

IRAS e-Tax Guide

**GUIDE FOR HOTEL OWNERS
AND OPERATORS
(Revised Edition Jan 2009)**



INLAND REVENUE
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**GUIDE FOR HOTEL OWNERS AND OPERATORS
PROPERTY TAX ASSESSMENT FOR LICENSED HOTELS FROM 1 JAN 2008**

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**GUIDE FOR HOTEL OWNERS AND OPERATORS
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1 Introduction

Prior to 1 Jan 2008, the Property Tax (Valuation by Gross Receipts for Hotel Premises) Order, made pursuant to Section 7 of the Property Tax Act (Cap. 254) was applied to gazetted hotels that are declared as tourist hotels under the Singapore Tourism (Cess Collection) Act. The Order prescribed a formula in assessing gazetted hotels that are not let out. The Order was first established on 1st Jul 1986.

From 1 Jan 2008, the Property Tax (Valuation by Gross Receipts for Hotel Premises) Order 2007 comes into operation. Under the 2007 Order, the prescribed formula for hotel rooms has been revised and all food and beverage (F&B) outlets and other lettable areas will be assessed based on estimated current market rent.

The revised Order is applicable to all hotel properties licensed under the Hotels Act (Cap. 127), whether owner-operated or let-out, and gazetted or not.

The Hotels Act is administered by the Hotels Licensing Board (HLB). The list of licensed hotels can be found at <http://www.hlb.gov.sg>

2 Hotel Order from 1 Jan 2008

2.1 Assessment Basis

There will be a step-up in the formula for the annual value of hotel rooms. The changes to the assessment basis from 1 Jan 2008 and 1 Jan 2009* are summarized below:

| | Rooms | Food & Beverage (F&B) Outlets and Other Lettable Areas |
|------------------------------|---|---|
| With effect from 1 Jan 2008 | 20% of gross room receipts in the preceding calendar year | Estimated current market rent |
| With effect from 1 Jan 2009* | 20% of gross room receipts in the preceding calendar year | Estimated current market rent |
| With effect from 1 Jan 2010* | 25% of gross room receipts in the preceding calendar year | Estimated current market rent |

The formula from 1 Jan 2010 will continue until further notice.

Note:

* Based on the Circular on Property Tax Assessment for Hotels published on 8 Oct 2007, the fixed percentage of room receipts to arrive at the annual value was to be increased from 20% to 25% from 1 Jan 2009. However, the Government has decided in Budget 2009 to defer the increase to 25%, to be effective 2010.

2.1.1 Fixed Percentage for Hotel Room Receipts

Annual values of hotel rooms are assessed on a fixed percentage of gross room receipts. The increase to the fixed percentage on hotel room receipts will be phased in. From 1 Jan 2008, annual values of hotel rooms will be based on 20% of room gross receipts in 2007. From 1 Jan 2010, the rate will be 25% of room gross receipts in the preceding calendar year.

If the room receipts reported are for a period of less than a year, the annual value of the rooms will be based on the annual equivalent of the total gross receipts of that period.

2.1.2 Estimated Current Market Rent for F&B Outlets and Other Lettable Areas

Hotel developments comprise assessable areas such as food and beverage (F&B) outlets, retail shops, function rooms, and banquet halls. The market rents of these areas can be derived through the rental comparison method or profits method. These are established assessment methods¹ used for similar properties outside hotel premises.

2.2 Hotel Room Receipts

2.2.1 Definition

Gross hotel room receipts refer to the sales of hotel rooms or suites, including beds in the hotel premises. It does not include additional charges such as:

- Telephone, cable & telex services
- Laundry services
- Secretarial services
- Inclusive meals²
- Service charge (10%), charged on top of room rates
- Goods and services tax (GST)

Saleable rooms refer to the number of rooms that are available for occupation. **Non-saleable rooms** include rooms set aside for use by hotel staff, complimentary rooms or rooms closed for renovation / upgrading works. These non-saleable rooms are assessable on the principle that a development is assessed as it stands, as if vacant and to let. These rooms will be assessed based on the same room rate achieved by the saleable rooms of the hotel.

2.2.2 Excluding Formula One (F1) Cess from Gross Hotel Room Receipts

Only tourist hotels are subject to the F1 Cess, which is payable for the period of the F1 race³.

