April 2020

ISCA Financial Reporting Bulletin 5

FRB 5: COVID-19 Government Relief Measures: Accounting for Singapore property tax rebate from the perspective of the landlord and the tenant

About the Institute of Singapore Chartered Accountants

The Institute of Singapore Chartered Accountants (ISCA) is the national accountancy body of Singapore. ISCA's vision is to be a globally recognised professional accountancy body, bringing value to our members, the profession and wider community. There are over 32,000 ISCA members making their stride in businesses across industries in Singapore and around the world.

Established in 1963, ISCA is an advocate of the interests of the profession. Possessing a Global Mindset, with Asian Insights, ISCA leverages its regional expertise, knowledge, and networks with diverse stakeholders to contribute towards Singapore's transformation into a global accountancy hub.

ISCA is the Designated Entity to confer the Chartered Accountant of Singapore – CA (Singapore) – designation.

ISCA is a member of Chartered Accountants Worldwide, a global family that brings together the members of leading institutes to create a community of over 1.8 million Chartered Accountants and students in more than 190 countries.

For more information, visit www.isca.org.sg.

About ISCA's Technical Division

As the national accountancy body, ISCA is committed to supporting our members in their careers as they progress and rise to challenges faced along the way. ISCA's Technical Division provides technical support in areas of audit & assurance, financial reporting, sustainability reporting, ethics and specialised industries such as capital markets, banking and finance and insurance; and communicates insights and views to our members and the wider accountancy community. Through our technical committees that comprise representatives from various stakeholders in the corporate reporting eco-system, we hear issues from the ground and conceive initiatives to promote and enhance quality, consistency and best practices to uphold technical excellence.

About ISCA's Financial Reporting Committee

ISCA's Financial Reporting Committee (FRC) is chaired by Mr Reinhard Klemmer and comprises representatives from legal and accounting firms, corporate, regulators and academia in the financial reporting eco-system. FRC's terms of reference include monitoring policy and implementation issues relating to the development of accounting standards internationally and in Singapore, and to identify, understand and address accounting issues faced by professional accountants in Singapore, and provide support through the issuance of guidance.

The terms of reference are executed through FRC with the support of two Sub-Committees, namely the Core Sub-Committee and the Valuation Sub-Committee. The FRC Core Sub-Committee is the technical accounting arm of FRC and comprises various technical accounting subject matter experts from accounting firms. The Core Sub-Committee engages in technical deliberations on emerging accounting issues in Singapore and new or revised accounting developments proposed by the international accounting standards setter.

Note:

- *Although this FRB makes references to SFRS(I) 1-20 Accounting for Government Grants and Disclosure of Government Assistance, the guidance in this FRB is also applicable to entities applying FRS 20 Accounting for Government Grants and Disclosure of Government Assistance.*

- *This FRB provides accounting guidance and key considerations on how to account for property tax rebate granted by the Singapore Government to the landlord (from the landlord's perspective, except for landlords which are Singapore Government-related agencies) and how to account for the related rental rebate granted by the landlord to the tenant ("related rental rebate") (from the tenant's perspective).*

- *The property tax rebate is given independent of the commercial terms of the individual lease agreements and is clearly not intended to modify the existing terms of the leases. Under the law, the landlord must pass the benefit to the tenant without attaching any condition. Accordingly, the property tax rebate to the landlord and in turn the related rental rebate to the tenant are both in substance government grants and should be accounted for in accordance with SFRS(I) 1-20 rather than SFRS(I) 16 Leases.*

- *In addition to passing on the property tax rebate to a tenant, a landlord may provide an additional rental rebate (in excess of the quantum of the property tax rebate) to a tenant. This FRB addresses the accounting for the known property tax rebate passed by the landlord to the tenant. It does not address any other additional rental rebates or payments from the landlord to the tenant which are unrelated to the Singapore Government initiated property tax rebate.*

- *The fact pattern and the example presented in this FRB are purely illustrative in nature. The amount of property tax rebate and the related rental rebate should be based on the entity's specific facts and circumstances.*

- *The FRB is based on publicly available information (including the legislation that is in place) and accounting standards issued as of 17 April 2020, and will be updated as and when new information becomes available.*

Background

The Singapore Government has given remission of property tax ("property tax rebates")[1] under section 6(8) of the Property Tax Act (Cap. 254) to qualifying non-residential properties for the period from 1 January 2020 to 31 December 2020 in response to the COVID-19 pandemic.

