IPTI Xtracts

Property Tax and Assessment News from Around the World

Singapore – February 2022

CONTENTS

SINGAPORE GOVT TO RAISE PROPERTY TAX FOR HIGHER-END HOMES

On Feb 18, Singapore Finance Minister Lawrence Wong unveiled the Budget for 2022, laying out plans for a post-pandemic future. Themed "Charting our New Way Forward Together", the Budget looks at how Singapore can better position itself for future challenges and opportunities, invest in its capabilities and strengthen its social compact, build a more sustainable future, and enhance the country's tax system.

Among the announcements, the tax rates for residential properties will be raised – in two steps starting from 2023 – with higher-end properties seeing a steeper increase.

For non-owner-occupied residential properties, which includes investment properties, property taxes will be increased from 10% to 20% currently, to 11% to 27% in 2023, and 12% to 36% in 2024.

For owner-occupied residential properties, the property tax rates will be increased from 4% to 16% currently, to 5% to 23% in 2023, and 6% to 32% in 2024. This increase applies only to the portion of annual value in excess of $30,000.

Table: Non-owner occupier tax rates: current, 2023 and 2024

Annual Value ($)	Effective 1 Jan 2015	Property Tax Payable	Annual Value ($)	Effective 1 Jan 2023	Property Tax Payable	Annual Value ($)	Effective 1 Jan 2024	Property Tax Payable
First 30,000	10%	$3,000	First 30,000	11%	$3,300	First 30,000	12%	$3,600
Next $15,000	12%	$1,800	Next $15,000	16%	$2,400	Next $15,000	20%	$3,000
First $45,000	-	$4,800	First $45,000	-	$5,700	First $45,000	-	$6,600
Next $15,000	14%	$2,100	Next $15,000	21%	$3,150	Next $15,000	28%	$4,200
First $60,000	-	$6,900	First $60,000	-	$8,850	First $60,000	-	$10,800
Next $15,000	16%	$2,400	Above $60,000	27%		Above $60,000	36%	
First $75,000	-	$9,300						
Next $15,000	18%	$2,700						
First $90,000	-	$12,000						
Above $90,000	20%							

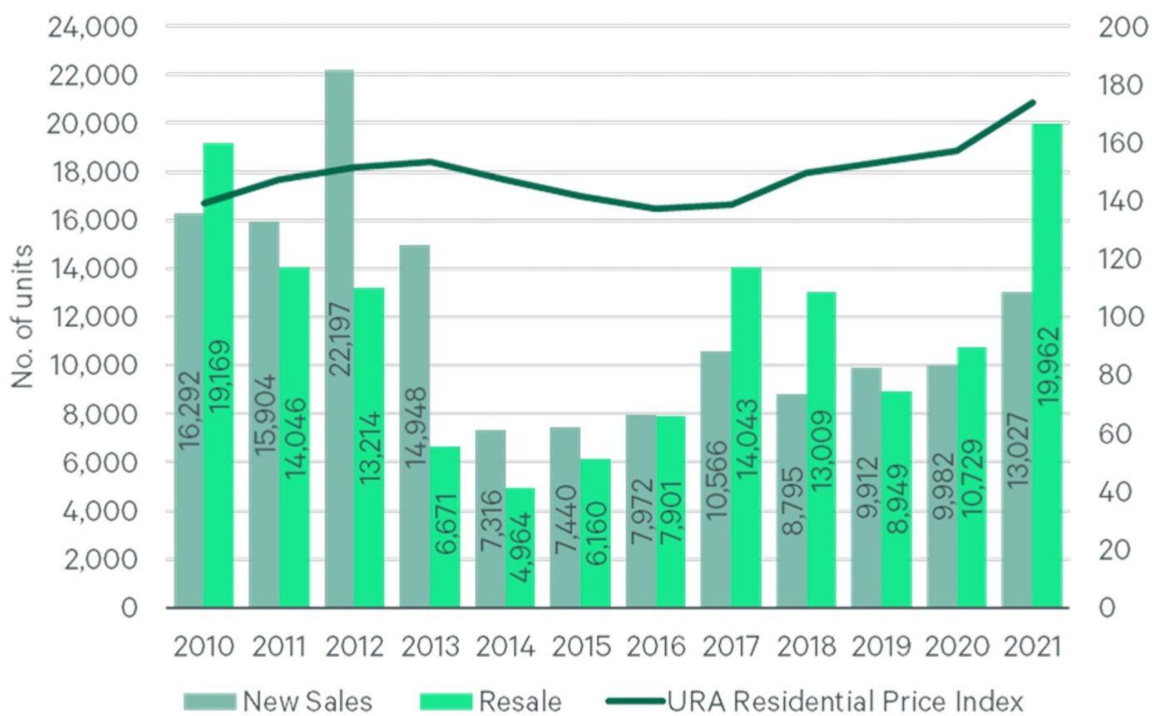
Source: IRAS

Potential Impact (Ref Table)

