HR and tax alert

Singapore
Simplified claim for rental expenses

Summary
It was announced in Budget 2015 that an amendment would be made to simplify tax compliance for individuals. Under the proposed amendment, an individual who derives passive rental income from the letting of a residential property in Singapore will be allowed to claim a specified amount of expenses against the rental income, in lieu of the actual expenses incurred. The Inland Revenue Authority of Singapore (IRAS) has also provided further details in their e-Tax guide dated 5 June 2015.

This alert summarises the conditions for the simplified claim for rental expenses.

Current position
A taxpayer is allowed to deduct against his gross rental income, expenses incurred to produce the income. Examples of allowable expenses include property tax, repairs and maintenance, and mortgage interest. The taxpayer is required to keep the relevant records of the expenses claimed for a period of five years.

Proposed amendment
With effect from the year of assessment (YA) 2016, an individual who derives passive rental income from the letting of residential properties in Singapore may opt to deduct, in lieu of the actual amount of deductible expenses, a deemed amount of expenses determined based on 15% of the gross rental income. The deemed amount is a proxy only for the actual amount of deductible expenses, excluding interest expense. Hence, in addition to the deemed amount of expenses, a claim can also be made for the actual amount of interest expense, if any, payable on mortgage or housing loans to finance the purchase of the rental property.

Based on the current understanding of the proposed amendment, a taxpayer has to opt out if he prefers to claim the actual expenses incurred.
The following table provides a summary of the proposed changes.

<table>
<thead>
<tr>
<th>Current position</th>
<th>New position (YA 2016 and onwards)</th>
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<tbody>
<tr>
<td>► Actual amount of deductible expenses is allowed as a deduction against rental income</td>
<td>► Two options are available to claim rental expenses:</td>
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<tr>
<td>► Relevant records of the expenses claimed must be kept</td>
<td>► actual amount of all deductible expenses</td>
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<td></td>
<td>► deemed expenses based on 15% of gross rental income, and actual amount of interest expense</td>
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<td>► An election is to be made on a yearly basis</td>
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<td>► No need to keep record of rental expenses if an election is made to claim deemed expenses</td>
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</tbody>
</table>

### Conditions of claim for deemed expenses

- Only individuals will qualify i.e., companies are excluded
- If there is more than one residential property in the year, the election to claim deemed expenses must be applied across all the residential rental properties i.e. the election may not be made in respect of only one or some of the properties
- The deemed expenses option will not be allowed if:
  - no deductible expenses were incurred
  - the rental income was derived through a partnership, or from a property held under a trust
  - the rental income is assessable to tax as trade income (rather than as passive rental income)
  - the property is used for a commercial purpose or is not principally used for private dwelling purposes (i.e. the claim for deemed expenses will not be allowed if the residential use of the property is merely incidental to its commercial purpose)

### Our view

- The change is a welcome move as taxpayers will not need to keep records and supporting documents of the rental expenses incurred if they opt to claim deemed expenses, thus simplifying their tax filing.
- The deemed expenses option would be beneficial where the actual deductible expenses excluding interest expense are less than 15% of the gross rental income.
- As the option to claim deemed expenses is to be made on a yearly basis, taxpayers can always revert to claiming actual expenses incurred in a year where it is more beneficial to do so.

### Next steps

- Review the actual expenses for your residential rental property to determine if the claim for deemed expenses should be made.
- If you have more than one property, this assessment should be made on a combined basis.
- Based on the above assessment, ensure that appropriate action is taken at the time of filing your tax return for YA 2016 and onwards.

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- The deemed expenses option will not be allowed if:
  - No need to keep record of rental expenses if an election is made to claim deemed expenses.

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