

IRAS CIRCULAR

Deduction For Expenditure Incurred On Renovation or Refurbishment Works



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[Inserted paragraph 7 and amended paragraph 10 and footnote 4 to reflect the tax changes announced in Budget 2009. Footnote 5 is inserted to inform taxpayers of the requirement for sole-proprietorships and partnerships to use the prescribed form for S14Q claims. Examples in the Annex are also updated to take into account the tax change announced in Budget 2009.]

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Deduction for expenditure incurred on renovation or refurbishment works

Introduction

1. On 15 February 2008, the Minister for Finance announced in his Budget Statement 2008 that a tax deduction would be allowed to taxpayers in respect of capital expenditure incurred on fixtures, fittings and installations when they undertake renovation or refurbishment works on their business premises.
2. The tax deduction is granted to help businesses, particularly small and medium enterprises, reduce their business costs.
3. This circular provides the scope of the tax deduction to be granted for capital expenditure incurred on renovation or refurbishment works and examples of expenses that will qualify for the tax deduction.

Existing Tax Treatment

4. Currently, capital expenditure incurred on renovation or refurbishment works (“R&R costs”) carried out on the business premises of a taxpayer is not allowable as a tax deduction¹ (unless they form part of an industrial building which qualifies for industrial building allowances²). Such R&R costs also do not qualify for capital allowances under section 19 or 19A because they are incurred in relation to the business setting within which the business is carried on and not on the provision of “plant or machinery”.

New Tax Treatment

5. As announced in the Budget 2008, all qualifying R&R costs incurred by a taxpayer during the period 16 Feb 2008 to 15 Feb 2013 on renovating or refurbishing his business premises will be eligible for tax deduction. The deduction of qualifying R&R costs will be provided for under a new section 14Q of the Income Tax Act (henceforth, referred to as “s14Q deduction” in this circular).
6. A s14Q deduction will be granted over a period of three consecutive years, on a straight-line basis, starting from the Year of Assessment (“YA”) relating to the basis period in which the qualifying R&R costs are first incurred and claimed by the taxpayer. If the taxpayer does not claim the R&R costs in the first place, he will not be granted the s14Q deduction. Once the taxpayer claims the s14Q deduction, he will be granted the deduction as long as he

¹ Section 15(1)(b) and 15(1)(d) of Income Tax Act.

² Section 16 of the Income Tax Act.

continues to carry on that trade, business or profession for which the R&R costs were incurred. Accordingly, if the taxpayer permanently ceases to derive income from such trade, business or profession in any of the 3 YAs, he will not be allowed deduction of the balance of the R&R costs for the basis period subsequent to the basis period in which the trade, business or profession ceased.

7. As part of the tax changes announced by the Minister for Finance in his Budget Statement 2009, a taxpayer will be given an option to claim the R&R costs incurred in the basis period for the YAs 2010 and 2011 in 1 year instead of the 3 years mentioned in paragraph 6.
8. The amount of R&R costs that will qualify for tax deduction is subject to an expenditure cap of \$150,000 for each taxpayer for every relevant three-year period, starting from the basis period for the YA in which the R&R costs are first incurred and a deduction is claimed by the taxpayer. In the case of partnerships, the expenditure cap of \$150,000 will be applied at the partnership level. Please refer to question 3 of the Annex for an illustration of how the relevant three-year period is identified.
9. A s14Q deduction is given separately from the capital allowance framework for plant or machinery³. If the R&R costs qualify as expenditure on plant or machinery under section 19 or 19A, a taxpayer may continue to claim capital allowances on such costs under those sections. On the other hand, if the R&R costs constitute expenditure on repairs or replacements with no element of improvement, the taxpayer may continue to enjoy the normal tax deduction under section 14(1)(c). Where the R&R costs are claimed as an expenditure on plant or machinery under section 19 or 19A or as a tax deduction under section 14(1)(c), the taxpayer will not be entitled to claim a deduction again under the new section 14Q.
10. A s14Q deduction is granted against income from the trade for which it falls to be made after all other deductions under Part V (Deductions against income) of the Income Tax Act have been allowed. Any amount of s14Q deduction that could not be fully utilised in any YA against other income of the taxpayer will not be available for offset under the group relief system (under section 37C of the Income Tax Act). This is because the tax deduction is an incentive meant to benefit the entity that incurs the qualifying R&R costs in the first instance. However, the amount of unutilised s14Q deduction in any YA can be carried forward for offset against the taxpayer's income for future YAs subject to the provisions of section 37. It can also be carried back to the immediate preceding YA (or three preceding YAs in the case of unutilised s14Q deduction in YA 2009 or YA 2010) to be offset against the assessable income of the taxpayer subject to the provisions of section 37E and 37F of the Income Tax Act⁴.

