

Transfer pricing alert

Additional IRAS clarification on tax treatment of share-based compensation provides amnesty for open years

On 25 September 2026, the Inland Revenue Authority of Singapore (IRAS) published a further clarification on its website regarding the transfer pricing (TP) treatment of share-based compensation (SBC) costs.

The clarification follows the introduction of paragraph 5.120 in the e-tax guide *Transfer Pricing Guidelines (Ninth Edition)*, which was released on 4 June 2026 and clarified that incurred, uncharged or notional SBC costs relating to employees performing related-party services should be included in the cost base when applying the Transactional Net Margin Method (TNMM).

Importantly, the IRAS has now introduced a one-off administrative concession for prior years (being years of assessment (YA) 2025 and before), allowing taxpayers to regularise their historical treatment of SBC costs and obtain a waiver of TP surcharge if certain conditions are met.



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Further clarification by the IRAS

The IRAS reiterated that SBC constitutes remuneration of employees benefiting from employee stock option plans.

Accordingly, where a Singapore entity provides services to related parties and applies a TNMM cost-plus methodology, SBC costs attributable to employees performing those services should form part of the cost base on which the arm's length mark-up is applied.

The IRAS clarified that this treatment applies regardless of whether the SBC costs are:

- Charged to the Singapore entity by another group entity
- Or
- Uncharged by another group entity
- Or
- Recognised as notional costs in the Singapore entity's financial statements

This clarification is consistent with the position set out in paragraph 5.120 of the *Transfer Pricing Guidelines (Ninth Edition)*.

Tax amnesty for YAs 2022 to 2025

Prior to the issuance of the *Transfer Pricing Guidelines (Ninth Edition)*, taxpayers adopted differing approaches to the treatment of SBC costs for TP purposes, particularly in relation to uncharged and notional SBC costs.

Recognising the uncertainty surrounding the historical treatment of SBC costs, the IRAS has announced a one-off administrative concession for taxpayers that did not apply a mark-up on uncharged and notional SBC costs in prior years.

Specifically, if taxpayers submit revised tax computations with full details of the mark-up applied on uncharged and notional SBC costs, the IRAS has indicated that it is prepared to:

- Also apply the revised position for YA 2026 as set out under paragraph 5.120 of the *Transfer Pricing Guidelines (Ninth Edition)* to YAs 2022 to 2025
- Waive the TP surcharge under section 34E of the Income Tax Act 1947 on such TP adjustments

This temporary relief period represents a significant development, as it provides taxpayers with an opportunity to regularise historical positions without exposure to the section 34E 5% TP surcharge, that would ordinarily apply to both IRAS and self-initiated TP adjustments, if they are willing to accept IRAS' treatment of SBC costs.

Submission deadlines

The revised tax computations for YAs 2022 to 2025 must be submitted by the following dates:

YA	Deadline
YA 2022	15 November 2026
YA 2023	28 February 2027
YA 2024	28 February 2027
YA 2025	28 February 2027

The deadline for YA 2022 is significantly earlier than those for YAs 2023 to 2025, as YA 2022 will become time-barred on 31 December 2026.

Taxpayers seeking to benefit from the surcharge waiver should ensure that sufficient supporting calculations and documentation are prepared before the applicable deadlines.

Practical implications for taxpayers

The latest clarification from the IRAS provides taxpayers with certainty regarding both the prospective and historical treatment of SBC costs if they accept such position.

Taxpayers that provide intra-group services and apply a TNMM cost-plus methodology should review whether SBC costs relating to employees performing those services have been appropriately reflected in their TP calculations. Where SBC costs were excluded from the TP cost base in prior years, taxpayers should assess:

- Whether the costs constitute incurred, uncharged or notional SBC costs;
- Whether TP computations for YAs 2022 to 2025 should be revised
- The quantum of any additional mark-up required on such SBC costs
- Whether corresponding TP adjustments may be required in counterparty jurisdictions
- The potential risk of double taxation arising from differing approaches adopted across jurisdictions

Multinational groups should also evaluate the implications of the revised treatment in the context of their broader TP policies, including the treatment of SBC costs in service centres, principal structures, shared service arrangements and other cost-plus operating models.

Our observations

The clarification provides an important compliance pathway for taxpayers that historically excluded uncharged or notional SBC costs from their TP calculations.

However, several practical issues remain, including:

- Identifying the appropriate SBC costs attributable to employees performing related-party services
- Determining the timing and measurement of SBC costs across different equity compensation arrangements
- Obtaining historical data for prior-year recomputations
- Managing potential mismatches with treatment adopted in overseas jurisdictions
- Evaluating potential double taxation risks arising from corresponding adjustments
- Tax liability provisions and related tax disclosures in the entity's financial statements for the financial year 2026 arising from prior years' recomputations, in accordance with the applicable accounting standards

Given the relatively short compliance window, taxpayers with significant SBC award programmes should undertake an immediate review of their historical TP position to determine whether revised tax computations should be submitted to benefit from the available surcharge waiver.

If you would like to know more about the issues discussed or EY services, please contact one of the following or your usual EY contact:

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