For the portion of a non-residential property leased out to a lessee ("tenant"), the owner of the property ("landlord") must transfer the benefit from the property tax rebate under section 29 of the COVID-19 (Temporary Measures) Act 2020 ("the Act")[2]. For the vacant portion of the property, the landlord itself will benefit from the property tax rebate.

Under the Act, the passing of this benefit from the landlord to the tenant must not be subject to any condition (whether a condition precedent or subsequent) and any change to any term or condition of the lease with the tenant is void. If there is any dispute between the landlord and tenant on the amount, extent, manner or timing of the passing of this benefit, either party may apply for the dispute to be heard by a Valuation Review Panel appointed under Part IV of the Property Tax Act.

Scope of this FRB

This FRB provides accounting guidance and key considerations on how to account for the property tax rebate granted by the Singapore Government to the landlord (from the landlord's perspective, except for landlords which are Singapore Government-related agencies) and how to account for the related rental rebate granted by the landlord to the tenant ("related rental rebate") (from the tenant's perspective).

An illustrative example has also been included to aid in the understanding of the principles being applied.

1. Does the property tax rebate and the related rental rebate meet the definition of government grant?

The property tax rebate is an assistance given by the Singapore Government by way of transfer of resources from the government to the landlord. This meets the definition of a government grant under SFRS(I) 1-20.

The Act requires the landlord to transfer the property tax rebate to the tenant without any changes to any term or condition of the lease agreement. In ISCA's view, although the assistance to the tenant takes the form of a rental rebate, it is in substance a grant expense and not a reduction of rental income for the landlord. This is because the Singapore Government determines the grant unilaterally without regard to the commercial arrangements of the tenancy agreement and without modifying any terms. Therefore, the related rental

[1] IRAS e-Tax Guide Property Tax Rebate for Non-residential Properties: https://www.iras.gov.sg/irashome/uploadedFiles/IRASHome/e-Tax_Guides/Property%20Tax%20Rebate%20for%20Non-Residential%20Properties%20in%202020.pdf

[2] COVID-19 (Temporary Measures) Act 2020: https://sso.agc.gov.sg/Acts-Supp/14-2020/Published/20200407?DocDate=20200407#P16-

rebate given to the tenant is an assistance given by the Singapore Government to the tenant (if the property is tenanted) through the landlord, which also meets the definition of a government grant under SFRS(I) 1-20, and is not a lease modification under SFRS(I) 16[3].

2. How does the landlord account for the property tax rebate in its financial statements?

Recognition:

Paragraph 7 of SFRS(I) 1-20 states that an entity shall not recognise government grants until there is reasonable assurance that it will comply with the conditions attaching to them and the grants will be received.

With regards to the property tax rebate, the landlord is required to fully pass on the property tax rebate to tenants and this is a 'condition' attached to this grant. Based on the current legislation, the landlord is the principal to the arrangement. Therefore, the landlord will need to recognise the grant income and the grant expense in its income statement.

The landlord should assess whether it has reasonable assurance as required by SFRS(I) 1-20. If there is reasonable assurance, the landlord should recognise a grant receivable (property tax rebate) and a deferred government grant income. For the tenanted properties, this deferred government grant income shall be recognised as a grant payable (related rental rebate). The timing and manner in which the grant will be received should not affect the accounting for the grant.

Paragraph 12 of SFRS(I) 1-20 states that government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. The entity may regard either the property tax expense (if the property is not tenanted) or the reduction of rental income as the related costs for which the grants are intended to compensate. In either case, the costs are recognised over time on a systematic basis. If a portion of the rebate relates to a past period, the landlord should recognise that portion in profit or loss immediately.

