

ANNUAL VALUE OF PROPERTIES LET WITH FURNITURE AND FITTINGS

INTRODUCTION

1. The purpose of this Practice Note is to clarify how IRAS determines the annual value of properties let with furniture and fittings. Having an objective method of determining the annual value of such properties ensures that the property tax payable is correctly assessed.
2. Annual value is the annual rent which the property can reasonably be let without furniture and fittings. For the purpose of determining the annual value, the property is deemed to be ready for letting irrespective of whether it is actually let, owner-occupied or vacant.
3. The annual value of a particular property is usually derived from the analysis of rental evidence of similar properties. Many properties, especially the residential ones, are let with furniture and fittings. The rents charged are for the properties and the furniture and fittings provided with the properties. These rents are commonly known as furnished rents. Some tenants require property owners to provide a higher than normal level of furnishing. In other cases the tenants do not use the furniture and fittings provided by the property owners because they are either not suitable or simply unwanted items. These different situations are taken into consideration when using furnished rents to work out the annual values of properties.

ADMINISTRATIVE PRACTICE

4. In assessing the annual value of a property with the furnished rents, we will first look for current rents of similar properties let on an unfurnished basis. They are the most direct rental evidence as no adjustment for furniture and fittings is necessary. However, this is not always possible as many properties are let with furniture and fittings.
5. Where few similar properties with unfurnished rents are available, rents of similar properties which are sparsely or partially furnished are used as the next best evidences. The fewer items of furniture and fittings means fewer adjustments are needed. This allows for a more accurate determination of the annual value. Unfurnished rents of near comparable properties are also used whenever available, to improve the accuracy of the assessment if only furnished rents of identical properties are available.
6. When furnished rents are the only evidence available, a basic rule applied in determining the unfurnished rent in such cases is to determine the rent which can justify the initial large capital sum invested in the unfurnished property. A property owner is unlikely to charge rental which is lower than the return he can expect from investing the capital expended on the unfurnished property in some other asset.

7. However, if furnished rents are the only good rental evidence, and it is sought to determine the unfurnished rent by subtracting the rental for furniture and fittings, from the furnished rent, the method laid down by the Valuation Review Board in the property tax case of Tan Chong Realty (Pte) Ltd v Chief Assessor is used. This method allows for “a straight line depreciation of 20% per annum on capital sums expended on furnishing over 5 years”. To use this method, the value and age of each item of furniture and fittings has to be ascertained. On-site verification of the items of furniture and fittings may also be necessary.
8. Through the use of a combination of the above methods it has been possible to determined with greater accuracy the annual value of properties with furnished rents.