

# Tax alert

## **Updates from the IRAS e-tax guide *Tax Deduction for Shares Used to Fulfil Obligations under an Employee Equity-Based Remuneration Scheme (Fourth Edition)***

On 30 September 2025, the Inland Revenue Authority of Singapore (IRAS) updated its e-tax guide *Tax Deduction for Shares Used to Fulfil Obligations under an Employee Equity-Based Remuneration Scheme (Fourth Edition)*.

The updates provide details on the new measures announced in the Singapore Budget 2025 and more recently in the proposed Finance (Income Taxes) Bill 2025, to introduce tax deduction on payments to the holding company or a Special Purpose Vehicle (SPV) for the issuance of new shares of the holding company, and simplify tax deduction rules for transfer of treasury shares under the Employee Equity-Based Remuneration (EEBR) schemes.

The changes would be effective from the Year of Assessment (YA) 2026 (financial year ended 2025) onwards.

This tax alert summarises the key updates in the e-Tax Guide and our observations.



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## Background

Prior to the YA 2026, companies are allowed tax deduction for treasury shares, or previously issued shares of the company or the holding company that are transferred to employees under EEBR schemes. No tax deduction is allowed where new shares are issued to employees under EEBR schemes.

On 18 June 2025, the proposed Finance (Income Taxes) Bill 2025 introduced a new section 14MA of the Income Tax Act 1947 (ITA) as well as proposed to amend existing sections (Section 14M and 15(1)(q)) to give legislative effect to the new measures with effect from the YA 2026 onwards.

### **Introduce tax deduction on payments to the holding company or an SPV for the issuance of new shares of the holding company under EEBR schemes with effect from the YA 2026**

#### *Amount of tax deduction claim*

For payments made to the holding company or the SPV, the amount of tax deduction allowed to the Singapore subsidiary will be the lower of:

- The amount paid by the company for the shares issued or transferred to its employees.
- The price of the shares in the open market at the time of issue or transfer to the employees or if it is not possible to determine that price, the net asset value of the shares at the time of issue or transfer to the employees.

In all instances, the amount deductible is reduced by any amount payable by employees for the shares.

Where the amount payable by the subsidiary's employees is higher than the amount determined, no tax deduction is allowed to the subsidiary.

Please refer to Table 1 below.

#### *Timing of tax deduction claim*

The timing of tax deduction for newly issued shares of the holding company is aligned with the timing of deduction for treasury shares or shares acquired from the open market.

As the tax deduction is effective from YA 2026, the vesting of shares to employees must occur in the basis period for YA 2026 or subsequent YAs to be eligible for tax deduction.

The employee stock option plan (ESOP) or share awards can be granted before the basis period for YA 2026, so long as the vesting of shares to employees occurs in the basis period for YA 2026 or subsequent YAs. The recharge may be before or after the basis period for YA 2026.

### **Simplify tax deduction rules for transfer of treasury shares under EEBR schemes with effect from the YA 2026**

#### *Amount of tax deduction claim*

Where the SPV acquires treasury shares of the company or its holding company, the amount of tax deduction allowable to a company for shares transferred to its employees under an EEBR scheme is now simplified as in Table 1.

#### **Administrative procedures**

Amongst others, for claims from YA 2026, taxpayers are to provide confirmation in their schedule of tax computation when making their claims, that no claims are made for newly issued shares of the company and that the claims are made in accordance with the provisions under section 14L, 14M or 14MA of the ITA (amongst others).

#### **Observations**

- As seen in Table 1, the amount of tax deduction available is computed differently for EEBR schemes fulfilled using newly issued shares, treasury shares or shares acquired from the open market. Hence, taxpayers with EEBR schemes will need to track the schemes separately.
- Taxpayers should also maintain contemporaneous robust documentation to support how the various schemes are being implemented and fulfilled using treasury shares or new shares.

Relevant internal stakeholders, such as tax and finance and HR teams, should also be appropriately informed and work together to ensure that the relevant information is available to support the tax deduction claim.

- Companies that have previously not claimed tax deduction due to the limited condition on treasury shares, should revisit the applicability of tax deduction claims with effect from the YA 2026 onwards. This is subject to companies being able to obtain the relevant historical information to support the quantum of tax deduction that is available.

