



INLAND REVENUE  
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# IRAS e-Tax Guide

Income Tax:  
Tax Deduction for Expenses Incurred on  
Renovation or Refurbishment Works Done to  
Business Premises

# Tax Deduction for Expenses Incurred on Renovation or Refurbishment Works Done to Business Premises

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## **1 Aim**

- 1.1 This e-Tax Guide explains the tax deduction granted under section 14Q of the Income Tax Act (“ITA”) for the capital expenses incurred by taxpayers for the renovation or refurbishment works done to their business premises<sup>1</sup>.
- 1.2 This e-Tax Guide is relevant to a taxpayer carrying on a trade, profession or business and has incurred expenditure on any renovation or refurbishment works for that trade, profession or business.

## **2 At a glance**

- 2.1 Certain qualifying capital expenses, up to an expenditure cap, incurred on or after 16 Feb 2008 for the renovation or refurbishment works done to the business premises can be claimed as a tax deduction against the income derived from that business. The original expenditure cap of \$150,000 has been increased to \$300,000 from the year of assessment (“YA”) 2013 onwards.
- 2.2 The deduction is given over a period of three consecutive years on a straight-line basis, starting from the YA for which those expenses were incurred.

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<sup>1</sup> This e-Tax guide replaces the IRAS’ e-Tax Guide on “Tax Deduction for Expenses Incurred on Renovation or Refurbishment Works Done to your Business Premises” published on 6 Jun 2012 and revised on 6 Jun 2013.

### **3 Background**

- 3.1 Businesses often need to renovate or refurbish their business premises to remain competitive and to attract customers. Expenses incurred on such renovation or refurbishment works (“R&R costs”) are generally capital expenses unless they relate to repairs or replacement works on the premises with no improvement element. Such capital expenses are not permissible deductions under the ITA<sup>2</sup> unless specific provisions are made to allow them.
- 3.2 To help businesses, especially small and medium enterprises, reduce business costs, section 14Q was introduced into the ITA to allow a tax deduction for the qualifying R&R costs incurred by businesses. The deduction, henceforth referred to in this e-tax guide as “S14Q deduction”, is applicable to the R&R costs incurred on or after 16 Feb 2008.

### **4 S14Q Deduction**

- 4.1 S14Q deduction is given over a period of three consecutive years<sup>3</sup>, on a straight-line basis, starting from the YA for which the qualifying R&R costs were incurred. The claim for S14Q deduction cannot be deferred.
- 4.2 S14Q deduction is given as long as the trade, business or profession for which the R&R costs were incurred was carried on during the basis period. If no income is derived from the trade, business or profession in any YA and that trade, business or profession ceases permanently during the basis period for that YA, S14Q deduction ceases in that YA.

### **5 Expenditure cap**

- 5.1 For YAs 2009 to 2012, S14Q deduction can be claimed on the qualifying R&R costs only up to an expenditure cap of \$150,000 for every three-year period, starting from the YA in which the R&R costs were first incurred. Please refer to question 3 of the Annex for an illustration of how the relevant three-year period is identified.
- 5.2 From YA 2013 onwards, the expenditure cap is increased to \$300,000 for every relevant three-year period. Please refer to question 4 of the Annex for the illustrations of how the new expenditure cap of \$300,000 will apply.
- 5.3 In the case of partnerships, the expenditure cap of \$150,000 or \$300,000, as the case may be, is applied at the partnership level. For a sole proprietor, the

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<sup>2</sup> Section 15(1)(c) and 15(1)(d) of ITA.

<sup>3</sup> For qualifying R&R costs incurred during the basis periods of YAs 2010 and 2011, taxpayers had the option to claim S14Q deduction in one year instead of three years. The option once exercised is irrevocable.

same expenditure cap is applicable regardless of the number of trades being carried on.

## **6 No double deduction**

- 6.1 If the renovation or refurbishment works qualify as repairs or replacements with no improvement element, tax deduction can be claimed under section 14(1)(c) of the ITA. Similarly, if the R&R costs qualify as expenses incurred on the purchase of plant or machinery under section 19 or 19A, capital allowances can be claimed under those sections. In these scenarios, S14Q deduction cannot be claimed on the same R&R costs incurred.

