

Back to Basics: **Your transfer pricing obligations in Singapore**

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Agenda

- What are the transfer pricing (“TP”) rules in Singapore?
- What are the TP compliance requirements for YA2018?
- What are the new TP rules for YA2019 and how can we prepare?
- How to avoid common TP mistakes - let’s have some fun!
- Q&A

TP rules in Singapore

What is TP? Why is TP important

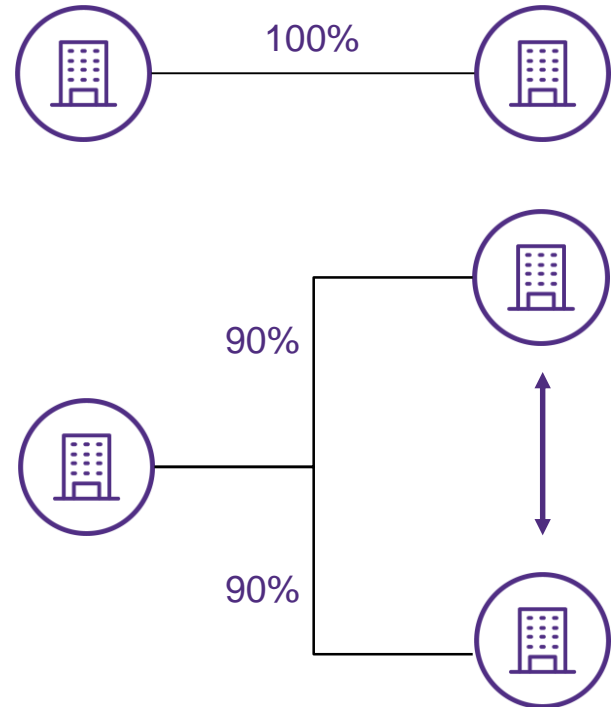
- The price at which goods, services, financing or intellectual property is transferred between related parties
- TP is important because it affects the amount of tax paid to tax authorities.
- The Organisation for Economic Co-operation and Development (“OECD”) and Base Erosion Profit Shifting (“BEPS”).

What are related parties?

Two persons are related parties with respect to each other if:

(a) Either person, directly or indirectly, controls the other person; or

(b) Both persons are, directly or indirectly, controlled by a common person.