- For properties with annual values of $30,000, property tax will increase by $300 or 10% in 2023. In 2024, property tax will increase another $300, equivalent to an increase of 20% from the current levels.
- For properties with annual values of $60,000, property tax will increase by $1,950 or 28.3% in 2023. In 2024, property tax will increase another $1,950, or an increase of 56.5% from current levels.
- For properties with annual values of $90,000, property tax will increase by $4,950 to $16,950 or 41.3% in 2023. In 2024, property tax will increase another $4,650 to $21,600, or an increase of 80% from current levels.

"The revised property tax rates will impact mainly the higher-end homes with higher annual values of above $60,000," says Tricia Song, CBRE head of research for Southeast Asia. "On its own they should have minimal impact. However, coupled with the latest round of cooling measures effective December 2021, this could further deter the overall buying sentiment, in particular in the mid to high-end market."

Comparatively, when the previous property tax revision was announced in the 2013 Budget, it had little impact on the residential market as prices and volumes continued to grow until cooling measures that were introduced in Jun 2013, in particular the Total Debt Servicing Ratio (TDSR) framework, Song observes.



Source: URA, CBRE Research

"Given that a pull-back of investment activity from the December 2021 cooling measures is expected, this set of wealth taxes targeted at the high-end market should have a marginal near term impact on the market," says Song. CBRE Research maintains the forecast of average private home price growth of up to 3% in 2022, and new developer home sales volume in 2022 to be 9,000 to 10,000 units.

Based on data from Inland Revenue Authority of Singapore (IRAS), the median annual value of non-landed private properties (including executive condos) in Singapore was about $22,200 in 2020, cites Wong Xian Yang, Cushman & Wakefield head of research, Singapore. For landed properties, it was about $34,800.

“While an increase in property tax does increase holding costs for property, it is unlikely to dampen demand as the increase in costs seem manageable,” observes Wong. “Assuming an investment property with an annual value of $22,200, the increase in tax would only come up to $444," he says.

In the landed property segment, the Good Class Bungalow segment may see the largest increase in property tax. However, it is unlikely to impact demand as high net worth individuals would be able to absorb the increase in property tax, adds Wong.

'Features of a wealth tax'

"Prior to the unveiling of the Budget 2022, there was a lot of speculation about wealth tax and capital gains tax – which if imposed, could impact sales and investment," says Ismail Gafoor, CEO of PropNex. "In a way, I see it as a positive outcome for the real estate market in that those taxes did not come up, but rather the government adjusted property tax instead."

The current tax system already encompasses certain features of a wealth tax, such as the property tax as well as the additional buyer's stamp duty (ABSD), which was raised in December 2021, adds Gafoor.

"The increase in property tax rates is an element of the overall taxation on wealth, so that wealthier property owners contribute more, in property taxes", says Ong Teck Hui, JLL Singapore senior director of research & consultancy.

Ong doesn't expect the higher property taxes to dent Singaporeans' aspirations to own a residential property to live in, or to invest for rental income. "Owners of higher value homes should be able to absorb the higher taxes as they are likely to be higher income households," he notes. "So, potential buyers of high value homes are unlikely to be deterred by the property tax increases."

The property tax increases are not expected to change buying behaviour or dampen prices of premium homes, says Karamjit Singh, CEO of Delasa. "Investments into homes do not tend to be driven purely by yields, but are also driven by emotional, utility and capital preservation needs," he comments.

Higher taxes mitigated by rise in capital values, rents

Singh sees the impact of the higher taxes somewhat mitigated by capital values and rents having risen, especially in the case of landed properties. The higher taxes, however, could push 'asset rich-cash poor' owners to sell long-held investment properties "that are ripe for redevelopment", or motivate families to "right-size" their housing needs, he says.

The increase in property tax rate for owner-occupied homes will not change the strong culture of home ownership in Singapore, says Nicholas Mak, ERA Realty head of research &

consultancy. “Although some homeowners would have to pay tens of dollars to a few hundred dollars more in property tax each year, this would not discourage them from owning their own homes,” he points out.

The Ministry of Finance said 93% of owner-occupied property will not be affected by the higher property tax. These properties include HDB flats, most condominium apartments and low-value landed property. However, the higher property tax would reduce the net rental yield for residential properties, Mak says. “As a result, investors would rely even more on capital appreciation when they invest in real estate.”

