

IRAS e-Tax Guide

Property Tax: Treatment of Contributions to Management Fund and Sinking Fund (1st Edition)



INLAND REVENUE
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1. Overview

- 1.1. This guide explains the property tax treatment of contributions to Management Fund (MF) and Sinking Fund (SF) for determining the Annual Value (AV) of strata-titled properties.
- 1.2. IRAS will continue with the current practice of excluding all contributions to MF and including all contributions to SF.

2. What are Contributions to Management Fund and Sinking Fund?

- 2.1. Owners of strata-titled properties collectively own common property such as lifts, staircase, carpark, playground, clubhouse, swimming pool and tennis court.
- 2.2. Contributions to the MF (which are commonly known as maintenance or service charge) and SF are made by these owners for the purposes of maintaining the common property.
- 2.3. The purposes and utilisation of these funds are governed by the Building Maintenance and Strata Management Act.
- 2.4. MF is intended for the regular day-to-day activity of keeping the common property in good condition, whereas SF is normally set aside for future major building works such as painting, roof repair and replacement of lifts.

3. How is the Annual Value (AV) Determined?

- 3.1. Under Section 2(1)(a) of the Property Tax Act, the AV is defined as the gross amount at which a property 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 GST).
- 3.2. AV is thus determined based on the estimated market rent of a property without deducting any expenses that the landlord might have incurred or set aside for the purpose of repair, insurance, maintenance and upkeep of the property including the common property.
- 3.3. These “landlord’s expenses” are expected to be incurred by the landlord in order to maintain the property in a state to command that rent. Therefore, should any amount of the contributions to MF and SF be used or intended to pay for such expenses, such amounts should not be excluded from the AV.
- 3.4. Currently, in determining the AV of strata-titled properties, IRAS includes the contribution to SF but excludes the contribution to MF. Hence, there is no need for IRAS to scrutinise the actual disbursement for the specific expenditure from MF and SF of each and every strata-titled development. It is not necessary to ascertain how much each of these disbursements is for “landlord’s expenses” or otherwise and whether they are fully disbursed in any year.

4. Findings on the Utilisation of Management Fund & Sinking Fund

- 4.1. Following the Court of Appeal's comments in the grounds of decision of *Tan Hee Liang v Chief Assessor*¹, IRAS conducted an extensive review of the accounts of the management corporations and established that most of the MF disbursements relate to cleaning, utilities, security services, refuse disposal, pest control, etc, which are services outside the scope of "landlord's expenses" that should be included as part of AV. On average, about 23% of the MF is utilised for "landlord's expenses" which should have been included as part of AV.
- 4.2. As for SF, more than 99% of the disbursements from SF are found to be for major building repairs, building renewal and upgrading works, etc., which are "landlord's expenses" that ought to be included as part of AV. Hence, contributions made to the SF for such purposes, whether on a regular basis or one-off basis, should not be excluded from the AV.

5. IRAS' Administrative Practice

- 5.1. Generally, almost all the contributions to SF and a small percentage of the contributions to MF are utilised for expenses which come within the AV definition and should be included in the AV.
- 5.2. In determining the AVs for property tax assessments purposes, IRAS has included contributions to SF to be part of AV, but excluded contributions to MF from AV. This is because determining the actual disbursement and each item of expenditure in SF and MF for each property development on whether or not they relate to "landlord's expenses" will impose significant compliance costs on property owners and management corporations.
- 5.3. Therefore, in determining the AV of strata-titled properties, IRAS will continue with the current practice of excluding all contributions to MF and including all contributions to SF.

6. Contact Information

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¹ *Tan Hee Liang v CA* [2008] SGCA 43