

5. Lease Premium

(a) Lease Premium is assessable

Lease premiums are no longer popular. However, the law specifically provides that they are assessable to Property Tax in the same way as rent.

(b) Assessable in the year of commencement of tenancy

If you have received lease premium, the amount will be included into the **assessable value** of the year of commencement of the tenancy concerned.

(c) Spreading up to a maximum of 36 months

Alternatively, you may apply to spread it over a number of years. If the tenancy is for a term of not more than 36 months, the lease premium will be spread evenly over the term of the tenancy. If the tenancy is for a term longer than 36 months, then the period of spreading evenly over 36 months will start from the date of commencement of that tenancy.

(d) Examples

Click [HERE](#) for illustration by way of examples.

Example 1

- I let my property to a trader for 24 months, with effect from 1.6.2004. I received a lease premium in the sum of \$60,000 on 1.5.2004.
- How should I report this lease premium in the tax return?
 - ✧ You may report the entire amount of lease premium as part of your rental income in the tax return for the year of assessment 2004/05,

or
 - ✧ you may spread the lease premium over a number of years and report a portion of it as part of the your rental income in each of the tax returns of the years concerned, as follows:
 - The lease premium should be spread evenly over the whole lease period or for a maximum of 36 months (whichever is shorter) and be included as rental income as shown below:

<u>Year of assessment</u>		<u>Assessable value</u>
2004/05	$\$60,000 \times 10/24 =$	<u>\$ 25,000</u>
2005/06	$\$60,000 \times 12/24 =$	<u>\$ 30,000</u>
2006/07	$\$60,000 \times 2/24 =$	<u>\$ 5,000</u>
		<u>\$ 60,000</u>

- If the period of the lease is 48 months, the lease premium should be spread evenly over the first 36 months and be included as rental income for the years of assessment concerned as follows:

<u>Year of assessment</u>		<u>Assessable value</u>
2004/05	$\$60,000 \times 10/36 =$	<u>\$ 16,667</u>
2005/06	$\$60,000 \times 12/36 =$	<u>\$ 20,000</u>
2006/07	$\$60,000 \times 12/36 =$	<u>\$ 20,000</u>
2007/08	$\$60,000 \times 2/36 =$	<u>\$ 3,333</u>
		<u>\$ 60,000</u>