³ Notwithstanding the introduction of the deduction for R&R costs, there is no change to existing capital allowance framework for plant or machinery, under which the consideration of what constitutes plant or machinery remains guided by case law.

Qualifying expenditure

11. All R&R costs will qualify for the deduction under the new section 14Q except for those relating to structural changes made to business premises and the costs described in paragraph 12. Under the Building Control Act, any person making structural changes to a building is required to obtain an approval from the Commissioner of Building Control. For the purpose of s14Q deduction, R&R costs will be considered as qualifying expenditure so long as the renovation or refurbishment works do not involve structural changes for which prior approval from the Commissioner of Building Control is required. Taxpayers should ensure that their R&R costs are indeed qualifying expenditure before making any s14Q deduction claim.
12. No deduction will be allowed on expenditure relating to -
 - (a) any designer fees or professional fees;
 - (b) any antique; or
 - (c) any type of fine art including painting, drawing, print, calligraphy, mosaic, sculpture, pottery or art installation.
13. The R&R costs incurred on the following items will generally qualify for s14Q deduction if they do not affect the structure of the business premises:
 - (a) general electrical installation and wiring to supply electricity;
 - (b) general lighting;
 - (c) hot/cold water system (pipes, water tanks etc);
 - (d) gas system;
 - (e) kitchen fittings (sinks, pipes etc.);
 - (f) sanitary fittings (toilet bowls, urinals, plumbing, toilet cubicles, vanity tops, wash basins etc.);
 - (g) doors, gates and roller shutters (manual or automated);
 - (h) fixed partitions (glass or otherwise);
 - (i) wall coverings (such as paint, wall-paper etc.);
 - (j) floorings (marble, tiles, laminated wood, parquet etc.);
 - (k) false ceilings and cornices;
 - (l) ornamental features or decorations that are not fine art (mirrors, drawings, pictures, decorative columns etc.);
 - (m) canopies or awnings (retractable or non-retractable);
 - (n) windows (including the grilles etc.);
 - (o) fitting rooms in retail outlets.
14. For more details on s14Q deduction, please refer to the Annex for the frequently asked questions and answers.

⁴ Please refer to the IRAS e-Tax Guides on "Carry-back Relief System" of 10 June 2005 and "Enhanced Carry-back Relief System" of 23 Jan 2009 for more details on the carry-back of losses under section 37E and 37F.

Administrative Procedure

15. To enjoy a s14Q deduction, a taxpayer is required to claim the deduction for qualifying R&R costs in his tax return and submit to IRAS an itemised list⁵ (including the related costs incurred) of the renovation or refurbishment works done on his business premises. There is no requirement to submit the supporting documents together with his tax return. However, he should maintain sufficient supporting documents for the purpose of submission to the Comptroller of Income Tax (“Comptroller”) if called upon to do so as part of IRAS’ audit or verification process.
16. The taxpayer will also have to confirm in his tax return (on the itemised list) that the renovation or refurbishment works do not require the approval of the Commissioner of Building Control.

Enquiries

17. For any general enquiries or clarification on this Circular, please call:
 - (a) 1800-3568622 (Corporate);or
 - (b) 1800-3568611 (Individual).

Inland Revenue Authority of Singapore

⁵ Sole-proprietorships and partnerships are to provide the list in the prescribed Form “Itemised list of qualifying renovation & refurbishment costs” which is available on IRAS website at www.iras.gov.sg under the Quick Links>Forms.

Frequently Asked Questions

1. When can a taxpayer claim for a s14Q deduction?

Any claim for the deduction of qualifying R&R costs should be made at the time of lodgement of the return of income for the YA relating to the basis period in which the R&R costs were first incurred. Any amount of qualifying R&R costs, which are not claimed in the YA relating to the basis period in which they were first incurred, will not qualify for deduction in subsequent YAs.

2. How is a s14Q deduction given?

The following examples illustrate how a s14Q deduction is given.

Example 1

A taxpayer incurs qualifying R&R costs of \$120,000 on 1 Mar 2008 (basis period is 1 Jan 2008 to 31 Dec 2008).

The taxpayer will be given a tax deduction of \$40,000 (i.e. \$120,000 / 3 years) against his income for each of the YAs 2009, 2010 and 2011.

Example 2

A taxpayer incurs qualifying R&R costs of \$200,000 on 31 Jan 2013 (basis period is 1 Jan 2013 to 31 Dec 2013).

The taxpayer will be given a tax deduction of \$50,000 (\$150,000 / 3 years) against his income for each of the YAs 2014 to 2016.

Example 3

Same as Example 1 but the taxpayer ceases business on 31 Dec 2009.

The taxpayer will be given a tax deduction of \$40,000 against his business income for each of the YA 2009 and 2010. As there is no income derived from the business from 1 Jan 2010 (basis period for the YA 2011), the balance \$40,000 will not be allowed to the taxpayer for YA 2011.