For the computation of Annual Value, gross hotel room receipts will exclude F1 Cess payable for the F1 period. When furnishing the annual statements on gross receipts, hotel owners and operators should deduct this amount payable from their total gross room receipts collected.

More information relating to F1 Cess is available on the IRAS website at <http://www.iras.gov.sg>. Please refer to "Other Taxes/Cess".

2.2.3 Tracking Room Nights and Occupancy Levels

Hotel room occupancy level is a business performance indicator commonly used in the hotel industry. Tracking business performance by room nights is common. A hotel room can be sold up to 365 times (or nights) in a year. Thus a 100-room hotel can have a maximum of 36,500 room nights available for sale, of which some nights would not be sold as they are set aside for complimentary use, renovation, upgrading, staff use, etc.

Occupancy level of the hotel is derived by the formula:

$$\frac{\text{(Number of room nights sold + Number of room nights complimentary)}}{\text{Total number of licensed room nights}}$$

¹ For explanations on established assessment methods, please refer to the Investor's Guide to Property Tax.

² Some hotel room rates are inclusive of a breakfast or meals. These charges are excluded from room receipts.

³ In year 2008, the F1 Cess is payable for the period from 24 to 28 Sep 2008.

Some hotels sell rooms more than once a day. The above formula can be used if the equivalent of the “number of room nights” can be estimated.

2.3 Assessing F&B Outlets and Other Lettable Areas

F&B outlets and other lettable areas, are assessable whether owner-occupied, tenanted or vacant.

Examples of other lettable areas:

- Retail shops
- Function rooms / meeting rooms / banquet halls/ ballrooms
- Gymnasium
- Fitness centres / spa / health centres
- Business centres
- Car parks
- Space let out to tour desks, ATMs, car rental kiosks, kiosks, advertisement banners & flags, telecommunication base stations, pushcarts

Some gymnasiums and business centres are owner-operated and are used exclusively by hotel room guests. These areas will not be assessed separately as they are deemed to have been assessed within the hotel room annual values.

2.3.1 Rental Comparison Method

Lettable areas such as F&B outlets and retail shops are commonly found in commercial developments. When there is ample rental evidence, the rental comparison method is the most appropriate. Under this method, the estimated market rent of the property is derived using rents of comparable properties as a guide. In arriving at the estimated rent, differences due to factors such as floor level, frontage, visibility, size, physical condition, and use are considered.

Similarly, in estimating the current market rents of function rooms, ballrooms, conference rooms and meeting rooms, consideration is given to factors such as the size, location, and physical conditions. Appropriate adjustments would also be made considering such spaces are usually not let throughout the year.

2.4 Periodic Review of the Assessment Rate

Periodic reviews will be carried out to examine the relevance of the fixed assessment rate in relation to prevailing market rents in order to ensure that the formula represents a close proxy to market annual rents.

3 Obligations of the Owner

It is mandatory for the hotel owner of the hotel development to complete and furnish an annual statement to the Chief Assessor by **31 Mar** each year. The details required include the room receipts in the preceding year, the current floor areas of F&B outlets, function rooms and lettable areas and the current tenancy details of let-out areas. The owner can furnish the required details using the Statement for Hotel Premises that is available on the IRAS website at <http://www.iras.gov.sg>. Please refer to ‘Forms for Property Tax’.

The owner may write in (to the officer stated in the form) to request an extension, with supporting reasons. Extensions will be allowed on a case-by-case basis.

4 Illustration of the Computation of Annual Values of Hotels for Year 2008

A. Hotel Rooms

| | | |
|--|------------------------|---------------------|
| No. of Rooms Sold & Vacant Rooms | (a) | 150 rooms |
| Gross room receipts in the preceding year | (b) | \$ 7,500,000 |
| Annual Value for rooms sold and vacant | (c) = (b) x 20% | \$ 1,500,000 |
| Annual room rate (\$/room/annum) | (d) = (c) / (a) | \$ 10,000 |
| No. of Complimentary Rooms/ Rooms under Renovation/ Rooms closed for staff use | (e) | 50 rooms |
| Impute annual room rate (\$/room/annum) | (d) | \$ 10,000 |
| Annual Value for Complimentary Rooms/ Rooms under Renovation/ Rooms closed for staff use | (f) = (e) x (d) | \$ 500,000 |
| Annual Value for room component | (g) = (c) + (f) | \$ 2,000,000 |

