PEOPLE TAX ADVISORY

Proposed Change In The Tax Treatment of Accommodation Benefit Provided To Employees

October 2018

BACKGROUND

Accommodation benefits provided by an employer to its employees during their employment in Singapore are taxable as part of their employment income. The Income Tax Amendment Bill 2018 has proposed changes to the basis of calculating the taxable value. If passed, the proposed change will be effective from YA2020 (i.e. the calendar year 2019) onwards.

TAXATION BASIS OF ACCOMMODATION

Current tax treatment

Since YA 2015, the taxable value of an employer-provided accommodation is calculated based on the total of the following:-

- Annual Value ("AV") of the property less any rent paid by the employee; **and**
- Furniture and fittings computed on the basis of 40% / 50% of the AV (depending on whether the property is partially or fully furnished)

Under an administrative concession, employers may use the actual rent paid as the value of taxable accommodation benefit should the AV be unavailable, or if obtaining AV is regarded to be administratively cumbersome for the employers.

Proposed Tax Treatment Change

Upon the Income Tax Amendment Bill 2018 being passed, effective YA2020, the taxable value of the accommodation benefit provided by an employer will be based on the following:-

- Rent paid by the employer (including any rent paid on furniture and fittings); **OR**
- If no rent is paid, the AV less any rent paid by the employee

The proposed bill also provides for the Comptroller of Income Tax ("Comptroller") to reject the rental paid, if the rent paid does not reasonably reflects the market level. In such a case, the AV (or other values deemed reasonable to the Comptroller) will be used.

OUR COMMENTS

Actual rent vs Annual Value

It is a generally accepted principle that a benefit provided to the employee should be taxed based on the open market value (OMV) of that benefit unless there is a specific tax concession provided for a lower taxable value. Under the current rule, where the AV of the rental accommodation is higher than the actual rental paid by the company, the employee can be taxed at a value higher than the OMV. The OMV of a rental accommodation should generally be the rental paid by the company to the landlord in an unrelated party transaction.

At BDO, we have the expertise and experience in providing a comprehensive people tax advisory services. Please feel free to contact us and let us know how we can assist you.

FOR MORE INFORMATION

WU SOO MEE
Executive Director
People Tax Advisory
Direct: +65 6828 9125
Mobile: +65 8333 0807
soomee@bdo.com.sg

www.bdo.com.sg

The proposed change in the tax law pertaining to the valuation of the accommodation benefit better align the taxable value of such benefit to represent the OMV of the benefit.

In a rental situation where it is not conducted at arms' length, the proposed bill provides the Comptroller with the ability to reject any value of actual rent paid that does not reflect reasonably what a third party tenant is expected to pay for the accommodation in the market. In a situation, where a company owns the premises to be provided for the employee's use, the AV of the property will likely be used as the taxable value.

Administrative convenience and consistency

Aside from the above, taxation based on actual rent paid reduces the administrative process involved in obtaining and ensuring the AV retrieved is updated. Currently, where it is administratively cumbersome to obtain the AV, as a tax concession the rental paid is allowed to be used as the taxable value. This creates income reporting inconsistencies by employers - where some employees' accommodations are taxed on their AV while properties that do not have easily available AV are taxed on the actual rent paid.

We are of the view that this change in the tax law gives more clarity and consistency to the basis to calculate the taxable value of accommodation benefit. The change also reduces the administrative burden to the employer in the reporting of this benefit.

NEXT STEPS

In view of the upcoming change in the taxation of accommodation, companies are recommended to review their policy on accommodation benefits provided to employees.

Some preliminary questions for the company to consider:-

1. Should the company continue with providing housing benefit or housing allowance in view of this change?
2. How will the proposed change affect the tax liability of the employee's remuneration package?

www.bdo.com.sg