

RESIDENTIAL PROPERTY DEVELOPMENTS IN SINGAPORE

Accounting for Qualifying Certificate Extension Charges and
Additional Buyer's Stamp Duty



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PREFACE

Since the global economic crisis in 2008, many viewed real estate investment as a safe haven and this has resulted in the rise in real estate prices by almost 80% between 2008 and 2013. Alarmed by the rise in property prices, the government have taken a slew of measures in cooling the overheated property market since 2009. One of which is the introduction of the Additional Buyer's Stamp Duty (ABSD) for purchase of residential properties in 2011. However, residential property developers may apply for remission of the ABSD subject to the fulfilment of certain conditions.

With the economy slowdown and uncertainties surrounding the market outlook, the private residential property index continued to fall in 2016. Coupled with the weakened market sentiments, some of the residential property developers are facing mounting pressures to dispose of the units within the specified time period as required under the Qualifying Certificate (QC) rules so as to avoid the hefty extension charges imposed under the QC rules. In addition, these developers may face potential claw-back of the remission granted for the Additional Buyer's Stamp Duty (ABSD).

Noting the significance of the accounting for these charges imposed on the developers, ISCA's Financial Reporting Committee (FRC) have engaged impacted property developers through a dialogue held with the Real Estate Developers Association of Singapore (REDAS) to share the accounting principles and also understand the market practices relating to these levies.

In this regards, ISCA's FRC have developed this guidance to share the discussions and deliberations in the accounting for the QC extension charges and ABSD in order to promote consistency in accounting practices in Singapore.

Whilst this guidance is prepared with the accounting profession and the business community in mind, it serves only as guidance for the user and should be used in conjunction with the relevant standards. If you have any queries on this guidance, please contact Lim Ju May or Jezz Chew from ISCA's FRS & CR department at technical@isca.org.sg.

QUALIFYING CERTIFICATE EXTENSION CHARGES

Background

1. Section 31 subsection (2) of the Residential Property Act, Cap 274 states that a housing developer shall, before he purchases or acquires an estate or interest in any residential property, apply to the Controller for approval to purchase or acquire the residential property.

A housing developer is required to apply to the Controller of Residential Property for approval under Section 31 of the Residential Property Act, Cap 274 and obtain a Qualifying Certificate to purchase/acquire the LAND for the purpose of developing the land as residential property (the "housing development") for sale.

2. Section 31 subsection (3) of the Residential Property Act, Cap 274 states that upon receipt of an application under subsection (2), the Controller may, with the approval of the Minister, grant approval subject to such terms and conditions as the Controller may think fit, including all or any of the following:
 - (a) that the housing developer shall carry out and complete the development of the residential property and shall not sell, assign, transfer, sublease or otherwise dispose of the residential property or any part thereof in its vacant or undeveloped state without the prior approval of the Controller which may be granted with or without conditions;
 - (b) that where the housing developer is a company, a limited liability partnership or a society, no person who holds any shares in the company or who is a partner in the limited liability partnership or member of the society shall, without the approval of the Controller (which may be granted with or without approval), sell, assign, transfer or otherwise dispose of any of his shares or any interest in such shares to any other person, or resign as such partner or member, as the case may be;
 - (c) that the housing developer shall provide such security as may be determined by the Controller for the purpose of developing that residential property, and that such security may be forfeited if the housing developer
 - (i) does not proceed with or complete the development within such period as may be determined by the Controller;
 - (ii) does not sell all the flats or dwelling-houses in the development, or where the development comprises one of more buildings which have not been subdivided into units for sale, does not sell the whole development, to citizens or approved purchasers within a period of 2 years from the date of the issue of the relevant authority of a Temporary Occupation Permit ("TOP") or Certificate of Statutory Completion ("CSC"), whichever is the earlier, in respect of such flats, dwelling-houses or any of the buildings; or
 - (iii) does not comply with any other terms and conditions which the Controller may impose under this section;
 - (d) that the applicant shall undertake, in writing, to comply with the conditions imposed by the Controller after the application has become the registered owner of the residential property under a transfer registered with the Registrar.

3. Based on Singapore Land Authority's ("SLA") FAQ No 2, the housing developer is required to complete the construction and obtain the TOP or CSC within five years from the date of issue of the QC or the collective sale order, whichever is later.