In fact, for investors, capital appreciation is more significant than rental, according to Lee Sze Teck, Huttons Asia senior director and head of research. “Property is seen as a good hedge against inflation and to hold its value over time,” he says. “In the current positive rental market conditions, owners will try to pass some of the increase in property taxes to the tenants. This will result in higher rents and costs to foreigners. They may ask for a higher pay package which [in turn] raises the business costs for companies.”

The increase in property tax could raise an additional $380 million in the government's coffers each year, ERA’s Mak adds. “It is not a property cooling measure, but another way for the government to fill its coffers. The objective is to draw more milk from the cow but not to kill the cow.”

Impact of hike in GST

The increase in Goods and Services Tax (GST) will be delayed to 2023 and staggered over two steps: to 8% from Jan 1, 2023; and 9% from Jan 1, 2024.

A key thrust of the Budget was “a concerted slew of measures to tax the haves while shielding the have-nots from the GST hikes and the rising costs of living,” says Lam Chern Woon, head of research & consulting, Edmund Tie.

The deferment of the implementation of a GST hike until 2023 and the staggering of the hike over two years will be welcomed by the retail sector which is undergoing a nascent recovery, observes Angelia Phua, JLL consulting director for research & consultancy.

“The announcement of the GST hike could lead to a modest frontloading of consumption a few months ahead of the actual implementation of the hike in 2023, similar to prior GST hikes,” says Phua. “This could benefit the retail market in 2022 and, in turn, further underpin the recovery of the retail property market.”

As Singapore gradually reopens its borders, the establishment of more Vaccinated Travel Lanes, fewer onerous travel restrictions and improved traveller confidence will also drive healthier growth in tourism consumption in 2022, Phua adds. “Coupled with business expansion driving vacancy rates lower amid a tightening supply and on the back of sustained economic growth, retail rents should recover in 2022."

The GST hike could have a short-term dampening impact on consumer spending in 2023, with limited impact in 2024, similar to prior GST hikes. "However, the government's GST Offset Packages will mitigate the impact of the GST increase on consumption for the majority of the population," says Phua.

Moreover, wage growth, on the back of sustained economic growth, should support consumption growth whilst alleviating higher living costs and other inflationary pressures, notes Phua. "The medium-term growth foreseen for the retail property market should remain intact."

Implications of higher carbon taxes on property

Singapore has brought forward its net zero timeline and is striving to achieve net zero emissions by or around 2050. Towards this end, Singapore is increasing its carbon tax from $5 per tonne currently to $25 per tonne in 2024 and 2025 and $45 per tonne in 2026 and 2027, with a view of reaching $50 to $80 per tonne by 2030.

"The increase in carbon tax from $5 to $25 per tonne is a significant leap and could lead to an increase in operating costs for properties with high energy requirements," says Cushman & Wakefield's Wong. "Landlords could potentially pass these additional costs to tenants resulting in higher property service charges."

According to a report by the Building & Construction Authority, among the four major real estate sectors, retail malls had the highest average energy use intensity (EUI) at around 312 to 326 kWh/m2 per year in 2020. The higher energy consumption is due to the wide variety of tenant mix and design concept of retail shops, Wong explains.

Mixed developments and hotels had an average EUI of 224 and 218 kWh/m2 per year respectively. Office buildings depending on their size had an average EUI of 185 to 217 kWh/m2 per year. "While industrial properties were not benchmarked in the report, we expect a significant impact for data centres which have very high levels of energy usage," says Wong.

Given the expected increase in operating costs, Wong anticipates a stronger drive for asset enhancement and redevelopment across all property types as building owners do more to lower their carbon footprint. "There could be higher investment sale activities with a view to redevelop or for asset enhancement to brush up its green credentials and to future proof the asset to cater for "green conscious" demand," he says.

SINGAPORE WANTS TO IMPOSE NET WEALTH TAXES, BUT IT'S 'VERY EASY' FOR MONEY TO MOVE AWAY, SAYS ITS FINANCE MINISTER

Key points:

- Singapore' Finance Minister Lawrence Wong pointed to the challenges of net wealth taxes which would inevitably cause money to flow away from Singapore, he told CNBC on Monday.
- As part of its 2022 budget, Singapore on Friday increased taxes for higher earners, including duties on real estate and motor vehicles, to ensure that those who make more money pay more.
- Among the changes announced on Friday were tax rate increases for top earners that will affect the top 1.2% of taxpayers.
- Wong also addressed the impact of the 15% global minimum corporate tax rate on Singapore, known for being one of the most tax-friendly countries to businesses.

