

20 February 2018

The Minister for Finance, in his Budget Statement 2018, announced changes to the tax rate for buyers stamp duty for acquisitions of residential properties in Singapore. This change came amid a property market which saw an uptick in prices after successive quarters of decline since 2013, and an active enbloc sales market which saw eight deals worth slightly more than S\$3.1 billion sealed in the first six weeks of the year.

For contracts to purchase inked prior to 20 February 2018, the buyers' stamp duty (BSD) rates are:- 1% for first S\$180,000, 2% for second S\$180,000, and 3% for such part of the price above S\$360,000. The formula for price or value above S\$360,000 is 3% less S\$5,400.

With effect from 20 February 2018, the BSD rates are:- 1% for first S\$180,000, 2% for second S\$180,000, and 3% for next S\$640,000, and 4% for such part of the price above S\$1 million. The new formula for price or value above S\$1 million is 4% less S\$15,400.

As part of transitional tax provisions, Options to Purchase issued on or before 19 February 2018 may be stamped at the "old" tax rates if they are exercised by the relevant buyer on or before 12 March 2018, or by the date of expiry of the option validity period in the said Option (without any extension of the validity period), whichever is the earlier. Such affected buyers may apply to IRAS for remission on prescribed application form within 14 days from the date of execution of the said Option.

Application for special remission may also be made to IRAS for purchase of residential properties/land which will be used for whole or part non-residential purposes whether in accordance with planning restrictions or otherwise. Approval for such remission may be granted on such conditions determined by IRAS including undertaking not to develop and/or use such part of the gross floor area of the property for residential purpose.

We wish to highlight the following:-

1. There is no change to the existing rules and rates for Additional Buyers Stamp Duty (ABSD). Unlike ABSD, BSD is payable by all buyers of properties in Singapore. From that perspective, Singaporeans, like foreigners and PRs, and all companies and entities are similarly and equally affected by the change in the BSD rate structure.
2. The New BSD rate structure applies only to residential properties. The definition of residential properties is defined by approved permanent use where the subject property is part of a building. However, in the case of acquisition of land or whole of building (for eg enbloc purchase and Government Land Sale purchase), one has to consider the master plan zoning of the relevant land so as to determine if the subject property is residential.
3. Acquisitions of non-residential properties continue to be stamped at the "old" BSD tax rate as at 19 February 2018.
4. The prevailing remission rules for special cases of transfers (including those pursuant to divorce or intestate events) remain applicable to the new BSD rate regime.

## Implications of the new BSD rate regime

This new BSD tax regime has been introduced as part of the Government's progressive tax regime. The property tax rate regime was drastically changed a few years back to tax more the properties with higher annual value. In this case, the assumption is that the wealthy people will be the ones buying properties costing more than S\$1 million, and they should pay a bit more of stamp duty.

As most private residential properties cost less than S\$2 million, the impact on buyers should not be significant. An extra \$10,000 for a S\$2 million acquisition should not deter as it is probably lesser than any renovation cost to be incurred.

## Property cooling measure?

Several Developers opined that the additional 1% for the part of the price above S\$1 million should not deter them from acquiring sites which they like and need for their property development business. But one wondered if this is a signal of more changes to come if the land buying fever continues unabated. Despite the exceptionally active enbloc sale market in the first few weeks of this year, many market observers believed that Developers have become more circumspect in their tender prices. Most of the recent enbloc deals were done at or near their respective reserve price.

In summary, the new BSD rate regime for residential properties purchases should add meaningfully to the government tax revenue in the light of an improved property market, but should not significantly impact buying sentiments of genuine home buyers and property developers who need to replenish their depleting land bank.

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