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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

Published by
Inland Revenue Authority of Singapore

Published on 23 Mar 2022

First edition on 18 Jun 2008
Second edition on 6 Jun 2012
Third edition on 6 Jun 2013
Fourth edition on 25 Jan 2018
Fifth edition on 1 Apr 2020

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Table of Contents

	Page
1 Aim.....	1
2 At a glance.....	1
3 Background.....	2
4 S14N Deduction	2
5 Expenditure cap.....	2
6 No double deduction	3
7 Group relief and loss carry back relief.....	3
8 Qualifying R&R costs	3
9 Administrative procedure	4
10 Contact Information.....	5
11 Updates and Amendments.....	6
12 Annex – Frequently Asked Questions	8

1 Aim

- 1.1 This e-Tax Guide¹ explains the tax deduction granted under section 14N of the Income Tax Act (2020 Revised Edition) (“ITA”) for the capital expenses incurred by taxpayers for the renovation or refurbishment works done to their business premises (“R&R costs”).
- 1.2 This e-Tax Guide is relevant to a taxpayer carrying on a trade, business or profession and has incurred expenditure on any renovation or refurbishment works for that trade, business or profession.

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.
- 2.2 The deduction is given over a period of three consecutive years on a straight-line basis, starting from the year of assessment (“YA”) for which those expenses were incurred.
- 2.3 For qualifying R&R expenditure incurred in the basis period for YAs 2021 and 2022 (i.e. financial year 2020 and 2021 respectively), a taxpayer has the option to claim the deduction in one year (i.e. accelerated R&R deduction) instead of over three years, as announced in Budget 2020 and 2021.

¹ 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 18 Jun 2008 and revised on 6 Jun 2012, 6 Jun 2013, 25 Jan 2018 and 1 Apr 2020.

3 Background

- 3.1 Businesses often need to renovate or refurbish their business premises to remain competitive and to attract customers. Such 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 ITA² unless specific provisions are made to allow them.
- 3.2 To help businesses, especially small and medium enterprises, reduce business costs, section 14N 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 “S14N deduction”, is applicable to the R&R costs incurred on or after 16 Feb 2008.

4 S14N Deduction

- 4.1 S14N deduction is given over a period of three consecutive years, on a straight-line basis, starting from the YA for which the qualifying R&R costs were incurred. The claim for S14N deduction cannot be deferred.
- 4.2 As announced in Budget 2020 and 2021, a taxpayer will be given an option to claim qualifying R&R costs incurred in the basis period for YA 2021 (i.e. financial year 2020) and YA 2022 (i.e. financial year 2021) respectively in one year instead of over three years. The accelerated R&R deduction option, once elected, is irrevocable. However, a person can choose to continue to claim R&R deduction over three years instead.
- 4.3 S14N 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, S14N deduction ceases to be given in that YA.

5 Expenditure cap

- 5.1 S14N deduction can be claimed on qualifying R&R costs up to an expenditure cap of \$300,000³ for every three-year period, starting from the YA in which the R&R costs were first incurred. Please refer to question 2 of the Annex for an illustration of how the relevant three-year period is identified.

² Section 15(1)(c) and 15(1)(d) of ITA.

³ Prior to YA 2013, the expenditure cap was \$150,000 for every three-year period. This cap was increased to \$300,000 from YA 2013 onwards.

- 5.2 In the case of partnerships, the expenditure cap of \$300,000 is applied at the partnership level. For a sole proprietor, the 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, S14N deduction cannot be claimed on the same R&R costs incurred.

7 Group relief and loss carry back relief

- 7.1 S14N deduction is allowed against the income from the trade, business or profession for which the R&R costs were incurred, after all other deductions under Part V (Deductions against income) of the ITA have been allowed. Any unabsorbed S14N deduction due to insufficient trade income forms part of the trade losses for which the normal tax treatment for trade losses applies. This means that such unabsorbed S14N 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 section 37D of the ITA, subject to the provisions of those sections.
- 7.2 S14N deduction allowed for a YA that remains unabsorbed for that YA can also qualify for group relief⁴.

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 S14N 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 S14N deduction.

⁴ This is with effect from YA 2013.

8.3 Claim for S14N 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 S14N 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 S14N deduction.

