

IRAS e-Tax Guide

Guide on Shopping Centre Assessment



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Guide on Shopping Centre Assessment

1 Aim

- 1.1 This e-Tax Guide explains how IRAS determines the annual values of shops in shopping centres¹.

2 At a Glance

- 2.1 The rental comparison approach is commonly adopted as the method of assessment for retail shops. Market rents can be evidenced by the actual rents of the shops if they are let out on an arm's length and year-to-year basis.
- 2.2 Where the terms of tenancy agreement include the payment for the hire of furniture & fittings (F&F), advertising & promotion (A&P) contributions and contributions to management fund (MF), such amount will be excluded from the annual value (AV) if they are reasonable and likely to be incurred.

3 Glossary

3.1 Annual Value (AV)

Under Section 2(1) of the Property Tax Act, AV is 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). In short, it is the market rent of the property

3.2 Advertising & Promotion (A&P) Contribution

It refers to the payment made by tenants for landlords to carry out advertising and promotion activities for the shopping centres.

3.3 Common Property

It refers to the part of a development which is intended for use and enjoyment of all occupants. In relation to strata-titled properties, common property includes the area which is not comprised in a strata lot or unit, and is collectively owned by all owners of the development. Examples: lifts, staircase, carpark, playground, clubhouse, swimming pool and tennis court.

¹ This guide replaces the earlier "Guide on Shopping Centre Assessment" published on 16 Dec 2008.

3.4 Management Fund (MF)

It is commonly known as maintenance or service charge. It is intended for the regular day-to-day activity of keeping the common property in good condition.

3.5 Sinking Fund (SF)

It is normally set aside for future major building works such as repainting, roof repair and replacement of lifts. The purpose and utilisation of MF and SF are governed by the Building Maintenance and Strata Management Act.

3.6 Tenements

It refers to any space that is let or licensed out, or is capable of being let or licensed out.

4 Basis of Assessment

- 4.1 AV is 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.
- 4.2 The rental comparison approach is commonly adopted as the method of assessment for retail shops as there is ample market rental evidence available. Market rents can be evidenced by the actual lettings of the shops if they are let out on an arm's length and year-to-year basis. Where the actual rents are below market rents, the annual value of the shops would be estimated based on the market rents.
- 4.3 Where the terms of tenancy agreement include the payment for the hire of furniture & fittings (F&F), A&P contributions and contributions to MF, such amount will be excluded from the AV if they are reasonable and likely to be incurred.
- 4.4 If additional rent is payable by the tenant based on a percentage of the tenant's gross turnover (or sales) as required in the tenancy agreement, the additional rent for the year has to be included in the annual value of the shop.

5 Treatment of Advertising & Promotion Contribution

- 5.1 Following the High Court decision on BCH Retail Investment Pte Ltd v Chief Assessor, A&P contribution can be excluded from the AV of the shop, if the following conditions are satisfied:

- It is reasonable for the landlord to provide the A&P services;
- The tenants agreed to pay for such services;
- The services were indeed provided by the landlord; and
- The costs of providing the A&P services were reasonably incurred

5.2 In order to satisfy the conditions, the tenancy agreement should clearly state the component of the A&P contribution payable by the tenant and the obligations of the landlords and tenants with regards to such payment.

5.3 For verification purposes, IRAS may ask for copies of tenancy agreements, expenditure statements for A&P, and any other documentations pertaining to payments made by the tenants and costs incurred by the landlord. Landlords should keep these documents relating to A&P for 5 years.

6 Treatment of Contributions to Management Fund and Sinking Fund

6.1 Following the Court of Appeal's decision on *Tan Hee Liang v Chief Assessor*, IRAS will continue the current practice of excluding all contributions made to MF and including all contributions made to SF in determining the AVs of shopping centres.

6.2 Please refer to the e-Tax Guide "Treatment of Contributions to Management Fund and Sinking Fund" for more details.

7 Taxability of Common Property

7.1 Common property is a tenement and is subject to property tax. However there are exceptions.

7.2 Please refer to the e-Tax Guide "Property Tax Assessment on Common Property" for more details.

8 Contact Information

8.1 If you have any enquiries or clarification on this Guide, please contact us at:

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