SLA FAQ No 3 states that if the housing developer is not able to **complete** the housing development within the five-year period, it is required to submit an application for variation of conditions for an extension of time to complete the housing development, and pay a non-refundable application fee.

The extension charge payable for an extension of time is 8% of the purchase price of the land for the first year of extension, 16% for the second year of extension and 24% for the third and subsequent years.

4. SLA FAQ No 4 states that if the housing developer is not able to **sell all** the units in the development within the two-year period, it is required to submit an application for variation of conditions for an extension of time to dispose of the units in the development.

The extension charge payable for an extension of time is 8% of the purchase price of the land for the first year of extension, 16% for the second year of extension and 24% for the third and subsequent years. It is also stated in SLA FAQ that the number of unsold units will be taken into consideration when computing the charge.

5. From our discussion with Real Estate Developers' Association of Singapore (REDAS), SLA will consider a pro-rata refund of extension charges paid upfront in respect of paragraph 4 above, if the developer manages to sell ALL units before the end of the extension period. According to REDAS, it is a well-known SLA practice to time apportion the refund based on when all the units are sold during the extension period. The exact proof of sale and proration mechanisms are not within the scope of this Guidance.
6. One other condition for the QC application is that the developer is required to provide a banker's guarantee of 10% of purchase price of land as security to SLA. From our discussion with REDAS, we noted that the banker's guarantee serves as collateral for compliance with the qualifying conditions in the QC and not intended to be used in lieu of payment for QC extension charges. To date, there is no precedent of SLA calling the banker's guarantee following default by a developer.
7. We also noted during the discussion with REDAS members that QC extension charges are not budgeted in the project costs of the property development (for projects encountering this new situation) as such charges were not expected to be normal costs of the development during budgeting stage.
8. Interpretation of Financial Reporting Standard 121 *Levies* ("INT FRS 121") paragraph 2 on scope states that INT FRS 121 addresses the accounting for a liability to pay a levy if that liability is within the scope of FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain.

INT FRS 121 paragraph 3 states that it does not address the accounting for the costs that arise from recognising a liability to pay a levy. Entities should apply other Standards to decide whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

9. Paragraph 4 of INT FRS 121 defines a levy as an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:
- a) those outflows of resources that are within the scope of other Standards (such as income taxes that are within the scope of FRS 12 *Income Taxes*); and
 - b) fines or other penalties that are imposed for breaches of the legislation.
- ‘Government’ refers to government, government agencies and similar bodies whether local, national or international.
10. The QC extension charge is a levy imposed by the Singapore government when the property developer fails to meet the conditions under the Residential Property Act. Therefore, it is within the scope of INT FRS 121.

Scope

11. This Guidance applies to an entity engaged in property development activities (“developer”) whereby the developer has obtained a QC from SLA and failed to meet the two-year disposal period condition (see paragraph 2(c)(ii) and 4) for all units in the development.
12. Upon application to SLA for a variation in the conditions in the QC for an extension of time to dispose of all units in the development (see paragraph 4), the developer pays the required extension charges to SLA upfront.

Issues

13. This guidance sets out general accounting principles on the accounting for QC extension charges. The issues addressed in this guidance are:
- (a) Recognition of the QC extension liability
This pertains to the identification and timing of the obligating event giving rise to the liability to pay the QC extension charges. Clarity is required on the timing of the recognition of the liability, that is, whether it should be recognised:
 - (i) prior to the first day of the third year after TOP/CSC;
 - (ii) at a point in time for example, for a first year extension of time with an extension charge payable of 8% of the purchase price of the land, to be recognised on the first day of the first year extension;
 - (iii) progressively over time. In paragraph 12(ii) example, to recognise liability on a cumulative monthly basis as the developer fails to sell all the units each month.
 - (b) Recognition of the costs of QC extension liability
Would the recognition of QC extension liability result in a corresponding charge in profit or loss or capitalisation as part of inventory costs?

With the upfront payment of the QC extension charges, should the developer treat the payment as an immediate expense for an obligating event that has occurred or as a prepayment for a series of obligating events occurring over time?