9 Administrative procedure

9.1 Taxpayers who wish to opt for the accelerated S14N deduction in respect of costs incurred in the basis period for YAs 2021 and/or 2022 should indicate the election in the tax computation submitted for the relevant YA. For those not required to submit tax computation (e.g. due to filing of Form C-S/ Form C-S (Lite)/ Form B 2-line/4-line statement), the amount of allowable expenses to be claimed, as declared in the tax return, would be the amount after taking into account the accelerated R&R deduction.

9.2 Taxpayers should maintain sufficient documents to substantiate their claims. However, they 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 itemised 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

	Date of amendment	Amendments made
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"> • Removal of the end-date of 15 Feb 2013 • Increase in the expenditure cap from \$150,000 to \$300,000 from YA 2013 • Allowing unabsorbed S14Q (S14N of the 2020 Edition) deduction to qualify for group relief from YA 2013
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"> • Revised paragraph 9 to remove the requirement to submit the following together with the tax return: <ul style="list-style-type: none"> (a) An itemised list (including the related costs incurred) of the renovation and refurbishment works done to the business premises; and (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.
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"> • included sub-paragraph (d) under paragraph 8.3 to state that S14N deduction is not allowable on R&R costs incurred to a place of residence for staff. • included additional qualifying items in paragraph 8.4. • paragraph 4.2 has been moved to a footnote. • examples 2 and 3 in the Annex have been updated to more recent YA.

4	01 Apr 2020	<p>The previous e-tax guide published on 25 Jan 2018 is updated with the following changes:</p> <ul style="list-style-type: none">• Incorporated the tax change announced in Budget 2020 (i.e. allow a taxpayer the option to claim qualifying R&R costs incurred in the basis period for YA 2021 in one year instead of over three years) by:<ul style="list-style-type: none">(a) inserting paragraphs 2.3 and 4.2(b) inserting paragraph 9.1(c) updating example 3 in Frequently Asked Questions of the Annex• Removed references relating to time-barred YAs.
5	23 Mar 2022	<p>The previous e-tax guide published on 1 April 2020 is updated with the following changes:</p> <ul style="list-style-type: none">• Updated the tax change announced in Budget 2021 (i.e. allow a taxpayer the option to claim qualifying R&R costs incurred in the basis period for YA 2022 in one year instead of over three years) by:<ul style="list-style-type: none">(a) updating paragraphs 2.3 and 4.2(b) updating paragraph 9.1(c) updating example 3 in Question 3 in Frequently Asked Questions of the Annex• Updated example 3 in Question 3 in Frequently Asked Questions of the Annex to provide clarity on how the three-year relevant periods in the example are arrived at.• Updated the section numbers based on Income Tax Act 1947 (2020 Revised Edition)

12 Annex – Frequently Asked Questions

1. When can I claim for S14N deduction?

You should claim S14N 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 S14N deduction in the YA which relates to the basis period in which you commence your business.

2. How is the relevant three-year period for the purpose of applying the expenditure cap of \$300,000 identified?

Assume that a taxpayer (newly incorporated on 1 Mar 2015 and with accounting period ending 31 Dec) has incurred the qualifying R&R costs on his business premises during the period from 1 Mar 2015 to 31 Dec 2020 as follows:

YA	2016 (\$'000)	2017 (\$'000)	2018 (\$'000)	2019 (\$'000)	2020 (\$'000)	2021 (\$'000)
Qualifying R&R costs incurred	200	-	110	-	100	240
Qualifying R&R costs (capped)	200	-	100	-	100	200

1st relevant 3-year period (capped at \$300,000) 2nd relevant 3-year period (capped at \$300,000)

The first relevant three-year period is YA 2016 to YA 2018 (for costs incurred between 1 Mar 2015 to 31 Dec 2017) and the second relevant three-year period is from YA 2019 to YA 2021 even though no R&R costs were incurred in the basis period for YA 2019, 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 period).

Hence, the amount of R&R costs incurred in the basis period for YA 2018 and YA 2021 respectively, that qualify for deduction, is restricted to \$100,000 and \$200,000 respectively. This is because the total amount of the R&R costs incurred during the relevant three-year periods ending YA 2018 and YA 2021 respectively exceeds the expenditure cap of \$300,000.

