-occupied or vacant.

1.4 Electronic Valuation List (EVL)

For a fee of \$2.50, the public can search the EVL for the annual value of any property on IRAS's website. Each search also provides the tax rate and name(s) of the current owner(s) paying property tax. The public can also use the EVL terminal provided at the Taxpayers' Service Centre at the Revenue House.

1.5 Frequency of Review of Property Tax

The Property Tax Division (PTD) reviews AVs yearly to ensure that they are in line with the current market conditions. Each review does not necessarily result in an adjustment of AV.

¹ Inland Revenue Authority of Singapore (IRAS) is a government agency, which acts as an agent of the Government and provides services in administering, assessing, collecting and enforcing payment of taxes.

² S2 of the PTA

2 Tax Obligations

2.1 Who Pays?

Any person who receives rent or is entitled to receive the rent if the premises were let to a tenant, shall be deemed to be the 'owner' for property tax purposes, and will be held liable for property tax. This includes the person whose name is entered into the Valuation List (VL). So an owner may be a lessee of state properties with no prohibition against a sub-lease, an agent, a trustee, or any one entitled to receive the rent if the property is let. Thus it is not necessarily only the legal owner, but also the beneficial owner, who can be held liable for the tax.

Property tax is a tax on property i.e. in rem and not on the person (in personam). However, the tax shall be payable by whoever happens to be the 'owner' of the property when the tax becomes payable.

2.2 Obligations of Owners and Relevant Persons

To enable the CA to continually update the Valuation list, owners and relevant persons are required to supply information to him. A fine not exceeding \$5,000 and a 10% interest may be imposed on any additional property tax payable for failure to provide the information.

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Information to be supplied to Chief Assessor³			
<i>Event</i>	<i>Persons Responsible</i>	<i>Time</i>	<i>from</i>
Sale or transfer	Vendor or Transferor	1 month	
Death of owner	Owner by succession or otherwise	1 year	
New building erected	Owner/Architect/Supervisor of works	15 Days	
Additions & Alterations	Owner/Architect/Supervisor of works	15 Days	
Vacant property is occupied	Owner	15 Days	
Completion of demolition	Owner	15 Days	
Rental increase	Owner	15 Days	
Premium charged for letting	Owner	15 Days	
Cessation of owner occupation	Owner	15 Days	
Development or subdivision of properties	Applicant	15 Days	

3 Assessment of Properties Liable for Property Tax

3.1 Vacant Land and Land under Development

Generally, investors in Singapore may lease land to build their business facilities. Land may be leased under a statutory land grant or a lease of state land or a lease by a public authority such as the JTC Corporation (JTC)⁴.

Where the period of the lease exceeds three years, the grantee or lessee are deemed owners and therefore liable for the property tax.

Assessment will commence from the date of lease. The AV of the land will be determined based on the 5% statutory formula. The AV shall be at 5% of freehold land value, notwithstanding that the land may be a leasehold land.

³ S 19(1) to 19(12)

⁴ JTC: It is a government agency set up to provide a wide range of industrial and business facilities tailored to suit all types of manufacturing and related operations.

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Example:

Estimated Freehold Land Value	: \$5,000,000
Annual Value	: 5% of \$5,000,000 = \$250,000
Property Tax @ 10%	: \$25,000

3.2 Built-up Properties

For properties that are built-up, the commencement date of assessment will be the date of completion of the building i.e. date of Temporary Occupation Permit (T.O.P) or date of occupation, whichever is earlier. The AVs would be their annual rental values as stated in the primary definition of AVs. The premium or rent payable to the government or public authority for the land is not deductible from the payment of property tax.

4 Methods of Assessment under the Primary Definition of Annual Value

4.1 Rental Comparison Method

The rental comparison method, also known as the market comparison method is the primary method of valuation. It is generally preferred to other methods of assessment, namely the contractor's test and the profits method.

This method is generally used when market rental is easily available. Under this method, the AV of a property is determined by using rents of comparable properties as a guide, with adjustments made to address differences such as property type, location, physical conditions, size, etc.