B. F&B Outlet

Annual value of F&B outlet $1,000\text{ft}^2 \times \$7/\text{ft}^2/\text{month} \times 12 \text{ months}$ \$ **84,000**
with area: 1,000ft² assessed at \$7/ft²/month

C. Retail Outlet

Annual value of retail outlet $500\text{ft}^2 \times \$15/\text{ft}^2/\text{month} \times 12 \text{ months}$ \$ **90,000**
with area: 500ft² assessed at \$15/ft²/month

D. Function Rooms/ Ballrooms

Annual value of function rooms / ballrooms
with total area: 1,000ft² assessed at \$5/ft²/month $1,000\text{ft}^2 \times \$5/\text{ft}^2/\text{month} \times 12 \text{ months}$ \$ **60,000**

E. Total Annual Value for the Property

Total Tax Payable SAY \$ **2,234,000**
Tax payable = Total AV x 10% \$ **223,400**

5 Frequently Asked Questions

1. Does the property tax rate for hotels still remain at 10%?

Yes. If the Annual Value of the hotel is \$1,000,000, the corresponding property tax payable will be \$100,000 a year.

2. Who is affected by the change?

All hotels licensed under the Hotels Act (Cap. 127), whether owner-operated or let-out, will be assessed under the revised basis.

3. What is a gazetted hotel?

A hotel that is gazetted under the Singapore Tourism (Cess Collection) Act has to pay cess on room and F&B receipts. The Singapore Tourism Board determines whether a hotel can be gazetted for cess purpose based on criteria such as the room size, sales revenue, facilities and services available.

4. What is a non-gazetted hotel?

Hotels that are not gazetted under the Singapore Tourism (Cess Collection) Act are referred to as non-gazetted hotels in this e-tax guide.

5. Why are rooms for “complimentary use, closed for renovations/ upgrading works/ staff use and others” taxed when hotel operators are not receiving revenue from these rooms?

The Property Tax Act defines Annual Value (AV) of “a house, building or land or tenement... as the gross amount at which the same can reasonably be expected to be let from year to year...”

The AV reflects the estimated market rent of the property whether it is let-out, owner-occupied or left vacant. In general, if an owner of a 300-room hotel chooses to close 50 rooms for staff use or upgrading purposes, the AV of the hotel would still be derived to reflect that of a 300-room hotel.

6. Are “room service and mini bar receipts” included in the gross room receipts to be reported to IRAS?

No.

7. Are “service charge in lieu of tipping” included in the gross room receipts to be reported to IRAS?

No, service charge in lieu of tipping, typically charged at 10% on top of room rental should be excluded from gross room receipts.

8. How do non-gazetted hotel operating transitional business (i.e. rooms sold on a hourly basis) compute annual number of room nights sold?

Hotels operating transitional business are encouraged to estimate their equivalent room nights sold, vacant and for complimentary use, if possible. If not, the submission of the number of room nights closed for renovation / upgrading works, staff use and others would be sufficient.

9. How are food and beverage (F&B) outlets, retail shops, function rooms, meeting rooms and ballrooms in hotels assessed?

These areas are assessed based on the rental comparison method. Under this method, the AV of the property is determined by using rents of comparable F&B outlets as a guide, with adjustments made for differences such as location, physical conditions and size.

In estimating the current market rents of function rooms, ballrooms, conference rooms and meeting rooms, the adjustment factors would include the size, location and physical conditions. Appropriate adjustments would also be made considering such spaces are usually not let throughout the year.

10. What is Formula One (F1) Cess?

Formula One (F1) Cess is imposed on all tourist hotels' room revenue from 24 - 28 Sep 2008.

11. Are all registered hotels liable for F1 Cess?

No, only Tourist Hotels gazetted under the Singapore Tourism (Cess Collection) Act are required to pay F1 Cess.

12. What is the amount of F1 Cess to be excluded from gross hotel room receipts?

The amount to be excluded from gross hotel room receipts is the actual amount declared in the F1 Cess Form and paid to the Singapore Tourism Board. IRAS is the appointed collecting agent for the F1 Cess. To illustrate, when furnishing the 2008 gross hotel room receipts in the Annual Declaration in year 2009, hotel owners and operators should exclude the F1 Cess payable from 24 – 28 Sep 2008.

6 Contact Information

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