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## flash Alert

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### Singapore – Owners of Rental Property Can Claim 'Deemed Expenses' Now

by KPMG Services Pte Ltd,  
Singapore (KPMG in Singapore  
is a KPMG International  
member firm)

Singapore's government first announced in Budget 2015<sup>1</sup> that property owners who derive passive rental income from residential properties can elect to claim rental expenses on a 'deemed' basis in lieu of actual expenses in determining net taxable income.

#### Why This Matters

The rationale behind the deemed expense deduction is to simplify the tax filing process and alleviate the burden of record keeping for taxpayers.

In response to Budget 2015, the Inland Revenue Authority of Singapore (IRAS) has published an e-Tax Guide<sup>2</sup> providing additional guidance. We have summarized the deemed expense election rule as shown below.

When is the rule effective?	Beginning from the Year of Assessment 2016 (2015 calendar year)
Which kind of property is covered by the rule?	Rental residential properties only i.e., properties primarily used for private dwelling purposes. Properties used for commercial activities are excluded, and actual expenses must be claimed.
Is the rule available to all property owners?	Only individual owners, both resident and nonresident. Corporate landlords are excluded.
How much is the allowable expenses?	Allowable deemed expenses equal to 15% of the gross rental income, notwithstanding lower actual expenses. Actual mortgage interest expense can still be deductible in addition to the deemed expenses. Deemed expense is not allowable if: <ul style="list-style-type: none"> <li>-- No actual expense (other than mortgage interest) is incurred;</li> <li>-- The rental income is derived through a partnership;</li> <li>-- The rental income is derived from a property held under trust;</li> <li>-- The individual is carrying on a trade or business of renting out properties.</li> </ul>
Is the election binding for all years?	No, taxpayers can elect to deduct deemed expense from year to year.
Can the election be revoked?	Yes, taxpayers can inform IRAS within 30 days of the Notice of Assessment.
What if there are two or more properties?	When elected, deemed expense deduction must be applied to all properties.
What if the property has two or more owners?	Each co-owner can decide whether to elect deemed expense deduction for his share of ownership.
What are the record-keeping requirements?	No record of actual expenses need to be maintained if the deemed expense election is made. For claim of actual expenses, records must be kept for a period of 5 years to substantiate the claim.
How to claim deemed expenses?	For taxpayers e-filing their return, the deemed expense deduction is the default method unless taxpayers opt out by providing actual expenses in the tax portal. Taxpayers who file paper returns must choose to use deemed expense or actual expense deduction.

## Example

The example below provides an illustration of the deemed expense deduction rule for a rental residential property jointly owned by the taxpayer and spouse. (Note: Under Singapore law, married taxpayers must file separately from their spouse.)

	Actual Expense			Deemed Expense		
	Annual Total	Taxpayer (50%)	Spouse (50%)	Annual Total	Taxpayer (50%)	Spouse (50%)
Gross rent	54,000	27,000	27,000	54,000	27,000	27,000
Less Expenses						
Mortgage interest	24,000	12,000	12,000	24,000	12,000	12,000
Property tax (annual value of \$36,000)	3,720	1,860	1,860			
Fire insurance	500	250	250			
Management fee	1,600	800	800			
Deemed expense (15% of gross rent)				8,100	4,050	4,050
Total Expenses	29,820	14,910	14,910	32,100	16,050	16,050
Net Income	24,180	12,090	12,090	21,900	10,950	10,950

## KPMG Note

The deemed expense deduction is a further step towards simplification of the tax system in Singapore.

In addition, if actual expenses (excluding mortgage interest) are lower than the 15-percent deemed expense deduction, it could be tax advantageous to make the election. It also dispenses with the need to maintain supporting records.

## The Deemed Expense Rate

According to IRAS, the deemed expense rate of 15 percent of gross rent would be a representative proxy rate as it is generally in the line with common expenses (e.g., property tax, maintenance fees, minor repairs, etc.)

Effective 1 January 2015, non-owner occupied residential properties are subject to property tax at graduated rates ranging from 10 percent to 20 percent of the annual value of the property. Whether the 15-percent rate would provide sufficient cover for actual expenses (other than mortgage interest) could vary on a case-by-case basis.

*Footnotes:*

1 For prior coverage of Singapore's budget, see GMS [Flash Alert 2015-038](#) (13 March 2015).

2 See: [https://www.iras.gov.sg/irashome/uploadedFiles/IRASHome/e-Tax\\_Guides/e-Tax%20Guide\\_IIT\\_Simplification\\_of\\_Claim\\_of\\_Rental\\_Expenses\\_for\\_Individuals.pdf](https://www.iras.gov.sg/irashome/uploadedFiles/IRASHome/e-Tax_Guides/e-Tax%20Guide_IIT_Simplification_of_Claim_of_Rental_Expenses_for_Individuals.pdf) .

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