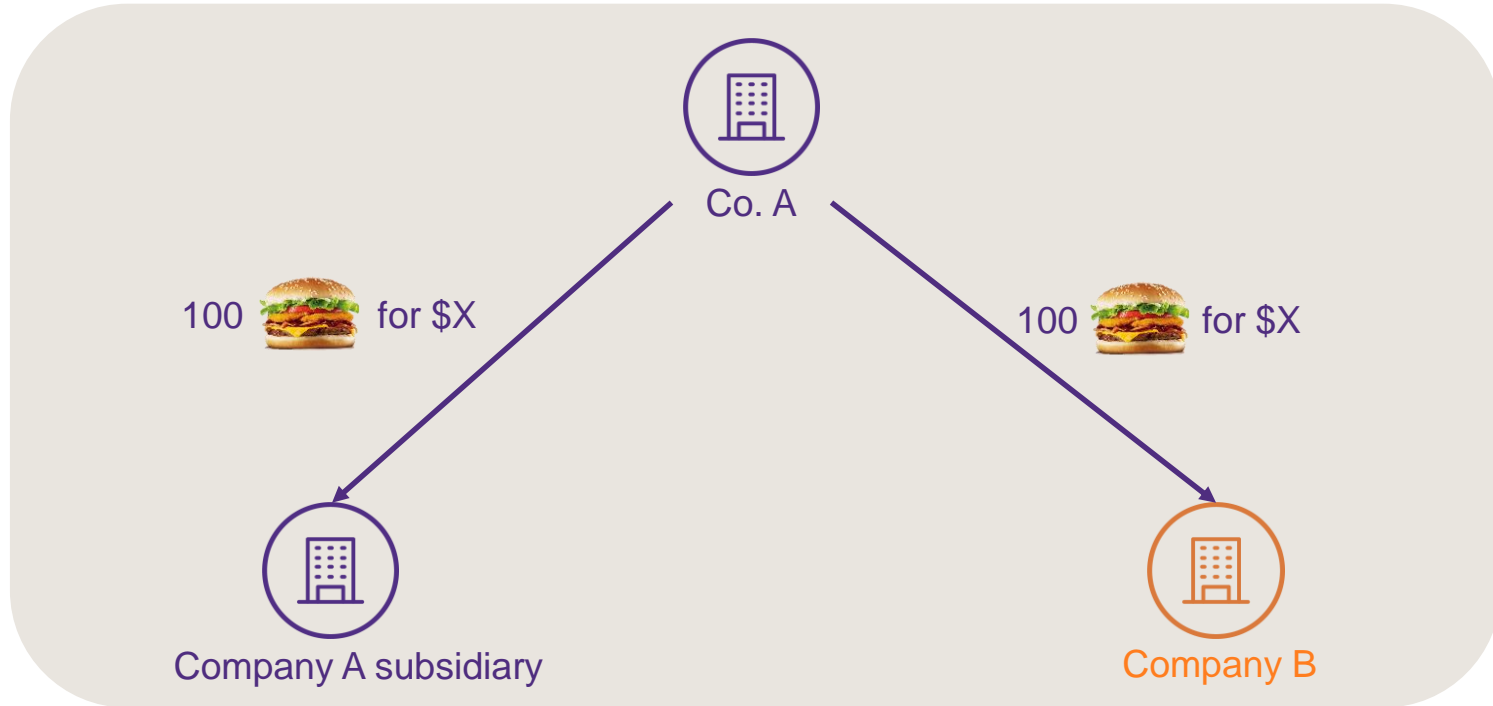


Arm's length principle

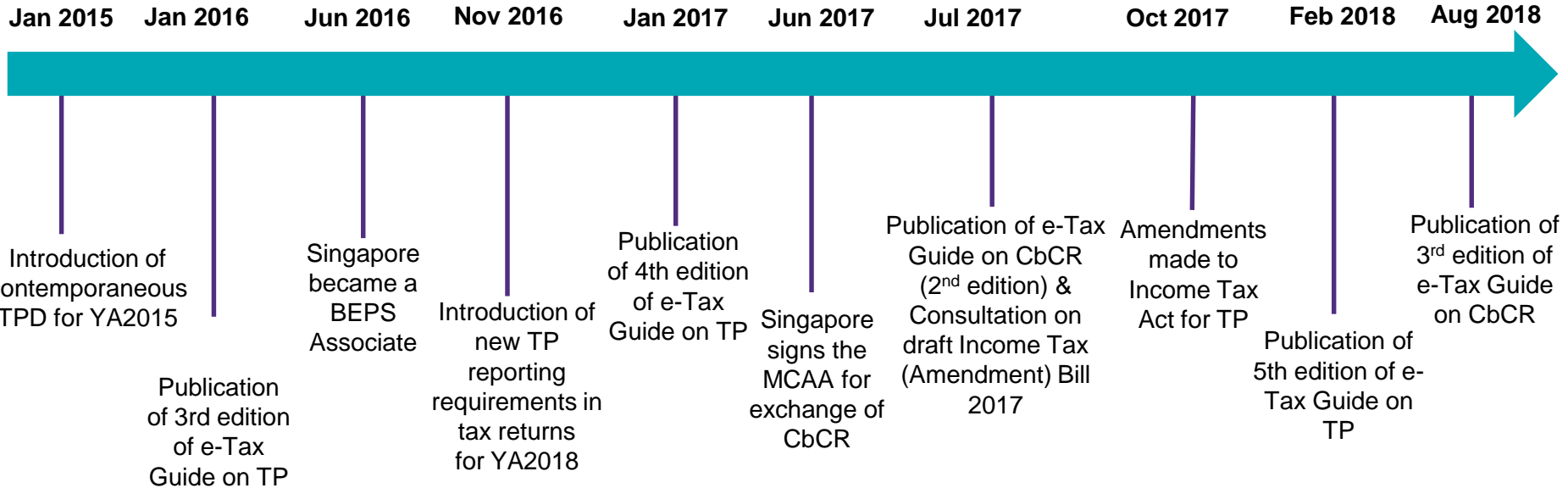
- ❖ *International standard to guide TP*
- ❖ *Requires a transaction with a related party, made under comparable conditions and circumstances as a transaction with an independent party, to be treated comparably*
- ❖ *Sanity check: Would you do this with a third party?*

Arm's length principle

Singapore



A snapshot of the evolution of TP in SG



What are the transfer pricing compliance requirements for YA2018?



