## Worked Examples on Computing the Renovation or Refurbishment (R&R) Expenditure Cap for Companies whose Functional Currency is in Non-S$

- Company ABC's functional currency is US Dollars (US$)
- The company's financial year ends on 31 Dec
- The qualifying R&R expenditure incurred and average exchange rate are as follows:

| Year of Assessment (YA) | Qualifying R&R expenditure | Average exchange rate |
|---|---|---|
| 2019 | US$100,000 | US$1: S$1.2^ |
| 2020 | US$80,000 | US$1: S$1.3^ |
| 2021 | US$75,000 | US$1: S$1.4^ |
| Total | US$255,000 | |

*^The average exchange rates used in this example are for illustrative purpose only and is not reflective of the actual exchange rate. For the list of foreign exchange rates, please refer to the MAS webpage.*

There are two methods that your company can adopt to compute and track the qualifying R&R expenditure cap. The method you adopt must be applied consistently across all years and to other expenditure that are also subject to the expenditure cap.

**Method A: Convert S$ expenditure cap to non-S$ upfront in first YA**
**Method B: Track utilisation of expenditure cap in S$**

### Method A: Convert S$ expenditure cap to non-S$ upfront in first YA

- Convert the S$300,000 expenditure cap to non-S$ equivalent upfront in the first YA of the relevant three-year period using the average exchange rate of that YA.
- Claim R&R tax deduction for the relevant three YAs up to the non-S$ equivalent expenditure cap that was computed in the first YA.

| | US$ | S$ | Average exchange rate used |
|---|---|---|---|
| **Computation of Qualifying R&R expenditure for YA 2019** | | | |
| Expenditure cap | 250,000[1] | 300,000 | 1.2 |
| Less: Qualifying expenditure YA 2019 | (100,000) | | |
| Balance c/f | 150,000 | | |
| **Computation of Qualifying R&R expenditure for YA 2020** | | | |
| Expenditure cap b/f | 150,000 | | |
| Less: Qualifying expenditure YA 2020 | (80,000) | | |
| Balance c/f | 70,000 | | |
| **Computation of Qualifying R&R expenditure for YA 2021** | | | |
| Expenditure cap b/f | 70,000 | | |
| Less: Qualifying expenditure YA 2021 (restricted) | (70,000) | | |
| Balance c/f | NIL | | |

[1] The S$300,000 expenditure cap is converted to US$ equivalent upfront in the first YA (S$300,000 / 1.2 = US$250,000)

**Method B: Track utilisation of expenditure cap in S$**

- Convert the yearly R&R expenditure in non-S$ to S$ at the average exchange rate of each YA.
- Track the utilisation of the expenditure cap in S$ for the relevant three-year period.
- In the YA in which the remaining balance of the expenditure cap will be utilised, convert the balance in S$ to non-S$ using the average exchange rate for that YA.

| | US$ | S$ | Average exchange rate used |
|---|---|---|---|
| **Computation of Qualifying R&R expenditure for YA 2019** | | | |
| Expenditure cap | | 300,000 | |
| Less: Qualifying expenditure YA 2019 | (100,000) | (120,000)[2] | 1.2 |
| Balance c/f | | 180,000 | |
| **Computation of Qualifying R&R expenditure for YA 2020** | | | |
| Expenditure cap b/f | | 180,000 | |
| Less: Qualifying expenditure YA 2020 | (80,000) | (104,000)[2] | 1.3 |
| Balance c/f | | 76,000 | |
| **Computation of Qualifying R&R expenditure for YA 2021** | | | |
| Expenditure cap b/f | | 76,000 | |
| Less: Qualifying expenditure YA 2021 (restricted) | (54,286)[3] | (76,000)[4] | 1.4 |
| Balance c/f | | NIL | |

[2] Convert the qualifying R&R expenditure in US$ to S$.

[3] Convert the balance of the expenditure cap of S$76,000 to US$ using the average exchange rate for YA 2021 [S$76,000 / 1.4 = US$54,286].

[4] The qualifying expenditure in S$ for the third YA (YA 2021) is restricted to the available balance of the expenditure cap that is tracked in S$.

This information aims to provide a better general understanding of taxpayers' tax obligations and is not intended to comprehensively address all possible tax issues that may arise.

This information is correct as at 16 Jul 2021. While every effort has been made to ensure that this information is consistent with existing law and practice, should there be any changes, IRAS reserves the right to vary our position accordingly.