Singapore wants to introduce net wealth taxes and is studying the possibility of making those with greater means pay more, Finance Minister Lawrence Wong told CNBC on Monday.

However, the minister pointed to the challenges of such wealth taxes, which would inevitably cause money to flow away from Singapore.

As part of its 2022 budget, Singapore on Friday increased taxes for higher earners, including duties on real estate and motor vehicles, to ensure that those who make more money pay more.

Singapore, a wealth management hub, is looking at a broad range of wealth taxes "very closely," Wong said. They include taxes on capital gains, dividends and a net wealth tax on individuals.

"But the challenge with these sorts of wealth taxes is that wealth and financial flows are highly mobile. And if we were to move but other jurisdictions do not have similar taxes, it is very easy for wealth to move away from Singapore to another location," Wong told CNBC's Martin Soong.

Taxing top earners

Among the changes announced on Friday were tax rate increases for top earners that will affect the top 1.2% of taxpayers. It's expected to generate $170 million Singapore dollars in additional tax revenue per year, according to Singapore's finance ministry.

On top of those considerations, it can be a "very complex exercise" to estimate wealth of individuals, Wong added.

He said during Friday's budget speech that "ideally, we would want to tax the net wealth of individuals. But such a tax is not easy to implement effectively." He pointed out that other countries also face challenges doing so.

Germany, France and Denmark have stopped levying taxes on individuals' net wealth, with the number of OECD countries that do so dropping from 12 in 1990 to only 3 in 2020, Wong said Friday.

“So we continue to study these options. We don’t rule anything out in that sense,” he told CNBC. “But I think we also have to be practical and that’s why in the budget, we decided to impose ... wealth taxes through ... the existing means, which means property and luxury cars.”

We are determined to make sure that Singapore remains one of the best places in the world for business.

Property taxes will be raised from between 10% to 20% for non-owner-occupied properties, to 11% to 27% in 2023. In 2024, those will be further increased to 12% to 36%. Higher taxes will also be levied on luxury cars.

Currently, property taxes are Singapore’s “principal means of taxing wealth,” Wong said in his budget speech.

Doubling down on non-tax competitiveness

The finance minister also addressed the impact of the 15% global minimum corporate tax rate on Singapore, known for being one of the most tax-friendly countries to businesses.

Countries in the Organization for Economic Cooperation and Development agreed to a global minimum corporate tax rate of 15% in October last year. The deal, which will kick in 2023, will “reallocate” $125 billion in profits from 100 of the world’s largest companies to countries worldwide, the OECD said.

“But we have never relied only on taxes to compete for investments,” Wong told CNBC. “What it means for [Singapore] is that we have to redouble our efforts to strengthen our non-tax competitive factors.” That will include the city-state’s infrastructure, the capabilities of its workforce and overall strengthening its business environment to be more attractive, he said.

“We are determined to make sure that Singapore remains one of the best places in the world for business,” Wong said.

Higher taxes as part of a ‘strengthened social compact’

A fairer and more progressive way of tax contributions will help to hold Singapore’s society together as it enters a new post-pandemic future that’s set to be more volatile, said Wong.

“We are not against people doing better, earning more and accumulating wealth — by no means, these are good things,” he told CNBC.

“But as part of our renewed and strengthened social compact, we do want everyone to pay ... contribute their share of taxes — and those with greater means should contribute a larger share,” Wong added.

PROPERTY TAX HIKES UNLIKELY TO AFFECT HOME PRICES, THOUGH TENANTS IN CENTRAL AREAS MAY FACE HIGHER RENTS: ANALYSTS

- Property tax will go up soon and will mostly affect high-end and investment properties
- Landlords may choose to pass on the tax hike to tenants, especially those who rent private apartments in the central district, analysts said
- They expect the tax hike's impact on property prices to be marginal, though sales of luxury housing may slow for a while

Some property analysts expect the recently announced property tax hikes to have minimal impact on housing prices but warned that landlords in central districts may pass on the increase to tenants.

This is because most of the property tax changes announced during the Budget statement last Friday (Feb 18) would fall on high-end residential and investment properties, they said.

Ms Christine Sun, senior vice-president of research and analytics at property firm OrangeTee and Tie, said: “It may be possible that landlords could try to pass on the costs to tenants for the centrally located condos and landed properties, because the increase in property tax is quite significant for this segment.”