## **7 Group relief and loss carry back relief**

- 7.1 S14Q deduction is allowed against the income from the trade, business or profession for which the R&R costs were incurred and would form part of the trade losses if there is insufficient income to absorb the deduction. Accordingly, the normal tax treatment for trade losses<sup>4</sup> applies to any unabsorbed S14Q deduction.
- 7.2 Prior to YA 2013, S14Q deduction is allowed against the trade income, after all other deductions under Part V (Deductions against income) of ITA have been allowed. Any unabsorbed S14Q deduction due to insufficient trade income is not available for offset under the group relief system (under section 37C of ITA). But such unabsorbed S14Q deduction can be carried forward for offset against the income in subsequent YAs, subject to the provisions of Section 37 of ITA. It can also qualify for the loss carry-back relief under sections 37E or 37F of the ITA, subject to the provisions of those sections.
- 7.3 From YA 2013 onwards, S14Q deduction allowed for a YA that remains unabsorbed for that YA can qualify for group relief. Where qualifying R&R costs were incurred during the basis periods for YAs 2011 and 2012 and S14Q deduction in respect of those costs is allowed in YA 2013 or YA 2014, any unabsorbed S14Q deduction arising in those YAs can also qualify for group relief. Please refer to question 6 of the Annex which provides an example to illustrate this tax change.

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<sup>4</sup> Trade losses in a YA can be carried forward for offset against your income for future YAs, subject to the provisions of section 37 of ITA. They can also be carried back to the immediate preceding YA (or three preceding YAs in the case of unabsorbed s14Q deduction in YA 2009 or YA 2010) to be offset against your assessable income, subject to the provisions of section 37E or 37F of ITA.

## **8 Qualifying R&R costs**

- 8.1 All R&R costs, other than those relating to structural changes made to business premises and the costs described in paragraph 8.3, qualify for S14Q deduction, up to the expenditure cap.
- 8.2 Under the Building Control Act, if structural changes are made to a building, an approval from the Commissioner of Building Control is required. As long as prior approval from the Commissioner of Building Control is not required for the renovation or refurbishment works carried out in the business premises, the R&R costs will be considered as qualifying R&R costs for S14Q deduction.
- 8.3 Claim for S14Q deduction on the following expenditure is not allowable:
- (a) any designer services or professional services;
  - (b) any antique;
  - (c) any type of fine art including painting, drawing, print, calligraphy, mosaic, sculpture, pottery or art installation; or
  - (d) any works carried out to a place of residence provided to or to be provided to employees.
- 8.4 R&R costs incurred on items which do not affect the structure of the business premises and not excluded under paragraph 8.3 above will generally qualify for S14Q deduction. Some examples are:
- (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 glass frosting, the grilles, etc.);
  - (o) fitting rooms in retail outlets;
  - (p) hacking work on premises;
  - (q) water meter installed to enable renovation works;
  - (r) hoarding works; and
  - (s) insurance for renovation works qualifying for S14Q deduction.

## **9 Administrative procedure**

9.1 Taxpayers should maintain sufficient documents to substantiate their claims.

9.2 Taxpayers do not need to submit these documents together with their tax returns. They are only required to submit the supporting documents if requested to do so as part of IRAS' audit or verification process. Some examples of supporting documents that should be retained are:

- (a) An itemised list (including the related costs incurred) of the renovation or refurbishment works done to the business premises with addresses of the premises.
- (b) Confirmation that the renovation or refurbishment works in the itemized list do not require the approval of the Commissioner of Building Control; and
- (c) Invoices and payment details of the relevant expenditures.

## **10 Contact Information**

10.1 If you have any enquires or need clarification on this Guide, please call IRAS at 1800-3568622 (for companies) or 1800-3568300 (for individuals).



## 11 Updates and Amendments

	<b>Date of amendment</b>	<b>Amendments made</b>
1	6 Jun 2012	<p>The previous e-tax guide first published on 18 June 2008 was updated for the following tax changes announced in Budget 2012:</p> <ul style="list-style-type: none"> <li>• Removal of the end-date of 15 Feb 2013</li> <li>• Increase in the expenditure cap from \$150,000 to \$300,000 from YA 2013</li> <li>• Allowing unabsorbed S14Q deduction to qualify for group relief from YA 2013</li> </ul>
2	6 Jun 2013	<p>The previous e-tax guide published on 6 June 2012 is updated with the following changes:</p> <ul style="list-style-type: none"> <li>• Revised paragraph 9 to remove the requirement to submit the following together with the tax return: <ul style="list-style-type: none"> <li>(a) An itemised list (including the related costs incurred) of the renovation and refurbishment works done to the business premises; and</li> <li>(b) Confirmation in the tax return (on the itemised list) that the renovation or refurbishment works do not require the approval of the Commissioner of Building Control.</li> </ul> </li> </ul>
3	25 Jan 2018	<p>The previous e-tax guide published on 6 June 2013 is updated with the following changes:</p> <ul style="list-style-type: none"> <li>• included sub-paragraph (d) under paragraph 8.3 to state that S14Q deduction is not allowable on R&amp;R costs incurred to a place of residence for staff.</li> <li>• included additional qualifying items in paragraph 8.4.</li> <li>• paragraph 4.2 has been moved to a footnote.</li> <li>• examples 2 and 3 in the Annex have been updated to more recent YA.</li> </ul>

## 12 Annex – Frequently Asked Questions

### 1. When can I claim for S14Q deduction?

You should claim S14Q deduction on the qualifying R&R costs at the time of lodgement of your tax return for the YA for which the R&R costs were first incurred. Any qualifying R&R costs, which are not claimed in the YA for which they were first incurred, do not qualify for deduction in subsequent YAs. Any R&R costs which are incurred before you commence your business are deemed to be incurred on the first day you commence your business. In such a case, you should claim the S14Q deduction in the YA which relates to the basis period in which you commence your business.