Country-by-Country Report
("CbCR")



Transfer Pricing Documentation
("TPD")



Form for reporting related party
transactions



Others

CbCR

Table 1. Overview of allocation of income, taxes and business activities by tax jurisdiction

Name of the MNE group: Financial year concerned: Currency used:										
Tax Jurisdiction	Revenues			Profit (Loss) before Income Tax	Income Tax Paid (on Cash Basis)	Income Tax Accrued – Current Year	Stated Capital	Accumulated Earnings	Number of Employees	Tangible Assets other than Cash and Cash Equivalents
	Unrelated Party	Related Party	Total							

Table 2. List of all the Constituent Entities of the MNE group included in each aggregation per tax jurisdiction

Name of the MNE group: Fiscal year concerned:																			
Tax Jurisdiction	Constituent Entities Resident in the Tax Jurisdiction	Tax Jurisdiction of Organisation or Incorporation if Different from Tax Jurisdiction of Residence	Main Business Activity(ies)																
			Research and Development	Holding or Managing Intellectual Property	Purchasing or Procurement	Manufacturing or Production	Sales, Marketing or Distribution	Administrative, Management or Support Services	Provision of Services to Unrelated Parties	Internal Group Finance	Regulated Financial Services	Insurance	Holding Shares or Other Equity Instruments	Dormant	Other ¹				
1.																			

Table 3. Additional information

Name of the MNE group: Fiscal year concerned:
<i>Please include any further brief information or explanation you consider necessary or that would facilitate the understanding of the compulsory information provided in the Country-by-Country Report.</i>

CbCR

Who needs to file?

- Ultimate parent entity of the Singapore MNE group will be required to file a CbCR for all entities in the group.
- CbCR needs to be submitted in Singapore if all conditions below are met:
 - 1) Ultimate parent entity of the MNE group is a tax resident in Singapore; and
 - 2) Consolidated Group revenue exceeding SGD 1,125m in preceding financial year and whose ultimate parent entities are tax residents in Singapore.

Did you receive a letter from IRAS to submit a CbCR?

What is a Master File?

What is a Local File?

- Master File – provides group information (including group operations, TP policies, intangibles, global allocation of income, etc.)
- Local File – provides entity level information (functions of local entity, related party transactions undertaken, economic analyses, etc.)

TPD... Who has to prepare?

EVERYONE!

- Unless you fall under the following conditions and safe harbours:
 - Domestic transactions where tax rates are the same (excluding related party loans);
 - Related domestic loan is provided between the taxpayer and a related party in Singapore and the lender is not in the business of borrowing and lending;
 - Provision of certain routine support services and where a 5% cost mark-up is applied;
 - Where an indicative margin for related party loans is applied;
 - Where the related party transactions are covered by an agreement under an Advance Pricing Agreement; or
- Where the value or amount of the related party transactions (excluding the value or amount in the above) does not exceed the thresholds shown in the table below:

Category of related party transaction	Threshold (SGD) per financial year
Purchase of goods from all related parties	15 million
Sale of goods to all related parties	15 million
Loans owned to all related parties	15 million
Loans owned by all related parties	15 million
All other categories of related party transactions such as service fees, license fees, royalty fees, rental, etc.	1 million per category of transactions

Form for reporting of related party transactions

Part 2 - Ultimate Holding Company			
2a.	Name of ultimate holding company	Country Code (See Note 2)	
	<input type="text"/>	<input type="text"/>	
	<small><State "NA" if the company is the ultimate holding company></small>		
Part 3 - Details of Related Party Transactions			
		Income/Receipt S\$	Expense/Payment S\$
3a.	Sale of goods to or purchase of goods from all related parties	<input type="text"/>	<input type="text"/>
3b.	Services rendered to or received from all related parties	<input type="text"/>	<input type="text"/>
3c.	Royalties, licence fees and other receipts/payments for intellectual property rights from/to all related parties (See Note 3)	<input type="text"/>	<input type="text"/>
3d.	Interest from or to all related parties	<input type="text"/>	<input type="text"/>
3e.	Other transactions with all related parties not falling under Boxes 3a to 3d	<input type="text"/>	<input type="text"/>
3f.	Total of Boxes 3a to 3e	<input type="text"/>	<input type="text"/>
	<small>Auto total</small>		
Part 4 - Information on Sale of Goods and Provision of Services			
Sale of goods and provision of services to the top 5 (based on total value) related parties <u>outside</u> Singapore:			
	Name of related party	Country Code (See Note 2)	Relationship Type Code (See Note 4)
			Amount S\$
4a.	<input type="text"/>	<input type="text"/>	<input type="text"/>
4b.	<input type="text"/>	<input type="text"/>	<input type="text"/>
4c.	<input type="text"/>	<input type="text"/>	<input type="text"/>
4d.	<input type="text"/>	<input type="text"/>	<input type="text"/>
4e.	<input type="text"/>	<input type="text"/>	<input type="text"/>
Part 5 - Information on Purchase of Goods and Services			
Purchase of goods and services from the top 5 (based on total value) related parties <u>outside</u> Singapore:			
	Name of related party	Country Code (See Note 2)	Relationship Type Code (See Note 4)
			Amount S\$
5a.	<input type="text"/>	<input type="text"/>	<input type="text"/>
5b.	<input type="text"/>	<input type="text"/>	<input type="text"/>
5c.	<input type="text"/>	<input type="text"/>	<input type="text"/>
5d.	<input type="text"/>	<input type="text"/>	<input type="text"/>
5e.	<input type="text"/>	<input type="text"/>	<input type="text"/>
Part 6 - Information on Loans and Non-Trade Amounts			
		Opening balance S\$	Closing balance S\$
6a.	Loans and non-trade amounts due from all related parties	<input type="text"/>	<input type="text"/>
6b.	Loans and non-trade amounts due to all related parties	<input type="text"/>	<input type="text"/>
		S\$	S\$
Part 7 - Declaration			
I declare that the information given is true and complete			
Full name and signature of authorised person (See Note 5)		Designation	Date
<input type="text"/>		<input type="text"/>	<input type="text"/>