As AV reflects the gross rent, adjustments must be made to reflect repairs, maintenance, insurance and taxes. If the rent includes the hiring of furniture and service charge, the reasonable amount should be deducted from the gross rent to exclude the furniture and service charge.

Example:

If the property can fetch a rent of \$10,000 per month,
Annual Value is

$$\$10,000 \times 12 = \$120,000$$

Property Tax @ 10%

$$\$120,000 \times 10\% = \$12,000$$

4.2 Contractor's Test

This method is used for properties that are rarely let and have no comparative rental evidence, e.g. petrol service stations and shipyards.

In arriving at the estimated annual rent, an interest rate or market rate of return is applied to the capital value of a property. This interest rate or market rate of return is derived from

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yields of property investments. This process is known as the “decapitalisation” of the capital value. Currently, the rate is 6% per annum. This rate is fair and supportable by yields of property investments.

The figure after adjustment for repairs, maintenance, insurance and property tax is considered as the AV of the property.

An example illustrating the application of Contractor’s Test is as shown below.

Example		
Estimated freehold market value of land, foreshore/seabed and waterfrontage	(a)	: \$1,000,000
Add:		
Value of buildings & improvements (including underground or overground storage tank and pipeline)	(b)	: \$1,500,000
Value of slip, dock, wharf, jetty, pier, landing-stage,	(c)	: \$1,000,000
Effective Capital Value (ECV)	(d)=(a)+(b)+(c)	: \$3,500,000
Net Rental at 6% per annum of ECV	(e) = 6% x (d)	: \$210,000
Add:		
Repairs & maintenance at 2% of \$1,500,000 which is the value of buildings and improvements excluding the value of wharf, pier, jetty and landing stage	(f) = 2% x (b)	: \$30,000
Insurance at 0.3% of \$1,500,000	(g) = 0.3% x (b)	: \$4,500
Property Tax at 10% of Annual Value	0.1xAV	: \$27,166
Annual Value	AV=[(e)+(f)+(g)]/(100%-10%*)	: \$271,666
	rounded to	: \$271,700
Property Tax @ 10%		: \$27,170

*Less Property Tax

4.3 Profits Method

The profits method is also known as the accounts method. It seeks to arrive at the rental value of a property by reference to the profits that may be expected to be generated by the business, which occupies the property. It assumes that the value of the property is related to the profit derived from the use of the property. It is used for valuation of properties where rental evidence is not available and includes properties used for undertaking of monopolistic businesses, e.g. port and public utilities.

This method seeks to arrive at the estimated annual rental by making reference to the expected profits to be generated by the business, which occupies the property. For this purpose, this method involves ascertaining the gross receipts of the business from which cost of purchases and working expenses are deducted. As the method seeks to determine the rental on land and buildings, any rent payment on the land and buildings must be excluded from the working expenses. Any depreciation, repair, maintenance and insurance attributable to the land and buildings are non-deductible. PT would also be non-deductible. The remainder is the divisible balance, which is divided between the hypothetical tenant and the landlord. The landlord's share is the rental of the premise and is the estimated annual rent.

The profits method can be set out in a schedular form as follows:

Profits Method		
Gross Receipts	(a)	:
Less: Cost of Purchases	(b)	:
Gross Profits	(c)=(a)-(b)	:
Less: Working Expenses (except for rental, depreciation, repairs, insurance, maintenance and property tax of immovable property)	(d)	:
Divisible Balance (ie the balance divisible between the landlord and tenant)	(e)=(c)-(d)	:
Less: Tenant's Share	(f)*	:
Annual Value Property Tax @ 10%	AV=(e)-(f)	:

* % of (e) or % of tenant's asset or % of (a)

4.4 Amendment to Annual Values and Recovery of Back Year Taxes

The CA is responsible for ensuring that the Valuation List (VL), which includes the AVs of all properties that are liable to Property Tax, is current and updated. If from time to time, the CA considers that the VL for the current year has become inaccurate in material particular, he can make amendments to it retrospective to 1 January of the current year.