Once the qualifying R&R costs are claimed, the deduction is granted over a consecutive period of three years (i.e. no deferment in the second or third YA is allowed).

Example 4

Same as example 1 and the same taxpayer also incurs qualifying R&R costs of \$30,000 on 1 May 2009 (basis period is 1 Jan 2009 to 31 Dec 2009). The taxpayer wishes to claim the R&R costs of \$30,000 over 1 year as he has sufficient trade income for YA 2010 to fully absorb the costs.

The taxpayer will be given a tax deduction of \$70,000 ($\$120,000 / 3 \text{ years} + \$30,000$) against his income for the YA 2010.

3. How is the relevant three-year period for the purpose of applying the expenditure cap of \$150,000 identified?

Assuming a taxpayer (with accounting period ending 31 Dec) has incurred qualifying R&R costs on his business premises during the period from 16 Feb 2008 to 15 Feb 2013 as follows:

YA	2009	2010	2011	2012	2013	2014
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
R&R costs incurred	90	-	70	-	100	60
Qualifying R&R costs	90	-	60*	-	100	50*

(* The amount of R&R costs incurred in YA 2011 and 2014 which qualify for deduction will be restricted to \$60,000 and \$50,000 respectively. This is because the expenditure cap of \$150,000 has been reached for the relevant three-year period.)

The first relevant three-year period will be from YA 2009 to 2011 (for costs incurred on or after 16 Feb 2008) and the second relevant three-year period will be from YA 2012 to 2014 (for costs incurred up to 15 Feb 2013) notwithstanding that no R&R costs are incurred in YA 2012 as shown in the table above. Therefore, the expenditure cap of \$150,000 will apply from YA 2009 to 2011 and YA 2012 to 2014 respectively.

If instead, the taxpayer first incurs qualifying R&R costs and claims the tax deduction in YA 2010, the first relevant three-year period will be from YA 2010 to 2012 and the second relevant three-year period will be from YA 2013 to 2014 (note: no deduction will be given for costs incurred in YA 2015 as the tax incentive is only available on R&R costs incurred up to 15 Feb 2013).

4. What happens to a s14Q deduction if a taxpayer does not have enough trade income to fully absorb the deduction?

Assuming a taxpayer has an adjusted loss (before s14Q deduction) of \$10,000 for YA 2010 and he is entitled to a s14Q deduction of \$15,000 for that YA. His other sources of income for that YA include trade income of \$2,000 and rental income of \$1,000. His tax computation for YA 2010 will be as follows:

Trade 1 – Adjusted loss (before s14Q deduction)	(10,000)	
Less : s14Q deduction	<u>(15,000)</u>	(25,000)
Trade 2 – Adjusted profit (after capital allowance)		2,000
Rental income		<u>1,000</u>
Net trade loss		<u>(22,000)</u>
Amount available for transfer under group relief <small>(10,000 – 2,000 – 1,000)</small>		<u>(7,000)</u>
Amount of unutilised s14Q deduction to be carried forward		<u>(15,000)</u>

5. Can a taxpayer claim a deduction under section 14(1)(c) on the costs he incurred on replacing a renovation item that was previously granted a s14Q deduction?

Yes, provided the conditions under section 14(1)(c) are satisfied and the deduction is not denied under section 15. Consequently, if he claims a deduction under section 14(1)(c), he will not be allowed a s14Q deduction again on the same replacement costs incurred by him.

6. Can the R&R costs incurred on premises that are used both for business and other purposes (e.g. home offices) qualify for a s14Q deduction?

For premises that are used for both business and other purposes, only R&R costs which are specifically identifiable to the area that is used for business purposes will qualify for s14Q deduction. If taxpayer is unable to specifically identify the R&R costs to the area used for business purpose, he will not be granted the s14Q deduction, as no apportionment of the R&R costs will be allowed for tax purposes.

7. What are the tax consequences if a taxpayer was required to seek the approval of the Commissioner of Building Control for his renovation or refurbishment works (as it involved structural changes) but failed to do so, and he had claimed a s14Q deduction on his R&R costs?

A taxpayer should ensure that his R&R costs are qualifying expenditure before making the s14Q deduction claim.

Where a prior approval of the Commissioner of Building Control for the renovation or refurbishment works was required but the taxpayer had failed to obtain the necessary approval and a s14Q deduction was erroneously allowed to him, an amount equal to the total deductions that were erroneously allowed to him previously will be deemed as the taxable income of the taxpayer for the YA in which the Comptroller discovers the incorrect claim.

Notwithstanding the above, where there is any form of fraud or wilful default committed by the taxpayer in connection with his claim for R&R costs under section 14Q, the Comptroller will raise additional assessments on him at any time as provided under section 74(2). Additional penalties may be applicable under the Income Tax Act.