Last Friday, Finance Minister Lawrence Wong said that there would be higher property taxes for owner-occupied residential properties with annual values of more than S$30,000, which make up the top 7 per cent of all owner-occupied housing units.

The tax hike will be introduced in two phases, in 2023 and 2024.

Based on examples given by the Ministry of Finance:

- An owner of a condominium in a central location with an annual value of S$40,000 will have to pay S$200 more in property taxes by 2024
- An owner of a “very large” landed property with an annual value of S$150,000 will have to pay S$15,400 more in property tax

Property taxes will also apply over the next two years for all residential properties not occupied by the owner.

By 2024, property tax will be raised by about:

- S$200 for a non-owner-occupied Housing and Development Board (HDB) flat with an annual value of S$10,000
- S$1,400 for a private condominium apartment in a central location with an annual value of S$40,000
- S$19,200 for a larger landed property with an annual value of S$150,000

WHAT IT MEANS FOR TENANTS

Ms Wong Siew Ying, head of research and content at PropNex Realty, said that although most investors should be able to cope with the property tax hike, she is not ruling out the possibility that some landlords may raise rents to defray the higher tax.

“This could happen, but perhaps, it’s not going to be widespread because landlords will be careful not to price themselves out of the market, especially if there is a plentiful supply of rental properties nearby.”

Dr Tan Tee Khoon, country manager of PropertyGuru Singapore website, estimated that the increased property tax would affect tenants who pay more than S$10,000 in monthly rent, given that the tax hikes are steeper for more luxurious properties.

Mr Andrew Chua, who works as a banker and rents a studio apartment along Beach Road with his girlfriend, said that his landlord has not told him whether the rental fee will be raised when his one-year lease ends in October this year.

However, the 27-year-old does not think that his landlord will raise the rent by much and is not too concerned even if it does happen, because the rent Mr Chua managed to secure is right now below the market rate for a similar unit in that area.

"My landlord is an overseas investor and probably treats this property as an investment for capital gains, so I think he won't be too concerned with the property tax so long as the rent covers his mortgage.”

Even if landlords do not pass on the tax hikes, tenants may still have to pay higher rental fees.

The analysts who spoke to TODAY are expecting the leasing market to continue its recovery. For the whole of last year, rental charges of private residential properties rose 9.9 per cent, after falling 0.6 per cent in 2020, data from the Urban Redevelopment Authority showed.

Mr Lee Sze Teck, senior director of research at real estate firm Hutton Asia, is expecting another year of growth of up to 8 per cent for this year.

“The current rental market condition is positive and most landlords will seek some rent increment on renewal,” he said.

Ms Wong from PropNex Realty said that the further easing of travel restrictions could result in more foreign professionals coming to Singapore and adding to the rental demand.

Ms Sun from OrangeTee and Tie said that factors such as inflation and rising interest rates may also drive higher rents.

WHAT IT MEANS FOR PROPERTY MARKET

Analysts said that they do not expect the property tax changes to have a major impact on home prices in Singapore.

Residential property prices are usually influenced by demand-and-supply dynamics and the overall economic sentiment, Ms Wong said.

“The increase in property tax is aimed at enhancing the tax system, to ensure that it is fairer and more progressive. We do not expect the tax change to affect home sales or price,” she added.

This is because buyers and investors generally take a longer-term view on property purchases, focusing on the long-term returns, capital growth potential and as a means to preserve their wealth.

Professor Sing Tien Foo, who heads the real estate department at the National University of Singapore (NUS), said that the property tax changes will have no or marginal impact on the bulk of owner-occupiers in HDB flats and mass-market private residential properties.

However, he noted that the taxes will start to rise significantly for investment properties with an annual value above S$60,000, which he estimates to be those worth about S$2.4 million.

His colleague, Dr Lee Nai Jia, deputy director at NUS’ Institute of Real Estate and Urban Studies, said that the sales of luxury or high-end properties may slow down as high-net-worth individuals recalibrate their allocations in their portfolio.

“There may be some knee-jerk reactions, but demand for homes has been quite resilient,” Dr Lee added.

Mr Nicholas Mak, head of the research and consultancy department at ERA Realty Network, said that the increased property tax will do little to deter property investors.

This is because the tax is a small price to pay when compared to bigger financial hurdles such as the Additional Buyer's Stamp Duty for those buying their second or third residential property or the Total Debt Servicing Ratio for property loans, both of which were adjusted last December when the Government introduced cooling measures.

"On the whole, if property investors are willing to fork out the other expenses and taxes that are necessary to invest in real estate, the incremental property taxes will also be something that they could accept," Mr Mak said. "It will not be the straw that breaks the camel's back."