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The Comptroller of Property Tax (CPT), on the other hand, is responsible for the collection of PT based on the AVs determined by the CA. He is also empowered to recover tax for periods before the current year. The table below lists the circumstances where amendment to AVs and recovery of tax are necessary.

Circumstances Where Annual Values May Be Amended
The Annual Value is inaccurate as evidenced by <ul style="list-style-type: none"> ▪ Rental obtained from a previously owner-occupied property ▪ Increased or decreased in respect of subject or comparable property ▪ Consideration paid or value passing on the sale or transfer of subject property or similar property (applicable for properties assessed using 5% statutory formula or Contractor’s Test method)
When rental from property is lower than what the property can reasonably be expected to be let from year to year
When a building is erected or any building is rebuilt, enlarged, altered, improved or demolished
When a property not exempted from property tax has not been assessed before
When the gross receipts arising from the use of the property for the purposes of any trade or business changed (applicable for properties assessed by gross receipts under the various Property Tax Orders)

Circumstances Where Recovery of Tax is Necessary	
Event	Recover From
New Building is completed	Date of its completion (TOP, ie date of issue of Temporary Occupation or CSC, ie Certification of Statutory Completion whichever is the earlier)
A portion of the building, which is under construction, is used	Date of the use of that portion
Building is rebuilt, enlarged, altered or improved	Date of completion of the said works
Property tax is being charged for the first time	Date of completion of building, subject to a maximum of 6 years back recovery, excluding the current year
Building which was originally vacant or occupied is subsequently let	Date of letting, in respect of any additional tax to be recovered
Building which is let receives an increase in rent	Date of increase in rent, in respect of any additional tax to be recovered
Building or part of it is demolished	Date of demolition

5 Objection to Annual Value Assessment

When owners receive a valuation notice proposing to amend the AV of the property, and if they do not agree to the proposed AV, they may formally file an objection using a prescribed form within 21 days of the valuation notice.

Property owners may also object to the AV of their property as shown in the Valuation List anytime during the current year, if they have evidence to show that the AV of their property is excessive.

To object to the AV, owners can download a copy of the Notice of Objection form from IRAS website at <http://www.iras.gov.sg>. In the Notice of Objection, the owners would have to state the grounds of their Objection, including evidence to support their desired AV.

6 Payment & Collection

6.1 Payment of Property Tax Notwithstanding Objection/Appeal

Property tax is still payable within the prescribed period even though an owner has lodged an objection or appeal to the proposed AV.

6.2 Payment of Property Tax

Annual PT bills will be sent in December each year for the payment of the following year's property tax. The due date of payment for Annual PT is 31st January of each year.

Apart from the annual bills, PT bills may be sent at other times of the year when the AV of a property is determined or amended. PT bills will also be issued when additional tax is payable due to adjustment made. Payment shall be made within one month of the PT bills.

If property owners fail to pay or make arrangement to pay the full amount of tax within the prescribed time, a 5% penalty will be imposed on the unpaid amount.

For owners who do not receive any notice from IRAS to pay the property tax on the property within 6 months from 1 January in each year, they have to notify the CA within 14 days after the 6 months period. The failure upon which a fine not exceeding \$5,000 may be imposed.

6.3 Modes of Payment

The most common form of cashless payment known as GIRO⁵, involves an arrangement where taxpayers give prior approval to IRAS to deduct the tax due from their bank accounts. Taxpayers using GIRO can enjoy 12 interest-free instalments to be paid monthly. Other payment modes include cash, cheques, ATMs, payment kiosks (S.A.M or AXS machines), electronic payment (E-nets, vPOST), phone or internet banking. The tax has to be settled in full if taxpayer pays through these modes.

⁵ GIRO is a payment system in which the account holder of a bank directs his bank to transfer funds directly from his account to the creditors account named and also notifies the creditor about the transfer.