### 2. How is S14Q deduction given?

The following examples illustrate how S14Q deduction is given.

#### Example 1

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

Taxpayer A is given S14Q deduction of \$40,000 (i.e. \$120,000 / 3 years) against his income for each of the YAs 2009, 2010 and 2011.

#### Example 2

Taxpayer B incurs qualifying R&R costs of \$240,000 on 31 Jan 2016 (basis period is 1 Jan 2016 to 31 Dec 2016).

Taxpayer B will be given S14Q deduction of \$80,000 ( $\$240,000^5 / 3$  years) against his income for each of the YAs 2017, 2018 and 2019.

#### Example 3

Same as Example 2 but Taxpayer B ceases business on 31 Dec 2017.

Taxpayer B will be given S14Q deduction of \$80,000 against his business income for each of the YAs 2017 and 2018. As there is no income derived from the business from 1 Jan 2018 (basis period for the YA 2019), the balance \$80,000 will not be allowed for YA 2019.

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<sup>5</sup> Within the new expenditure cap of \$300,000 from YA 2013 onwards.

#### Example 4

Same as Example 1 and Taxpayer A also incurs qualifying R&R costs of \$30,000 on 1 May 2009 (basis period is 1 Jan 2009 to 31 Dec 2009)<sup>6</sup>. The taxpayer wishes to claim the R&R costs of \$30,000 in 1 year as he has sufficient trade income for YA 2010 to fully absorb the deduction.

Taxpayer A is given S14Q 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/\$300,000 identified?

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

YA	2009 (\$'000)	2010 (\$'000)	2011 (\$'000)	2012 (\$'000)	2013 (\$'000)	2014 (\$'000)
R&R costs incurred	90	-	70	-	100	80
Qualifying R&R costs	90	-	60*	-	100	80^

\* The amount of the R&R costs incurred in YA 2011 that qualifies for deduction is restricted to \$60,000. This is because the expenditure cap of \$150,000 is reached for the relevant three-year period.

^ The amount of the R&R costs incurred in YA 2014 that qualifies for deduction is \$80,000. This is because the total amount of the R&R costs incurred during the three-year period from YA 2012 to 2014 is less than the increased expenditure cap of \$300,000 which is applicable from YA 2013 onwards.

The first relevant three-year period is YA 2009 to 2011 (for costs incurred on or after 16 Feb 2008) and the second relevant three-year period is from YA 2012 to 2014 even though no R&R costs are incurred in YA 2012 as shown in the table above (this is because a subsequent relevant three-year period must run consecutively from the immediate prior relevant three-year

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<sup>6</sup> Taxpayers have the option to claim S14Q deduction on qualifying R&R costs incurred during the basis periods for YAs 2010 and 2011 in one year instead of over three years (please refer to paragraph 4.1 and footnote 3 of this guide).

period). As a result, the expenditure cap of \$150,000 and \$300,000 applies for 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 is from YA 2010 to 2012 and the second relevant three-year period is from YA 2013 to 2015.

4. **With the increase in the expenditure cap to \$300,000 for each relevant three-year period from YA 2013 onwards, how is the cap applied to determine the amount of qualifying R&R costs for S14Q deduction?**

Example A

Company X's relevant three-year periods are from YA 2010 to 2012 and YA 2013 to 2015. The qualifying R&R costs incurred during the relevant three-year periods and the amounts that qualify for S14Q deduction are as follows:

YA	2010 \$	2011 \$	2012 \$	2013 \$	2014 \$	2015 \$
R&R costs incurred	150,000	50,000	150,000	200,000	130,000	20,000
R&R costs qualifying for S14Q deduction	150,000	Nil (exceeds 150,000 cap)	Nil (exceeds 150,000 cap)	200,000 (within the new 300,000 cap)	100,000 (capped at 300,000)	Nil (exceeds 300,000 cap)

Example B

Company Y's relevant three-year periods are from YA 2011 to 2013 and YA 2014 to 2016. The R&R costs incurred during the relevant three-year periods and the amounts that qualify for S14Q deduction are as follows:

