

Transfer pricing alert

Singapore implements the OECD's simplified and streamlined approach under BEPS 2.0 Pillar One

As part of the two-pillar solution to address the tax challenges arising from the digitalisation of the economy agreed by the OECD/G20 Inclusive Framework on BEPS in October 2021, Amount B¹ provides for a simplified and streamlined approach (herein referred to as SSA) to the application of the arm's length principle to in-country baseline marketing and distribution activities. Under the SSA framework, the arm's length return of a distributor or marketing service provider is determined based on a pricing matrix taking into account the nature of the goods distributed and the extent of operating expenses and operating assets incurred in the transaction. Unlike other BEPS measures, the SSA is not subject to a revenue threshold and can be applicable to many multinational businesses.

In its recent update to the e-tax guide *Transfer Pricing Guidelines (Eighth Edition)* (TP Guidelines), the Inland Revenue Authority of Singapore (IRAS) has announced the implementation of the SSA for qualifying baseline marketing and distribution transactions between related parties, on a pilot basis from 1 January 2026 to 31 December 2028. The IRAS' framework for the SSA, presented in Section 19 of the TP Guidelines, is aligned with the OECD guidance on Amount B.

Singapore taxpayers meeting the qualifying conditions may choose to apply the SSA from 1 January 2026 if they are the tested parties of a qualifying transaction.

The implementation of the SSA by Singapore is a welcome development that should be considered for taxpayers looking for more certainty and simplification of compliance burden for tangible goods distribution or sales and marketing services transactions between related parties where the tested party is in Singapore.

¹ The simplified and streamlined approach is referred to as Amount B in the OECD/G20 Base Erosion and Profit Shifting Project.



Overview of the SSA framework

The IRAS is implementing the SSA on a pilot basis from 1 January 2026 to 31 December 2028. For any financial year beginning during this period, taxpayers can choose to apply the SSA on their qualifying transactions when they meet the qualifying conditions, i.e., optional.

I. Qualifying transactions

Qualifying transactions under the SSA include the following:

- Buy-sell marketing and distribution transactions, where a distributor purchases goods from related parties for wholesale distribution to unrelated parties.
- Sales agency and commissionaire arrangements, where the agent or commissionaire contributes to related parties' wholesale distribution of goods to unrelated parties.

Wholesale distribution

Wholesale distribution is defined as the distribution of goods to any customer except end consumers. If a distributor is involved in both wholesale and retail distribution, it will be considered solely engaged in wholesale distribution if its three-year weighted average net retail revenues do not exceed 20% of its total net revenues over the same period (the de minimis threshold).

Exclusions

Certain transactions are excluded from the SSA. Specifically, transactions involving non-tangible goods, services, or the marketing, trading or distribution of commodities are out of scope. Additionally, if the tested party performs non-distribution activities (such as manufacturing, research and development, procurement or financing that are non-incidental to the qualifying transaction), the transaction will only qualify if the distribution activity can be reliably evaluated and priced separately from these other activities.

II. Scoping criteria

To qualify for the SSA, the transaction must exhibit economically relevant characteristics that allow for reliable pricing using a one-sided transfer pricing method, such as a traditional transaction method or the transactional net margin method (TNMM), with the distributor, sales agent or commissionaire designated as the tested party.

Furthermore, the tested party in the qualifying transaction must not incur annual operating expenses lower than 3% or greater than 30% of its annual net

revenues (operating expense intensity (OES) ratio). This means that only those entities whose annual operating expenses fall within the range of 3% to 30% of its annual net revenues will be eligible to apply the SSA to their qualifying transactions. This OES ratio is determined annually on a three-year weighted average basis.

The OECD guidance on Amount B provided that jurisdictions adopting the SSA are to set an upper bound for this scoping criterion between 20% and 30% at the time of implementation. In line with this, the IRAS has announced that the upper bound will be set at 30%, which may result in more transactions falling within scope.

Determination of the return on sales

The TNMM is chosen as the most appropriate transfer pricing method under the SSA. Where taxpayers have determined that the application of the comparable uncontrolled price (CUP) method using internal comparables is more appropriate, taxpayers should apply the CUP method instead of the SSA.

For purposes of the SSA, the net profit indicator for establishing the pricing for the qualifying transaction is the return on sales (ROS), which refers to the ratio of earnings before interest and taxes (EBIT) to net revenues, expressed as a percentage.

Taxpayers are to determine the ROS for the qualifying transaction using a two-step approach:

- SSA step 1: Identify the ROS from the pricing matrix.
- SSA step 2: Perform the operating expense cross-check.