Discussion and analysis

Recognition of the QC extension liability

14. One possible view is that the obligating event that gives rise to a liability is the developer's breach of a specific condition relating to the two-year disposal timeline and therefore the levy is a payment for a breach that has occurred, that is, a past event. Another view is that a series of obligating events occur over time after the two-year disposal timeline and the quantum of the levy (extension charge) is dependent on the extension of time required to sell a unit, even though the practice is to make an advance payment of the extension charge for one year and receive a refund relating to the unutilised extension period.
15. The developer is given two years to sell all units after the date of CSC/TOP. If all the units are not sold by the end of second year, the developer is required to apply for an extension to dispose the remaining units.
16. INT FRS 121 paragraph 8 requires the recognition of a levy upon occurrence of the obligating event that gives rise to the liability to pay the levy. This obligating event is the activity that triggers the payment of the levy, as identified by the legislation.

Applying this principle to the recognition of the liability for QC extension charges, the obligating event that triggers the payment is the breach of the QC condition to sell all units within the two-year disposal period as stipulated in Section 31 subsection (3) of the Residential Property Act, Cap 274. The question is whether the obligating event occurs at a point in time or progressively over time.

17. INT FRS 121 paragraph 11 of INT FRS 121 states that the liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

When the developer applies for a one year extension of time to dispose the units, the developer makes an advance payment for the required extension charges. If the developer is able to sell all units before the end of one year of extension, a refund is given by SLA for the unutilised extension period.

18. Based on the above fact pattern, the obligating event(s) occurs with the passage of time, i.e. over the QC extension period. Accordingly, the liability to pay the QC extension charges shall be recognised progressively commencing from the first day of the QC extension period, notwithstanding that the developer might have paid, in advance, the entire 8% for a one-year extension, or 4% for a half-year extension.

Recognition of the costs of QC extension liability

19. Considering the nature of QC extension charges, these charges are not included in the process in bringing the inventory to its present location and condition and, hence considered as abnormal costs. In accordance with FRS 2 *Inventories*, such costs are recognised as expenses in the period in which they are incurred.
20. Paragraph 14 of INT FRS 121 states that an entity shall recognise an asset if it has prepaid a levy but does not yet have a present obligation to pay the levy.

21. Payments made in excess of the QC extension charges liability shall be recognised as prepayment of QC extension charges. These are effectively the advance payment for QC extension charges made to SLA. With the recognition of the liability for QC extension charges over time with a corresponding charge in the income statement as and when incurred, these prepayments shall be subsequently derecognised upon utilisation to settle future liabilities incurred or when the entity establishes the right to receive cash refunds (i.e. financial asset).

ADDITIONAL BUYER'S STAMP DUTY

Background

22. Broadly speaking, Additional Buyer's Stamp Duty (ABSD) was introduced in 2011 as an additional stamp duty levied on a foreign buyer (including a company with a foreign shareholder) for the purchase of a private residential property (including residential land) or a local buyer for the purchase of a second private residential property. In the First Schedule to the Stamp Duties Act (Chapter 312), a buyer (including a company) is required to pay ABSD as a percentage (depending on the buyer's citizenship or permanent residency status and his existing residential property holding) of the actual price paid or market value of the property, whichever is higher from 8 December 2011 onwards. If a housing developer is a company (including a listed company) that has any foreign shareholder, ABSD is applicable to its acquisition of residential land for development, subject to the remission explained below.
23. Section 3 sub-section 1 of the Stamp Duties (Housing Developers) (Remission of ABSD) Rules 2013 states that there shall be remitted the ABSD that is chargeable on any of the following instruments executed on or after 8 December 2011: (a) a conveyance, assignment or transfer on sale of residential property to a qualifying developer for the purpose of housing development by the qualifying developer; (b) any instrument chargeable in like manner, including (but not limited to) a conveyance direction.

The remission for housing developers is subjected to the fulfilment of all conditions as stipulated in the Stamp Duties (Housing Developers) (Remission of ABSD) Rules 2013.

24. IRAS e-Tax Guide "Stamp Duty: Additional Buyer's Stamp Duty (ABSD) on Purchase of Residential Properties (Revised Edition)" paragraph 10.4 states that remission of ABSD is allowed in respect of development projects with more than four residential properties, on the condition that the developer follows through the intention to develop the residential properties for sale. The developer may be eligible for remission of ABSD only if the developer is constituted as a company.

