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Transfer pricing alert

Singapore issues *Transfer Pricing Guidelines (Eighth Edition)*

On 19 November 2025, the Inland Revenue Authority of Singapore (IRAS) released the e-tax guide *Transfer Pricing Guidelines (Eighth Edition)* (TPG (eighth edition)). The TPG (eighth edition) provides updates and additional transfer pricing (TP) guidance in several areas.

Notable changes in the TPG (eighth edition) include:

- Additional guidance on TP aspects of financial transactions
- Guidance on implementing the simplified and streamlined approach (SSA) on a pilot basis
- Additional guidance on mutual agreement procedure (MAP)
- Additional guidance on capital transactions
- Guidance on the recourse if taxpayer disagrees with TP adjustment
- Additional guidance on the revision of surcharge
- Additional guidance on attribution of profits to a permanent establishment (PE)
- Additional guidance on simplified TP documentation (TPD)
- Additional guidance on strict pass-through costs

Additional guidance on TP aspects of financial transactions

Domestic loans issued on or after 1 January 2025[1]

The IRAS has issued an important clarification that while related party domestic loans entered on or after 1 January 2025 must still adhere to the arm's length principle or utilise the indicative margin (as updated under the TPG (seventh edition)), the IRAS will not enforce this requirement in practice where both the lender and borrower are not in the business of borrowing and lending. Further, the IRAS will not request TPD for such transactions. In effect, domestic loans where both the lender and borrower are not in the business of borrowing and lending are no longer at risk of TP adjustment as was potentially the case under the TPG (seventh edition). As such, interest-free loans between such related parties will generally be permissible, and the IRAS will not impose any TP adjustments related to these loans. However, it is important to note that any interest expense incurred by the lender to fund the provision of the interest-free loan will be disallowed for income tax purposes. This update represents a significant shift from the IRAS' approach outlined in the TPG (seventh edition), thereby easing TP compliance burdens for the Singapore taxpayers while ensuring adherence to prevailing tax principles.

Cross-border interest-free loan (inbound vs. outbound)[2]

The TPG (eighth edition) explicitly clarifies that for outbound related party cross-border loans where the taxpayer in Singapore acts as the lending party and the income from the loan is classified as passive income, the IRAS will implement TP adjustments when the interest income is remitted to Singapore. In cases where the loan is interest-free, the IRAS will generally not make any TP adjustments since no interest income is remitted. However, if the lending party incurs interest expenses to fund the loan, the IRAS will disallow these expenses as they are not considered incurred in the production of income. Conversely, for inbound related party cross-border loans where the taxpayer in Singapore is the borrowing party, and either no interest is charged or the interest charged is below the arm's length amount, the IRAS will not impute an arm's length interest expense, as it is not tax-deductible. Additionally, there will be no withholding tax liability under Section 45 of the Income Yax Act (ITA), as there is no interest payments made to the foreign lending party.

Annual review of financing transactions[3]

Under the TPG (seventh edition), the IRAS clarified that regardless of the tenor of the loan, taxpayers are required to review loan arrangements with its related parties annually similar to other related party transactions. The review is necessary given that facts and circumstances (e.g., change in the economic environment, value of the collateral, borrower's financial status and credit standing) of the loan may change over time.

The TPG (eighth edition) further clarifies that taxpayers are required to document the outcomes of these reviews in the TPD, similar to any other related party transactions. If the review indicates significant changes in circumstances, taxpayers are to assess how these changes affect the interest rate and terms of the related party loan, and to document this evaluation in the TPD. For instance, if refinancing is necessary, it should be treated as a new loan priced according to Section 15 of the TPG.

Additionally, if changes prompt a reassessment of the loan's pricing, taxpayers can provide evidence to support that repricing is unnecessary, such as:

- Having unrelated party loans with comparable terms and conditions to the related party loan and the interest rates in those unrelated party loans are fixed for the entire tenor with no flexibility for adjustment or re-negotiation of the terms and conditions.
- Taxpayers may also demonstrate that changes in collateral value do not affect the interest rate.
- If the related party loan has a floating interest rate based on a reference rate plus a margin reflecting the credit standing of the related party, taxpayers should ensure that any economic changes have been accounted for in the reference rate, maintaining the relevance of the margin if the credit standing of the related party has no significant change.

