

# OECD, BRITACOM AND STA, CHINA: Train-the-Trainer Virtual Course 26–30 Oct 2020

## Designing and Administering Safe Harbour Regimes

29 Oct 2020

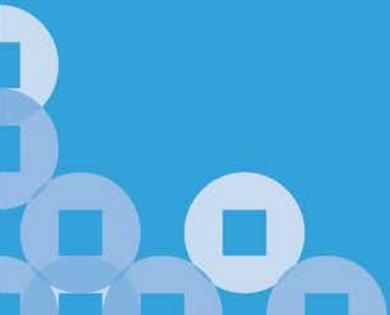


INLAND REVENUE  
AUTHORITY  
OF SINGAPORE

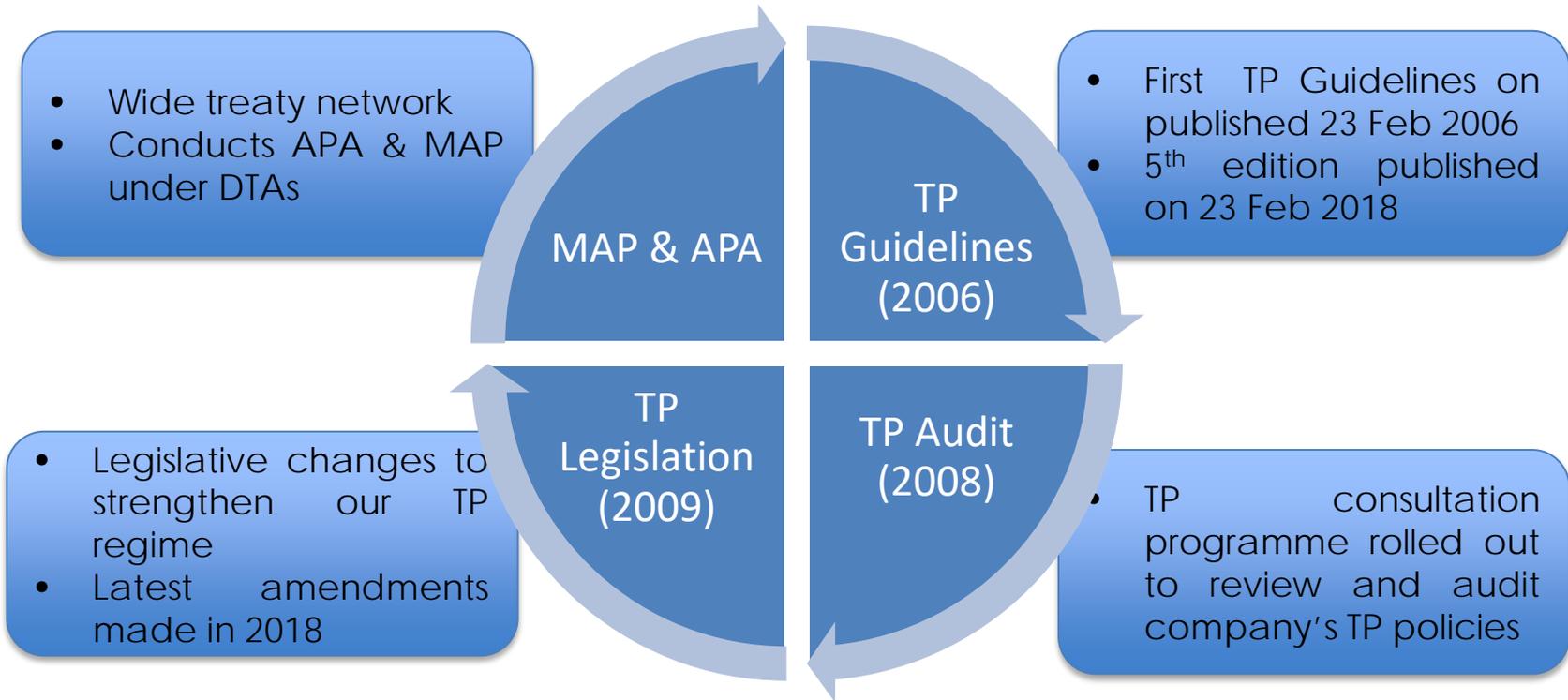
# Agenda

- Singapore's Transfer Pricing (TP) Framework
- TP Guidance on Related Party Services
  - Experiences from audit cases
- TP Guidance on Related Party Loans
  - Experiences from audit cases
- Transfer Pricing Documentation
  - Exemption thresholds

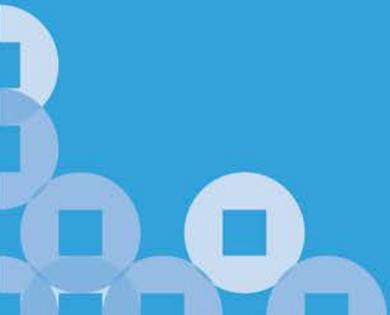
# Singapore's Transfer Pricing (TP) Framework



# Singapore's Transfer Pricing (TP) Framework



# TP Guidance on Related Party Services



# TP Guidance on Related Party Services

- Introduced in 2009
- Administrative practice of **5% mark up** on costs for **routine support services that falls within the prescribed list.**

## Conditions

- Services provided fall within prescribed list
- Does not offer the same services to third parties