ABSD on the purchase of vacant residential lands (include sites purchased from the Government), development sites, and en-bloc purchase of residential properties for the purpose of housing development of more than four units, may be remitted upfront subject to the buyer (developer) giving the undertaking to:

- a) Complete development and sell all the residential units in the development within five years¹ of the date of Contract or Agreement to purchase the site. [Section 3 sub-section 2(d) of the Stamp Duties (Housing Developers) (Remission of ABSD) Rules 2013]
- b) Produce the Qualifying Certificate where relevant and housing developer licence within two years² of the date of Contract or Agreement. [Section 3 sub-section 2(e)(ii) of the Stamp Duties (Housing Developers) (Remission of ABSD) Rules 2013]
- c) Produce proof of piling and foundation works and any demolition works within two years² of the date of Contract or Agreement. [Section 3 sub-section 2(c) of the Stamp Duties (Housing Developers) (Remission of ABSD) Rules 2013]

¹ In the case of land purchased through collective sale under the Land Titles (Strata) Act on or after 1 July 2012, 5 years will commence from the date of the collective sale order granted under the Act.

² In the case of land purchased through collective sale under the Land Titles (Strata) Act on or after 1 July 2012, 2 years will commence from the date of the collective sale order granted under the Act.

- d) Produce proof of disposal of all residential units in the development within five years¹ of the date of Contract or Agreement to purchase the site. [Section 3 subsection 2(f) of the Stamp Duties (Housing Developers) (Remission of ABSD) Rules 2013]

If condition (a) is not met, ABSD (with interest), becomes payable immediately upon the expiry of five years.

If conditions (b) and (c) are not met, ABSD (with interest) becomes payable immediately upon the expiry of two years.

The undertaking has to be given by the due date for stamping.

25. We noted from our discussion with REDAS that similar to QC extension charges, ABSD are usually not included or budgeted in the project costs of the property development as such costs are not normal costs of the development.
26. In addition, ABSD is a levy imposed by the Singapore government when the property developer fails to meet the conditions for the remission. Therefore, it is within the scope of INT FRS 121, similar to QC extension charges.

Scope

27. This Guidance applies to an entity engaged in housing development activities (“developer”) whereby the developer has obtained a remission of ABSD from the Commissioner of Stamp Duties and failed to meet the five-year disposal period condition [see paragraph 24 (a)] for all units in the development.
28. Upon failure to meet the condition in paragraph 24(a), ABSD with interest becomes payable immediately.

Issues

29. This guidance sets out general accounting principles on the accounting for ABSD. The issues addressed in this guidance are:
 - (a) Recognition of ABSD liability

This pertains to the identification and timing of the obligating event(s) giving rise to the liability to pay ABSD. Clarity is required on the timing of the recognition of the liability, that is, whether it should be recognised:

 - (i) Prior to the first day of the sixth year after the date of Contract or Agreement to purchase the site;
 - (ii) At a point in time on the first day of the sixth year;
 - (iii) Progressively over time.
 - (b) Recognition of ABSD costs

Would the recognition of ABSD liability result in a corresponding charge in profit or loss or capitalisation as part of inventory costs?

Discussion and analysis

Recognition of ABSD liability

30. INT FRS 121 paragraph 8 requires the recognition of a levy upon occurrence of the obligating event that gives rise to the liability to pay the levy. This obligating event is the activity that triggers the payment of the levy, as identified by the legislation.

Applying this principle to the recognition of the liability for ABSD, the obligating event that triggers the payment is the failure to meet the ABSD condition to sell all units within the five-year disposal period [See paragraph 24(a)].

31. The developer is given five years for completion of the development and sale of all units from the date of purchase of the land. If all the units are not sold by the end of the fifth year, the developer has failed the condition to complete and sell all units within five years. Hence, the obligating event would occur at the first day of the sixth year.
32. Accordingly, the liability for ABSD shall be recognised on the first day of the sixth year.

Recognition of ABSD costs

33. Considering the nature of ABSD, these costs are not included in the process in bringing the inventory to its present location and condition and, hence considered as abnormal costs. In accordance with FRS 2 *Inventories*, such costs are recognised as expenses in the period in which they are incurred.
34. Accordingly, ABSD shall be charged immediately to profit or loss on the first day of the sixth year.

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