Form for reporting of related party transactions

Who needs to prepare?

- Taxpayers whose aggregated amount of related party transactions exceeds S\$15m for the relevant YA
- The aggregated amount of (1) related party transactions in income statement but excluding compensation paid to key management personnel and dividends; and (2) year-end balances of loans and non-operating amounts due to or from all related parties

When is it due?

- With the tax return for the relevant YA

Others

Other supporting documents that can be requested

- Intercompany agreements
- Invoices

“

I have not breached the safe harbour thresholds, therefore I don't need to worry about TP.

True or false or maybe?

”

“

I have a Group TP policy, I am TP
compliant

True or false or maybe?

”

What are the transfer pricing compliance requirements for YA2019 and onwards?

TPD

Who needs to prepare?

- Singapore taxpayers who meet the following conditions:
 - Gross revenue > \$10 mil for the basis period; OR
 - TP documentation is required to be prepared for the previous basis period

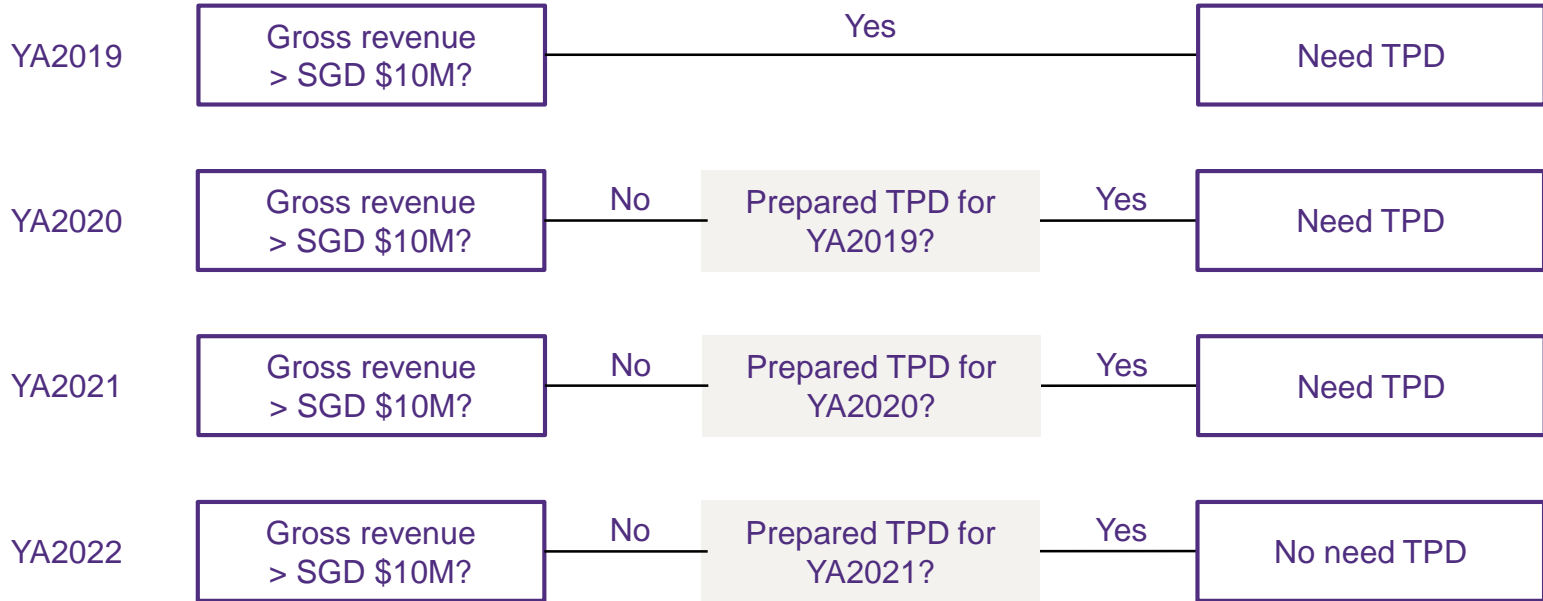
When is it due?