## Benefits to taxpayer

- Not required to do TP study and prepare TP documentation if they are able to meet the conditions

# TP Guidance on Related Party Services

- Specified list of routine support services



- Accounting and auditing
- Accounts receivable and accounts payable
- Budgeting



- Computer support
- Database administration



- Employee benefits administration
- Payroll
- Staffing and recruitment
- Training and employee development



- General administration
- Legal services
- Corporate communications
- Tax

List is reviewed regularly to ensure (i) services are those commonly provided on an intragroup basis across many industries; and (ii) do not have significant mark-up

# Low Value-adding Intra-Group Services

- Taxpayer allowed to adopt OECD's simplified approach and apply **5% mark up** on costs of **low value-adding intra-group services ("LVAS")**

## Conditions

- Services meets the definition of "LVAS"
- Counterparty's tax administration also adopts the OECD simplified approach

## Benefits to taxpayer

- If routine support service is not within IRAS' prescribed list
- Not required to do TP study and prepare TP documentation if they are able to meet the conditions

# Experiences from Audit Cases

1

## **Determination of routine support services**

- Different views on whether the services rendered are routine support services that fall within the prescribed list
- Services that are regarded as “routine” in nature by taxpayer but are not within the prescribed list

2

## **Determination of cost base**

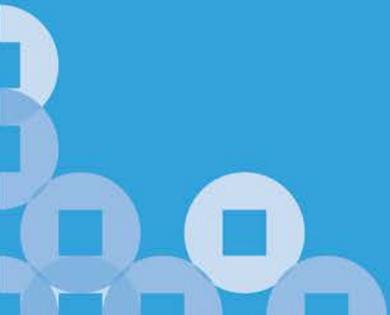
- Accurate identification of the cost base and allocation of cost, especially when services are rendered to multiple recipients

3

## **Application of the benefit test**

- The types of benefits accrued to service recipients

# TP Guidance on Related Party Loans



# TP Guidance on Related Party Loans

- **Indicative margins on related party loans was introduced with effect from 2017**
  - The indicative margins are published on IRAS' website and updated at the beginning of each year.
  - Serves as useful reference point to taxpayers, especially Small and Medium Enterprises (SMEs)
  - Taxpayer can apply the published indicative margin, but is not mandatory
- Applies to both SGD and foreign currency denominated loans

# TP Guidance on Related Party Loans

- Indicative margins on related party loans

## Conditions

- Applicable to each related party loan committed and does not exceed S\$15 millions at the time the loan is obtained or provided

## Benefits to taxpayer

- Not required to do TP study and prepare TP documentation

# TP Guidance on Related Party Loans

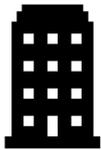
- Indicative margins on related party loans

<b>Related party loan not exceeding S\$15 million obtained or provided during the period</b>	<b>Indicative margin</b>
1 January 2017 to 31 December 2017	+250 bps (2.5%)
1 January 2018 to 31 December 2018	+175 bps (1.75%)
1 January 2019 to 31 December 2019	+175 bps (1.75%)
1 January 2020 to 31 December 2020	+200 bps (2.00%)

# TP Guidance on Related Party Loans - Example

- Indicative margin published in IRAS website during the period 1 January 2018 to 31 December 2018 is +175 bps (1.75%)

Provided a floating rate loan of S\$10million on 1 February 2018; SIBOR used as a base reference rate



**Company A**  
**(SG)**

- Co A chose to apply the indicative margin
- The interest rate for the related party loan will be **1.75%** plus the appropriate SIBOR rate



**Related party**  
**(Offshore)**

# Experiences from Audit Cases

1

## **Determination of actual amount of loan**

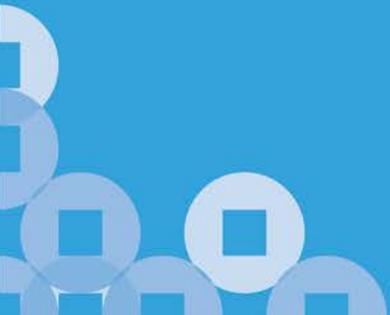
- Especially for loans disbursed by tranches.
- Should be based on the loan committed and not the loan utilised.

2

## **Ascertaining the appropriate base reference used by taxpayer**

- Whether the base reference (e.g. LIBOR, SIBOR or other reference rates) are more appropriate than applying the indicate margin on the base reference rate.

# Transfer Pricing Documentation



# Transfer Pricing Documentation

Taxpayers are not expected to prepare transfer pricing documentation under the following situations:

- Revenue not more than S\$10m
- Domestic transactions subject to same Singapore tax rates
- Domestic loans where lender is not in the business of borrowing and lending
- 5% cost mark-up is applied to related party routine support services
- Indicative margin is applied to related party loans
- Transactions covered by an advance pricing arrangement
- Value of transactions does not exceed certain thresholds

# Transfer Pricing Documentation

Category of transactions not exceeding certain value

	Thresholds (\$\$) per financial year
<ul style="list-style-type: none"><li>• Purchase of goods from all related parties</li><li>• Sale of goods to all related parties</li><li>• Loans owed to all related parties</li><li>• Loans owed by all related parties</li></ul>	15 million
All other categories of related party transactions. Examples – service income, service expense, royalty income, royalty expense, etc.	1 million per category of transactions

# Thank You

The information presented in the slides 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 the date of presentation. 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 its position accordingly.