- The e-tax guide also made changes to the calculation of tax deduction available for treasury shares acquired by an SPV. Specifically where an SPV acquires shares for recharges, with effect from YA 2026, taxpayers no longer need to exclude the cost to the SPV in acquiring the shares transferred, when calculating the tax deductible amount.
- Under Base Erosion and Profit Shifting (BEPS) 2.0 Pillar Two Model Rules, for stock-based compensation, there is an optional election available for in-scope multinational enterprises (MNEs) to take an actual deduction for tax purpose (vs. the default book deduction) when calculating the Global Anti-Base Erosion (GloBE) income or loss.

In light of the current relaxation on the Singapore corporate tax deduction rules on share-based compensation with effect from YA 2026, in-scope MNEs should evaluate the impact of this election on their GloBE calculations, particularly the potential benefit of making the election under Article 3.2.2 of the GloBE rules to substitute the stock-based compensation expense that is recognised in the entity's financial statement with the tax-deductible amount.

- For taxpayers that wish to introduce EEER schemes with new shares, they should be mindful of the GST considerations with regard to the issuance of new share as well as recharges involving new shares.

Table 1: Summary of the amount of tax deduction with effect from YA 2026

	Treasury shares		Shares acquired from the open market		Newly issued shares	
	Company's shares transferred	Holding company's shares transferred	Company's shares transferred	Holding company's shares transferred	Company's shares transferred	Holding company's shares transferred
No SPV administering the EEBR scheme	(III)	Lower of (I) & (III)	N/a	N/a	Nil	Lower of (I) and (IV)
SPV pays for shares it acquires and recharges the company for the shares transferred	(III)	Lower of (I) & (III)	N/a	N/a	Nil	Lower of (I) and (IV)
SPV is not charged for the shares it acquires and does not recharge the company for the shares transferred	(III)	<ul style="list-style-type: none"> <li>Lower of (I) &amp; (III) if the holding company charges the company for the shares transferred</li> <li>Nil if the holding company does not charge the company for the shares transferred</li> </ul>	N/a	N/a	Nil	<ul style="list-style-type: none"> <li>Lower of (I) and (IV) if the holding company charges the company for the shares transferred</li> <li>Nil if the holding company does not charge the company for the shares transferred</li> </ul>
SPV acquires shares from the open market	N/a	N/a	Lower of (I) and (II)	Lower of (I) and (II)	N/a	N/a

Where:

- (I) Amount paid by the company
- (II) Cost to the SPV in acquiring the shares transferred
- (III) Cost to the company or holding company in acquiring the treasury shares
- (IV) Open market price of the shares at the time of issue or transfer to the employees or if it is not possible to determine that price, the net asset value of the shares at the time of issue or transfer to the employees.

In all instances, the amount deductible is reduced by any amount payable by employees for the shares.

Source: Annex 1 of "Income Tax: Tax Deduction for Shares Used to Fulfill Obligations under an Employee Equity-Based Remuneration Scheme - Fourth Edition", The IRAS website, [https://www.iras.gov.sg/media/docs/default-source/e-tax/etaxguides\\_iit\\_tax-deduction-for-shares-used-to-fulfill-obligations-under-an-employee-equity-based-remuneration-scheme.pdf](https://www.iras.gov.sg/media/docs/default-source/e-tax/etaxguides_iit_tax-deduction-for-shares-used-to-fulfill-obligations-under-an-employee-equity-based-remuneration-scheme.pdf), accessed 3 November 2025.

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:

## EY tax leaders in Singapore

### Head of Tax

Amy Ang  
amy.ang@sg.ey.com

### Private Client Services

Desmond Teo  
desmond.teo@sg.ey.com

### Tax Controversy

Ting Ting Lim  
ting-ting.lim@sg.ey.com

### Tax Policy

James Choo  
james.choo@sg.ey.com

### Global Compliance and Reporting

Chai Wai Fook  
wai-fook.chai@sg.ey.com

### Financial Services Tax

Stephen Bruce  
stephen.bruce@sg.ey.com

### Indirect Tax Services

Chew Boon Choo  
boon-choo.chew@sg.ey.com

### People Advisory Services Tax

Panneer Selvam  
panneer.selvam@sg.ey.com

### International Tax and Transaction Services

#### International Corporate Tax Advisory

James Choo  
james.choo@sg.ey.com

#### Transfer Pricing

Luis Coronado  
luis.coronado@sg.ey.com

#### Legal Services

(provided by Atlas Asia Law Corporation,  
an independent member firm of the global EY network)

Kenneth Cheow  
kenneth.cheow@atlasialaw.com.sg

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