Guidance on implementing the SSA on a pilot basis

The TPG (eighth edition) introduces guidance on the implementation of the simplified and streamlined approach (SSA) in line with the *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations* (OECD TPG) on a pilot basis from 1 January 2026 to 31 December 2028 (pilot implementation period). The SSA is an integral 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. The SSA was first incorporated in the Annex to Chapter IV of the OECD TPG as "Special considerations for baseline distribution activities" in February 2024. It aims to simplify the pricing for

[1] Section 15.16, 15.21 and 15.22, TPG (eighth edition).
[2] Section 15.25 (b) and 15.25 (c), TPG (eighth edition).
[3] Appendix B (7), TPG (eighth edition).

qualifying baseline marketing and distribution transactions between related parties providing a mechanism that approximates an arm's length outcome. The SSA will be optional for taxpayers during the pilot implementation period. Taxpayers can choose to apply the SSA to qualifying transactions, which will be treated as achieving an arm's length outcome. [4]

To qualify for the SSA, the transaction must exhibit economically relevant characteristics that allow for reliable pricing using a one-sided TP 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). [5]

The IRAS will review the SSA's effectiveness after the pilot implementation period[6]. Details of SSA introduced in the TPG (eighth edition) and its implications for Singapore taxpayers are addressed in a separate tax alert.

Additional guidance on MAP

The IRAS clarifies that taxpayers facing audit adjustments to their TP with overseas related parties can apply for an MAP to address potential double taxation, even while pursuing domestic legal remedies in the relevant foreign jurisdiction. This process is independent of domestic legal actions, allowing for a parallel resolution of disputes. However, to avoid duplicative efforts, the IRAS may discuss with the competent authority of the relevant foreign jurisdiction whether to suspend the MAP process while domestic legal remedies are underway. Taxpayers are advised to evaluate their circumstances carefully to determine whether to pursue an MAP, domestic legal remedies, or both. Taxpayers have the option to submit a protective MAP application, which ensures that their application is filed within the double taxation agreement (DTA's) time limits while deferring its examination until further notice from the taxpayer. This protective measure safeguards against missing deadlines while allowing taxpayers to explore other avenues for resolution. The implications for taxpayers include the need for careful strategic planning regarding resource allocation for the MAP process and domestic legal actions, as well as the importance of timely communication with IRAS to navigate these complex situations effectively [7].

To apply for protective MAP, the taxpayer must submit the application within the specified time limit, provide necessary details, clearly request that the IRAS defers examination of the application and explain the reasons for the protective request. Once accepted, the IRAS will notify the relevant foreign competent authority and defer examination until the taxpayer provides further notification. When the taxpayer is ready for the application to be examined, the taxpayer must update the IRAS on the outcomes of any actions taken since the submission. If the taxpayer chooses to withdraw the protective MAP application, the taxpayer must inform the IRAS immediately, who will then notify the foreign competent authority[8].

This clarification is a positive development for taxpayers seeking alternative dispute resolution avenues without having to give up domestic procedures. Nevertheless, the value and appropriateness of having such dual avenues will have to be evaluated on a case-by-case basis depending on the cost benefit analysis of each case.

Additional guidance on capital transactions

Under the TPG (seventh edition), the IRAS has clarified that TP adjustments would not apply to gain, loss or deductions from capital transactions that are not taxable or deductible under the ITA. No TPD is required for these transactions. The TPG (eighth edition) further clarifies that taxpayers must be able to substantiate their basis for treating the gain, loss or deduction as capital in nature, such that they did not prepare TPD. Taxpayer's basis should be consistent for both income tax and TP compliance[9].

