

Introduction

Budget 2008 announced that taxpayers would be able to enjoy a tax deduction for their capital expenditure incurred on fixtures, fittings and installations when they undertake renovation or refurbishment works on their business premises. The Inland Revenue Authority of Singapore ("IRAS") has released the details of this new tax change via its circular of 18 June 2008.

This article provides you with the salient features of this tax change and highlights the practical considerations that you should bear in mind.

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Tax Deduction for Expenditure Incurred on Renovation or Refurbishment Works



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Eligibility and qualifying expenses

You are eligible to claim a tax deduction for capital expenditure on fixtures, fittings and installations incurred during the period from 16 February 2008 to 15 February 2013 when you undertake renovation or refurbishment works ("R&R costs") on your business premises.

You will not be eligible to claim for the tax deduction on the following:

- (a) R&R costs relating to renovation or refurbishment works that involve structural changes for which prior approval from the Commissioner of Building Control is required;
- (b) designer fees or professional fees;
- (c) costs of antique; and
- (d) costs of fine art including painting, drawing, print, calligraphy, mosaic, sculpture, pottery or art installation.

Costs relating to renovation or refurbishment works that do not affect the structure of the business premise qualify for the tax deduction. Such expenditures include amounts spent on:

- (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.

If any of these expenditures qualifies as an expenditure on plant or machinery or constitutes an expenditure on repairs or replacements with no element of improvement, you may (as per current treatment) continue to claim capital allowance or tax deduction for repairs or replacements respectively.

For R&R costs incurred on a premise used both for business and other purposes (e.g. a home office), you can only claim tax deduction on the R&R costs that are specifically identifiable to the area used for business purposes.

How the tax deduction is given

You will be granted a tax deduction over three consecutive years on a straight-line basis, starting from the Year of Assessment ("YA") relating to the basis period during which you first incurred the qualifying R&R costs. You need to make a claim for the tax deduction since IRAS will not grant it automatically.

The deduction is granted over a consecutive period of three years (i.e. there will be no deferment of claim in the second and third YA), subject to the continuity of your business operation for which the R&R costs were incurred. Should there be a permanent cessation of the business operation in any of the 3 YAs, IRAS will disregard the balance of the R&R costs for basis period(s) subsequent to cessation.

The amount of qualifying R&R costs is subject to a cap of \$150,000 for each business for every relevant three-year period, starting from the basis period in which the R&R costs are first incurred and claimed as a tax deduction. If you are carrying on a partnership business, the cap of \$150,000 will be applied at the partnership level.

How to make the claim for the tax deduction

To enjoy the tax deduction, you need to make a claim in your tax return, submitting an itemized list of the R&R costs together with a confirmation that the R&R costs are not related to structural works that require approval of the Commissioner of Building Control.

Do bear in mind you have to make a timely claim for the deduction (i.e. at the time of filing your tax return for the YA relating to the basis period in which the R&R costs were incurred). Otherwise, IRAS will disqualify you from claiming tax deduction on these R&R costs.

You need not submit supporting documents when filing your income tax return but you should maintain sufficient supporting documents to submit to IRAS upon their request.

Treatment of unutilised tax deduction in any YA

Any portion of qualifying R&R costs that are not fully deducted against your income for a YA can be carried forward/carried back for off-set¹ against your income in future YAs/the prior YA.

Consequences of incorrect claim

For tax deductions granted erroneously in a situation where you failed to seek approval of the Commissioner of Building Control for your renovation or refurbishment works that involved structural changes, the Comptroller will deem the total of these tax deductions as taxable income for the YA in which he discovers the error. It is highly probable for the Comptroller to also impose a penalty for such a situation given the fact that technically there was a submission of incorrect return(s).

Where there is any form of fraud or wilful default in connection with your claim of R&R costs, the Comptroller will raise additional assessments at any time and may impose penalties as provided under the Income Tax Act.

Practical considerations

To avoid the stated consequences, do make an effort to properly identify the various R&R costs and keep relevant supporting documents. The following pointers may be useful to you in this regard:

- (a) obtain an approval from the Commissioner of Building Control if you undertake renovation or refurbishment works that would involve structural changes;
- (b) seek your contractor's assistance to itemise the various R&R costs to enable you to categorise the costs into R&R costs that qualify and those that do not qualify for the tax deduction;

¹ In a situation of a company, such a set-off is allowed only if there is no substantial change in its shareholding as at the relevant dates.

- (c) identify expenditures that qualify for capital allowance claim (in respect of expenditure on plant or machinery) or tax deduction claim for repairs or replacements. Given the cap of \$150,000 for each business for every relevant three-year period and the other restrictions (such as not being able to transfer unutilised R&R costs to related companies), it may be more beneficial for you to claim capital allowance or tax deduction for repair or replacements if eligible. The table below shows a comparison of the features of these three options.

	Tax deduction for qualifying R&R costs	Capital allowance for plant or machinery	Normal tax deduction for repairs or replacements
Any cap in amount allowed?	Subject to expenditure cap of \$150,000 for each relevant 3-year period	No cap	Subject to amount incurred to replace the old item with no element of improvement
Any deferment allowed?	No [will be allowed over 3 consecutive YAs]	Yes	No
Any balancing adjustment upon disposal?	No	Yes	No
Can unutilised amount be carried forward or carried back?	Yes [subject to continuity of ownership test (for companies)]	Yes [subject to continuity of ownership test (for companies) and business continuity test]	Yes [subject to continuity of ownership test (for companies)]
Can unutilised amount be transferred under group relief system?	No	Yes [subject to satisfaction of relevant conditions]	Yes [subject to satisfaction of relevant conditions]

- (d) watch your dates and ensure you make a claim for the tax deduction when you submit the relevant income tax return; and
- (e) keep track of the amount of qualifying R&R costs claimed as tax deduction for each YA vis-à-vis the expenditure cap of \$150,000 for each relevant three-year period.