- Not later than the filing due date of the tax return

How often do I need to update my TPD?

- Every 3 years provided that there are no significant changes between the first year the TPD was prepared and the subsequent two years.
- In the two years a TPD is not prepared, a simplified TPD still needs to be prepared.

TPD – Example



Penalties



YA2018 and prior years

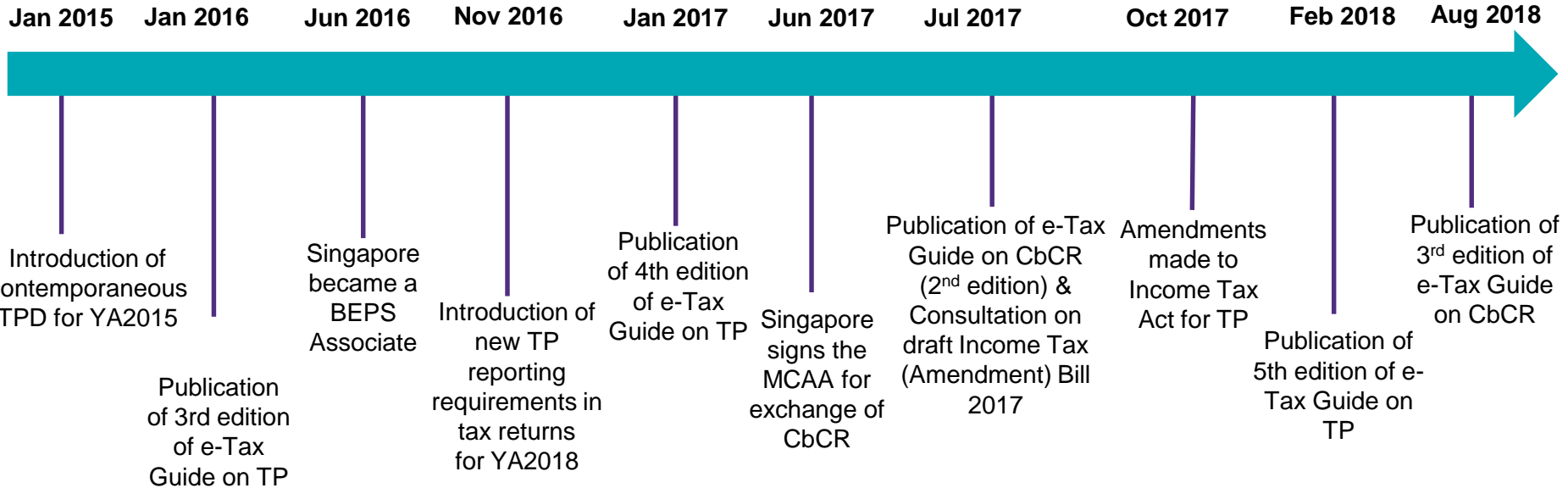
- Up to \$1,000 fine



YA2019 and onwards

- Up to \$10,000 fine
- 5% surcharge on TP adjustment regardless of tax payable

A snapshot of the evolution of TP in SG



Penalties



YA2018 and prior years

- Up to \$1,000 fine



YA2019 and onwards

- Up to \$10,000 fine
- 5% surcharge on TP adjustment regardless of tax payable

How to avoid common TP mistakes – let's have some fun!

“

I am TPD compliant because I have a signed agreement with my related parties already

True or false or maybe?

”

“

My Group has a Master File, therefore I am
TPD compliant in Singapore

True or false or maybe?

”

“

I am TP compliant, I charge to my related parties the cost incurred for supporting them

True or false or maybe?

”

“

I am earning so much more than my competitors in the same market for doing the same function. I pay more tax in Singapore than my competitors so I have no TP risk.

True or false or maybe?

”

“

Yes, I am at an operating loss position and I only transact with related parties, but my business is unique, so my TP is at arm's length

True or false or maybe?

”

Summary

- Many taxpayers in Singapore will have to prepare TPD and RPT Forms.
- Very few Singapore businesses will have to prepare CbCR.
- TP is not a one sided analysis.
- You could have related party transactions even if you do not charge for them.
- TP landscape is changing constantly and rapidly.

Thank you

Questions



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