This clarification makes clear the IRAS' expectation that taxpayers adopt consistent positions for both Singapore corporate income tax and TP perspectives.

Guidance on the recourse if taxpayer disagrees with TP adjustment

The TPG (eighth edition) includes a new section on the recourse if taxpayer disagrees with IRAS' TP adjustment. When a taxpayer disagrees with a TP adjustment made by the IRAS regarding its transaction with a related party, it must formally object to the adjustment in accordance with the IRAS' objection and appeal process. In addition, the taxpayer has the option to pursue domestic legal remedies available under the ITA or request the IRAS to address any resulting double taxation through the MAP, if applicable.[10]

Given the above, taxpayers are advised to navigate the objection process carefully, as failing to do so may limit the taxpayers' ability to contest the adjustment effectively. Furthermore, taxpayers must consider the potential complexities and resource commitments involved in pursuing both domestic legal remedies and MAP requests, as these avenues may require

[4] Section 19.1 and 19.2, TPG (eighth edition).
[5] Section 19.6, TPG (eighth edition).
[6] Section 19.2, TPG (eighth edition).
[7] Section 10.56, TPG (eighth edition).
[8] Section 10.57, TPG (eighth edition).
[9] Section 8.10, TPG (eighth edition).
[10] Section 8.12, TPG (eighth edition).

substantial documentation and engagement with tax authorities in both Singapore and the relevant foreign jurisdiction.

Additional guidance on the revision of surcharge[11]

The IRAS has clarified that notwithstanding that a taxpayer may not agree with the TP adjustment, the IRAS will issue the assessment if it determines that the adjustment is in order. A surcharge will be imposed accordingly once the assessment is issued.

The TPG (eighth edition) clarifies that where TP adjustment is subsequently increased, reduced or annulled, the surcharge will be adjusted accordingly, and a refund will be made where the excess surcharge has been paid.

Taxpayers should be aware that while surcharges can be adjusted based on subsequent changes to TP adjustments, they may initially face financial implications from the surcharges until any refunds are processed. This underscores the importance of maintaining accurate documentation and being proactive in addressing any disagreements with the IRAS' assessments.

These clarifications underscore the IRAS' expectations that taxpayers need to be able to support its TP positions and have defensible positions as part of objecting to TP adjustments by the IRAS.

Additional guidance on attribution of profits to a PE

The TPG (eighth edition) clarifies that attribution of profits to a PE is regulated by the business profits article of the applicable DTA. The business profits article is based on the principle that the profits assigned to a PE should reflect what the PE would have earned if it operated as a separate and independent entity engaged in the same or similar activities under comparable conditions. Taxpayers are required to apply this principle in accordance with the relevant DTA and the guidelines outlined in the TPG (eighth edition) to ensure an arm's length attribution of profits to the PE[12].

Additionally, the TPG (eighth edition) specifies that if all conditions are satisfied for the foreign related party to avoid additional tax liability in Singapore, and the PE has no other taxable presence or income sourced from Singapore, then the PE is not required to file a tax return with the IRAS. However, if any of the conditions are not fulfilled, the PE must submit a tax return to the IRAS in accordance with the IRAS tax filing requirements[13].

Such clarification is a welcome clarification on compliance and administrative compliance burden on deemed PE situations.

Additional guidance on simplified TPD

The TPG (eighth edition) clarifies that if the taxpayer made use of a qualifying past TPD without making a declaration, the taxpayer would not be considered as having prepared a simplified TPD and therefore, the taxpayer would not have met the requirements under Section 34F of the ITA. It is therefore mandatory that a declaration by the taxpayer that it has prepared a qualifying past TPD be included in its simplified TPD.[14].

At the same time, the IRAS further clarifies that a qualifying TPD does not need to be prepared in line with the TPD regulations, i.e., Section 34F of the ITA to be considered qualifying TPD[15]. This clarification provides some relief around the relaxation on these rules.