If instead, the taxpayer first incurred qualifying R&R costs and claimed the tax deduction in YA 2017, the first relevant three-year period is from YA 2017 to YA 2019 and the second relevant three-year period is from YA 2020 to YA 2022.

3. How is S14N deduction computed?

The following examples illustrate how S14N deduction is computed.

Example 1

Taxpayer A incurs qualifying R&R costs of \$240,000 on 31 Jan 2018 (basis period is 1 Jan 2018 to 31 Dec 2018).

YA	2019 (\$'000)	2020 (\$'000)	2021 (\$'000)
Qualifying R&R costs incurred	240 ⁵	-	-
S14N deduction	80	80	80

Taxpayer A can claim S14N deduction of \$80,000 (\$240,000 / 3 years) against his income for each of the YAs 2019, 2020 and 2021.

Example 2

Same facts as Example 1 but Taxpayer A ceases business on 31 Dec 2019.

Taxpayer A will be granted S14N deduction of \$80,000 against his business income for each of the YAs 2019 and 2020. As there is no income derived from the business from 1 Jan 2020 (basis period for the YA 2021), the balance \$80,000 will not be allowed for YA 2021.

Example 3

Taxpayer B incurs qualifying R&R costs on the following dates:

- \$240,000 on 31 Jan 2018 (basis period is 1 Jan 2018 to 31 Dec 2018)
- \$210,000 on 1 May 2020 (basis period is 1 Jan 2020 to 31 Dec 2020)
- \$30,000 on 15 Apr 2021 (basis period is 1 Jan 2021 to 31 Dec 2021)
- \$90,000 on 4 Sep 2022 (basis period is 1 Jan 2022 to 31 Dec 2022)

⁵ Within the current expenditure cap of \$300,000.

The taxpayer wishes to claim the R&R costs of \$210,000 and \$30,000 in 1 year⁶ as he has sufficient trade income for YAs 2021 and 2022 to fully absorb the deduction.

YA	3-year relevant period*			3-year relevant period*		
	2018 (\$'000)	2019 (\$'000)	2020 (\$'000)	2021 (\$'000)	2022 (\$'000)	2023 (\$'000)
Qualifying R&R costs incurred	-	240	-	210	30	90
Qualifying R&R costs (capped)	-	240	-	210	30	60
S14N deduction	-	80	80	290 (80 + 210)	30	20

* Assuming the taxpayer first incurred and claimed S14N deduction for qualifying R&R costs in YA 2015, the first relevant three-year period is YA 2015 to YA 2017 and the second and third relevant three-year periods are YA 2018 to YA 2020 and YA 2021 to YA 2023 respectively.

The total amount of expenditure incurred (being \$210,000 in YA 2021, \$30,000 in YA 2022 and \$90,000 in YA 2023) during the relevant three-year period exceeds the cap of \$300,000. Hence, the amount of the R&R costs incurred in the basis period for YA 2023 that qualify for deduction is restricted to \$60,000.

Taxpayer A is granted S14N deduction of \$290,000 (\$240,000 / 3 years + \$210,000) against his income for the YA 2021, \$30,000 against his income for the YA 2022, and \$20,000 (\$60,000 / 3 years) against his income for the YA 2023.

4. Can I claim a deduction under section 14(1)(c) on the costs I incur on replacing a renovation item that was previously granted S14N 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 S14N deduction on the same replacement costs incurred by you.

⁶ Taxpayers have the option to claim S14N deduction on qualifying R&R costs incurred during the basis period for YAs 2021 and/or 2022 in one year instead of over three years (please refer to paragraph 4.2 of this guide).

5. Can the R&R costs incurred on premises that I used for both business and other personal purposes (e.g. home offices) qualify for S14N 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 S14N deduction. If you cannot specifically identify the R&R costs to the area used for business purposes, you are not allowed to claim S14N deduction, as no apportionment of the R&R costs is allowable for tax purposes.

6. 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 S14N deduction on my R&R costs?

You should ensure that your R&R costs are qualifying expenditure before making S14N deduction claim.

If S14N 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 S14N, 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.

7. Is S14N deduction applicable to a business of making investments which is subject to the provisions of section 10D of the ITA?

Yes. The business may claim S14N 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.