SSA step 1: Identify the ROS from the pricing matrix

Taxpayers are to identify the ROS from the following pricing matrix corresponding to the tested party's industry grouping, net operating asset intensity (OAS) and OES.

Pricing matrix			
Factor Intensity	Industry groupings		
	1	2	3
[A] High OAS ($\geq 45\%$), any OES level	3.50%	5.00%	5.50%
[B] Medium or high OAS (30%-44.99%), any OES level	3.00%	3.75%	4.50%
[C] Low or medium OAS (15%-29.99%), any OES level	2.50%	3.00%	4.50%
[D] Low OAS ($< 15\%$), non-low OES ($\geq 10\%$)	1.75%	2.00%	3.00%
[E] Low OAS ($< 15\%$), low OES ($< 10\%$)	1.50%	1.75%	2.25%

Industry grouping refers to the categorisation of industries in which the tested parties operate. OAS refers to the ratio of net operating assets to net revenue, calculated on a three-year weighted average basis for each financial year. Similarly, OES refers to the ratio of operating expenses to net revenue, also calculated on a three-year weighted average basis for each financial year as in the scoping criteria condition.

SSA step 2: Perform the operating expense cross-check

The operating expense cross-check ensures that entities are neither over- nor under-remunerated relative to their operating expenses. If the application of the ROS under SSA Step 1 produces a return on operating expense (ROpex) that is outside of the pre-defined cap-and-collar range specified in the table below, the profitability of the tested party will be adjusted to the nearest edge of this range.

Operating expense cap-and-collar range		
Factor intensity as in the pricing matrix	Cap rates	Collar rate
High OAS [A]	70%	10%
Medium OAS [B]+[C]	60%	
Low OAS [D]+[E]	40%	

TP documentation requirements

When applying for the SSA, taxpayers have to prepare and document the following supportive information:

- A clear explanation of the delineation of the qualifying transaction, including a detailed functional analysis of the parties involved and the specific context of the transaction, such as any commercial or financial relations between the parties that may influence its accurate delineation.
- Copies of written contracts or agreements governing the qualifying transaction, which support the explanation on the delineation provided.
- Calculations detailing how relevant revenues, operating expenses and operating assets are allocated or attributed to the qualifying transaction.
- Information and allocation schedules demonstrating how the financial data used to substantiate the qualifying conditions of the SSA and its application is reconciled to the annual financial statements.

The OECD guidance on Amount B provided that taxpayers electing to apply the SSA for the first time should include in its documentation, a consent to apply the approach for a minimum of three years. The IRAS’ framework for the SSA, outlined in Section 19 of the TP Guidelines, does not address this provision.

The Inclusive Framework political commitment for covered jurisdictions

Additionally, the outcome of the SSA determined by a jurisdiction is not binding on the counterparty jurisdiction where the related party to the qualifying transaction is located. However, members of the OECD/G20 Inclusive Framework on BEPS (Inclusive Framework), including Singapore, have committed to respect SSA outcome applied by covered jurisdictions under certain conditions. The list of 66 covered jurisdictions was published by the OECD in June 2024.

The IRAS has confirmed in Paragraph 19.20 of the TP Guidelines that, if there is a double taxation agreement (DTA) in effect between Singapore and a covered jurisdiction, Singapore will regard the SSA outcome as arm’s length and will take necessary steps to relieve double taxation arising from SSA application.

Key considerations

Common considerations for Singapore entities looking to apply the SSA include:

- Determining whether the jurisdiction that is counterparty to the qualifying transaction has implemented the SSA and whether that jurisdiction has a DTA in effect with Singapore.
- Determining which entity should ultimately bear the corresponding adjustment necessary for the in-scope distributor to comply with the SSA.
- Evaluating the direct and indirect tax implications in Singapore and in the counterparty jurisdictions related to a transfer pricing adjustment under the SSA.
- Identifying the specific financial data needed for implementing the SSA and determining whether the financial reporting systems can provide such information.

Next steps

With the SSA set to come into effect in Singapore from 1 January 2026, it is important for Singapore entities to proactively assess the potential benefits and implications of applying the SSA:

- Identify transactions that are potentially in scope.
- Compare the current transfer pricing policy of in-scope transactions with the pricing under the SSA.
- Monitor future developments including the list of jurisdictions that will implement the SSA.
- Model the financial and cash tax impact on the group transfer pricing and operating models.
- Assess existing reporting systems to ensure they can produce the financial data required and monitor whether the transfer pricing outcome is aligned with the SSA.
- Identify transfer pricing risk areas and assess how the SSA can help mitigate such risks.
- Prepare information and documentation required for applying the SSA.

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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