Simplified TPD for loan transactions

Historically, the IRAS has not differentiated TP compliance requirements between loan transactions and other related party transactions. Under the TPG (seventh edition), the IRAS clarified that annual TP compliance requirements apply to loan transactions. In the TPG (eighth edition), the IRAS reiterated this point as a reminder to Singapore taxpayers:

- If the related party loan has a floating interest rate based on a reference rate plus a margin reflecting the credit standing of the related party, taxpayers should ensure that any economic changes have been accounted for in the reference rate, maintaining the relevance of the margin if the credit standing of the related party has no significant change. Taxpayers must conduct an annual review and document the TP implications for loan transactions, similar to any other related-party transaction.
- There is no exemption for loans; they are treated the same as other related party dealings

However, the IRAS has explicitly stated that, for ease of compliance, taxpayers may prepare simplified TPD for all related party transactions including loans, if certain conditions are met. [16]

Additional guidance on strict pass-through costs

As part of the TPG (seventh edition), the IRAS has clarified one of the conditions (condition (d)) for applying strict pass-through costs. This condition requires that the costs of the acquired services are the legal or contractual liabilities of the related parties benefiting from the services, as demonstrated by a written agreement with the related parties. Further, the condition allows the written agreement to include

[11] Section 9.4, TPG (eighth edition).
[12] Section 16.2, TPG (eighth edition).
[13] Section 16.3, TPG (eighth edition).
[14] Section 6.35, TPG (eight edition).
[15] Section 6.33, TPG (eighth edition).
[16] Appendix B (7), TPG (eighth edition).

email correspondence between the group service provider and its related parties, be it a single email with all the related parties or separate emails with each related party.

The TPG (eighth edition) clarifies that invoices from the group service provider to its related parties requesting payment are not considered as written agreement as they do not reflect agreement that liabilities relating to the acquired services are assumed by the related parties[17]. Further, the IRAS provides that taxpayers must explain their basis for treating certain costs as strict pass-through costs in their TPD, if applicable[18].

This demonstrates that the IRAS continues to focus on evaluating the actual compliance of the strict pass-through costs conditions.

Conclusion

The TPG (eighth edition) introduces significant updates aimed at enhancing compliance and clarity for taxpayers. Key highlights include additional guidance on financial transactions, which provide clearer frameworks for assessing related party loans and interest rates. Importantly, domestic interest-free loans of related parties (where neither party is in the business of borrowing and lending) entered into on or after 1 January 2025 are exempt from TP adjustments, allowing for interest-free loans. The guidelines also introduces a pilot programme for a SSA starting in January 2026, offering an optional framework for marketing and distribution transactions between related parties. Furthermore, taxpayers can utilise a protective MAP to address disputes and avoid double taxation while pursuing domestic remedies. Notably, no TPD is required for non-taxable capital transactions, emphasising the need for consistent corporate income tax and TP treatments.

TheTPG (eighth edition) offers clear guidance on the recourse available to taxpayers who disagree with TP adjustments, ensuring that taxpayers understand their rights and options for appeal. Additionally, the guidelines include important revisions regarding surcharges, clarifying how adjustments will be handled in light of changes to TP assessments.

The TPG (eighth edition) also enhances the understanding of profit attribution to PEs, emphasising the need for accurate assessments based on the arm's length principle. Furthermore, taxpayers utilising a qualifying past TPD without including a declaration will not be deemed to have prepared a simplified TPD and will not therefore meet the requirements under Section 34F of the ITA. Lastly, in relation to the conditions for strict pass-through costs, the guidelines clarifies that invoices from a group service provider to related parties do not qualify as written agreements, as they do not indicate that the related parties assume liabilities for the services. Additionally, the IRAS requires taxpayers to justify their classification of certain costs as strict pass-through costs in their TPD, with this rationale clearly documented.

Overall, these updates are designed to ease compliance burdens while ensuring alignment with international standards.

[17] Section 14.22 (d), TPG (eighth edition).

[18] Section 14.25, TPG (eighth edition).

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