Presentation and disclosures:

The grant expense should be separately presented and disclosed in the financial statements.

Under SFRS(I) 1-20 paragraph 29, the grant income can be presented either (1) separately as grant income or under "other income"; or (2) deducted in the reporting of the grant expense. This accounting policy choice will need to be consistently applied by the entity.

Disclosure requirements of SFRS(I) 1-20 should also be considered[4]. As part of the disclosure requirements, where the grant income is deducted against the grant expense, clear disclosures on the effects of the grant income on the grant expense will need to be included in the notes to the financial statements.

---

[3] Refer to educational material published by the International Accounting Standards Board (IASB): https://cdn.ifrs.org/-/media/feature/supporting-implementation/ifrs-16/ifrs-16-rent-concession-educational-material.pdf?la=en

[4] SFRS(I) 1-20 paragraph 31 and 39

3. How does the tenant account for the related rental rebate in its financial statements?

Recognition:

The tenant should view the related rental rebate as a government grant based on its substance.

In accordance with paragraph 7 of SFRS(I) 1-20 the tenant should not recognise government grants until there is reasonable assurance that it will comply with the conditions attaching to them and the grants will be received.

Accordingly, the related rental rebate is recognised in the tenant's financial statements as related rental rebate receivable (which is presented net against the lease liability if there is a legal right to offset against the lease liability) when there is reasonable assurance that the tenant will receive the related rental rebate from the landlord. As there are no conditions attached to the related rental rebates, the related rental rebates are recognised as grant income over the same periods as the related costs towards which they are intended to compensate.

Presentation and disclosures:

The tenant may elect to present a grant income without reducing its depreciation of right-of-use asset (or rental expense if it is a short-term lease). This is because the government grant does not change the tenancy agreement between the landlord and the tenant.

Under SFRS(I) 1-20 paragraph 29, this grant income can also be presented as a deduction against the related expenses (i.e. depreciation of right-of-use assets or rental expense if it is a short-term lease). This accounting policy choice will need to be consistently applied by the entity.

Disclosure requirements of SFRS(I) 1-20 should also be considered[5]. As part of the disclosure requirements, where the grant income is deducted against the depreciation of right-of-use assets, clear disclosures on the effects of the grant income on the depreciation will need to be included in the notes to the financial statement.

[5] SFRS(I) 1-20 paragraph 31 and 39

4. Illustrative Example

To aid in the understanding of the principles being applied, consider the following illustrative example which includes the journal entries to be recorded.

Fact pattern

- Landlord A owns a 10-storey retail mall that is leased to 10 tenants (i.e. each storey is leased to 1 tenant) based on 3-year lease agreements that commenced from 1 January 2019.

- Landlord A will receive a total of $600,000 property tax rebate in connection with this retail mall in 2020 and has decided to equally apportion the property tax rebates to its tenants (i.e. $60,000 per tenant).

- Pursuant to the COVID-19 (Temporary Measures) Bill, in April 2020, each tenant is informed by the landlord on 31 March 2020 that they will receive a $60,000 property tax rent rebate as settlement for their rent payable over the 3 month period from April to June 2020 as and when it falls due. Therefore, the tenant will enjoy an unconditional rent rebate of $20,000 per month relating to the benefits received from the property tax rebate.

Accounting of property tax rebate and related rental rebate by Landlord A

Landlord A recognises the property tax rebate as property tax rebate receivable and grant payable (related rental rebate) when there is reasonable assurance that the landlord will receive the property tax rebate from the Singapore Government.