YA	2011 \$	2012 \$	2013 \$	2014 \$	2015 \$	2016 \$
R&R costs incurred	160,000	50,000	300,000	100,000	130,000	80,000
R&R costs qualifying for S14Q deduction	150,000 (capped at 150,000)	Nil (exceeds 150,000 cap)	150,000 (capped at 300,000 wef YA 2013)	100,000	130,000	70,000 (capped at 300,000)

Example C

Company C's relevant three-year periods are from YA 2012 to 2014 and YA 2015 to 2017. The R&R costs incurred during the relevant three-year periods and the amounts that qualify for S14Q deduction are as follows:

YA	2012 \$	2013 \$	2014 \$	2015 \$	2016 \$	2017 \$
R&R costs incurred	50,000	150,000	300,000	100,000	130,000	80,000
R&R costs qualifying for S14Q deduction	50,000	150,000 (within new \$300,000 cap)	100,000 (capped at 300,000)	100,000	130,000	70,000 (capped at 300,000 cap)

**5. What happens to S14Q deduction if I do not have enough trade income to fully absorb the deduction (prior to YA 2013)?**

Assume that a company has an adjusted loss (before S14Q deduction) of \$10,000 for YA 2010 and it is entitled to S14Q deduction of \$15,000 for that YA. Its other sources of income for that YA include trade income of \$2,000 and rental income of \$1,000. The company's tax computation for YA 2010 is 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 allowances)		2,000
Rental income		<u>1,000</u>
Net trade loss		<u>(22,000)</u>
Amount available for transfer under group relief <i>(10,000 – 2,000 – 1,000)</i>		<u>(7,000)</u>
Amount of unabsorbed S14Q deduction to be carried forward		<u>(15,000)</u>
<i>(Prior to YA 2013, S14Q deduction is not available for transfer under group relief system but can be carried forward or back for offset against the taxpayer's income.)</i>		

**6. Can S14Q deduction that relates to qualifying R&R costs incurred in the basis period for YA 2011 or 2012 qualify for group relief?**

S14Q deduction allowed from YA 2013 onwards that is unabsorbed can qualify for group relief. Where the R&R costs are incurred in the basis period for YA 2011 or 2012, only S14Q deduction allowed in a YA from YA 2013 onwards that remains unabsorbed can qualify for group relief. For example, a company that incurs qualifying R&R costs of \$30,000 in the basis period for YA 2011 is allowed S14Q deduction of \$10,000 for YA2011, YA2012 and YA2013 if it continues with its business. Assume that S14Q deduction is not fully absorbed in each of the three YAs. In such a situation, only S14Q deduction which is unabsorbed in YA 2013 is allowed for transfer under group relief (please refer to the illustration in the table below).

YA	2011 \$	2012 \$	2013 \$
R&R costs incurred	30,000	-	-
S14Q deduction claimed	10,000	10,000	10,000
S14Q deduction unabsorbed	5,000	3,000	6,000
Unabsorbed S14Q deduction qualifying for group relief?	No	No	Yes

**7. Can I claim a deduction under section 14(1)(c) on the costs I incur on replacing a renovation item that was previously granted S14Q deduction?**

Yes, provided the conditions under section 14(1)(c) are satisfied and the deduction is not denied under section 15. Consequently, if you claim a deduction under section 14(1)(c), you are not allowed S14Q deduction on the same replacement costs incurred by you.

**8. Can the R&R costs incurred on premises that I used for both business and other personal purposes (e.g. home offices) qualify for S14Q deduction?**

For premises that are used for both business and other personal purposes, only R&R costs which are specifically identifiable to the area that is used for business purposes can qualify for S14Q deduction. If you cannot specifically identify the R&R costs to the area used for business purposes, you are not

allowed to claim S14Q deduction, as no apportionment of the R&R costs is allowable for tax purposes.

**9. What are the tax consequences if I was required to seek the approval of the Commissioner of Building Control for my renovation or refurbishment works (as it involved structural changes) but failed to do so, and I had claimed a S14Q deduction on my R&R costs?**

You should ensure that your R&R costs are qualifying expenditure before making S14Q deduction claim.

If S14Q deduction was erroneously allowed to you under such circumstance, an amount equal to the total deductions that were erroneously allowed previously is deemed as your taxable income for the YA in which the Comptroller discovers the incorrect claim.

Where there is any form of fraud or wilful default committed by a taxpayer in connection with his claim for R&R costs under section 14Q, the Comptroller can raise additional assessments on him at any time as provided under section 74(2) of ITA. Additional penalties are applicable under the ITA.

**10. Is S14Q deduction applicable to a business of making investments which is subject to the provisions of section 10E of the ITA?**

Yes. The business may claim S14Q deduction on the qualifying R&R costs incurred on renovation or refurbishment works done to the properties which are rented out by the business as part of its business of making investments.