7 Property Tax Exemption

7.1 Exemption from Property Tax for an Approved Building Project (ABP)

Under the ABP scheme, projects supported by the Singapore Economic Development Board⁶ (EDB) and approved by the Minister⁷ may enjoy PT exemption. This exemption under the Property Tax (Exemption of Land under Development) Order 2001 takes effect from 1 May 2001.

The exemption will be valid from the date of commencement of foundation works for a maximum period of 3 years, or TOP date, whichever is earlier.

To qualify for exemption under this Order, the Minister must grant the ABP status to the development. The Minister will only grant ABP status, if the project meets all the following conditions:

- (a) The date of commencement of foundation works of the project is on or after 1st May 2001 and
- (b) The project has the support of Economic Development Board and
- (c) The project involves a total investment cost of at least \$500 million (excludes land costs), and
- (d) If the project does not meet the threshold value of \$500 million, the owner must satisfy the Minister that the project will create substantial spin-offs and benefits for Singapore.

7.2 Application for Exemption

Property owners are required to complete and submit the Application Form⁸ for ABP under the Property Tax (Exemption of Land under Development) Order 2001 to IRAS/ EDB. IRAS will process any such applications made by the owners for the Minister's approval, and will also convey the Minister's decision on such applications to the owners and EDB.

Upon approval by the Minister, applicants are required to complete and submit the claim form⁹ for exemption under the Property Tax (Exemption of Land under Development) Order 2001 to IRAS. Owners will be notified once their claim is processed.

⁶ EDB: It a government agency set up to plan and execute strategies to sustain Singapore's position as a compelling global hub for business and investment.

⁷ The Minister of Finance

⁸ ABP application form can be obtained from IRAS website (www.iras.gov.sg)

⁹ ABP claim form can be obtained from IRAS website (www.iras.gov.sg)

Frequently Asked Questions:

1. Is a wafer fab plant subject to property tax? How is it assessed?

Yes. Similar to other building, the Annual Value (AV) is determined based on its market rent. But in the absence of market rent, the contractor's test method is used to arrive at the annual value.

[PTA S2]

2. Is machinery subject to property tax?

Under the Property Tax Act, machinery used for the making, altering, repairing, ornamenting or finishing or adapting for sale of any article are excluded for the purpose of property tax.

[PTA S2(2)]

Examples of machinery that are excluded from property tax are turbines, boilers, generators, switchgears, transformers, steam engines and free-moving forklifts/ cranes on wheels.

Examples of machinery that are taxable are tanks, pipelines, pipe rack, overhead cranes, hoppers and silos.

3. How does the Chief Assessor (CA) assess vacant land not used in operation?

AV of a vacant land is assessed at 5% of its land value (on freehold basis). Land values are derived from sales and leases of industrial lands including lands leased by JTC.

4. How does the CA delineate land and building for property tax?

When a structure is erected on the land, the property will be assessed as such with no separate assessment on the land. But where there is vacant land held in excess and reserved for future expansion or development, the vacant land will be demarcated for separate land assessment.

5. Does CA adopt Gross Floor Area (GFA) or Net Floor Area (NFA) in the computation of annual value using the rental comparison method?

It does not matter as long as the comparison and assessment are made on the same basis, i.e. all on the GFA basis or all on the NFA basis.

6. How does the CA arrive at the annual value using the rental comparison method when comparable rental rate vary depending on the property type, size, location, physical conditions, usage etc.?

Our valuers are trained to make appropriate adjustments to account for the differences. For the more common properties, there is usually ample evidence and hence adjustments are quite minimal.

7. Using the contractor's test, how does the CA arrive at the estimated freehold market value of land?

The estimated freehold land value is derived from evidence of land sales and leases, including sales and leases of JTC lands.

8. What is the rate of return for "decapitalisation" in the contractor's test method?

The rate of return is market driven and must be supported by yields of property investments. The current rate of 6% is fair and supportable.

9. How does the CA determine the annual value if the profit is negligible or negative for properties with AVs derived using the profit method?

Under such circumstances, it would not be practical to use profits method. Other methods of assessment would normally be used.