31 March 2020

	Debit ($)	Credit ($)
Grant receivable (property tax rebate)	600,000	
Grant payable (related rental rebate)		600,000
Being recognition of grant receivable from the Singapore Government and associated grant payable to tenants		

April 2020

	Debit ($)	Credit ($)
Grant payable (rental rebate)	200,000	
Lease receivable from tenants		200,000
Being the transfer of the related rental rebate benefit for the month of April 2020 to tenant ($60,000 x 10 tenants x 1 month / 3 months)		

	Debit ($)	Credit ($)
Grant expense	200,000	
Grant income		200,000
Being recognition of grant income and grant expense for the month of April 2020		

Accounting of property tax rebate and related rental rebate by Landlord A

May 2020

	Debit ($)	Credit ($)
Grant payable (rental rebate)	200,000	
Lease receivable from tenants		200,000
Being the transfer of the related rental rebate benefit for the month of May 2020 to tenant ($60,000 x 10 tenants x 1 month / 3 months)		

	Debit ($)	Credit ($)
Grant expense	200,000	
Grant income		200,000
Being recognition of grant income and grant expense for the month of May 2020		

June 2020

	Debit ($)	Credit ($)
Grant payable (rental rebate)	200,000	
Lease receivable from tenants		200,000
Being the transfer of the related rental rebate benefit for the month of June 2020 to tenant ($60,000 x 10 tenants x 1 month / 3 months)		

	Debit ($)	Credit ($)
Grant expense	200,000	
Grant income		200,000
Being recognition of grant income and grant expense for the month of June 2020		

The accounting for the lease arrangements between the landlord and the tenants is not impacted by the property tax rebate and the corresponding rental rebate and continues to reflect the contractual lease payments.

Accounting of related rental rebate by Tenant

Rental rebate related to the property tax rebate is recognised in the tenant's financial statements as related rental rebate receivable (which is presented net against the lease liability if there is a legal right to offset against the lease liability) and in the profit or loss when there is reasonable assurance that the tenant will receive the related rental rebate from the landlords.

April 2020

	Debit ($)	Credit ($)
Related rental rebate receivable (presented net against lease liability)	20,000	
Grant income/ Depreciation expense/Rental expense*		20,000
Being recognition of related rental rebate receivable from the landlord for the month of April 2020		

Accounting of related rental rebate by Tenant

May 2020

	Debit ($)	Credit ($)
Related rental rebate receivable (presented net against lease liability)	20,000	
Grant income/ Depreciation expense/Rental expense*		20,000
Being recognition of related rental rebate receivable from the landlord for the month of May 2020		

June 2020

	Debit ($)	Credit ($)
Related rental rebate receivable (presented net against lease liability)	20,000	
Grant income/ Depreciation expense/Rental expense*		20,000
Being recognition of related rental rebate receivable from the landlord for the month of June 2020		

*Tenants may elect to present the related rental rebate as government grant income or reduction in depreciation expense of right-of-use asset (or rental expense if it is a short-term lease). This is a policy choice which should be applied consistently.

The accounting for the lease arrangement between the tenant and the landlord is not impacted by the property tax rebate and the corresponding rental rebate and continues to reflect the contractual lease payments.

For reference: ISCA Financial Reporting Codification Framework

In November 2019, ISCA issued the ISCA Financial Reporting Codification Framework (Framework). The Framework establishes a formalised categorisation, degrees of authority and a due process for future issuance of ISCA's technical documents. It provides credence to ISCA's technical content, promulgates ISCA's views on the application of accounting standards as well as promotes quality, consistency and best practices in financial reporting.

The Framework is summarised in the table below.

Category	Nature	Degree of authority	Due Process	Highest level of approval
1. Financial Reporting Practice (**FRP**)	Recommended best practices for financial reporting for specific industries, sectors or transactions	Expected to apply	Public consultation required	ISCA Council
2. Financial Reporting Guidance (**FRG**)	Technical guidance, views and insights on specific financial reporting issues for specific industries, sectors or transactions	Expected to follow or explain departures	Public consultation required	ISCA Financial Reporting Committee (FRC), with authority delegated by the ISCA Council
3. Financial Reporting Bulletin (**FRB**)	Technical bulletin containing discussions and highlight of emerging topical financial reporting issues	For information and educational purposes	Public consultation not required	ISCA FRC

For more details on the Framework and the guidance issued under the Framework, please refer to the following:

- Framework – https://isca.org.sg/tkc/fr/financial-reporting-codification-framework/
- FRG – https://isca.org.sg/tkc/fr/financial-reporting-guidances/
- FRB – https://isca.org.sg/tkc/fr/financial-reporting-bulletins/