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Transfer pricing alert

Updates on the e-tax guide Transfer Pricing Guidelines (Ninth Edition)

On 4 June 2026, the Inland Revenue Authority of Singapore (IRAS) released the e-tax-guide *Transfer Pricing Guidelines (Ninth Edition)* (TPG (ninth edition)). The TPG (ninth edition) has added the inclusion of a new FAQ in paragraph 5.120 on the treatment of share-based compensation (SBC) costs when determining the service fees charged to related parties under the Transactional Net Margin Method (TNMM).

Inclusion of SBC costs within the cost base for related party services

Under TPG (ninth edition), the SBC costs should be included in the cost base if such SBC costs relate to the cost of personnel involved in the provision of related party services. This applies regardless of whether the SBC costs are:

- Incurred by the Singapore service provider and recognised in its financial accounts
- Uncharged, i.e., the SBC costs are not charged to the Singapore service provider by its related parties and not recognised in its financial accounts

  Or
- Notional, i.e., the SBC costs are not charged to Singapore service provider by its related parties but recognised in its financial accounts in accordance with the relevant Financial Reporting Standards.

In all three scenarios outlined above, the SBC costs must be included in arriving at the new comprehensive cost base for calculating the arm's length mark-up when applying the TNMM.

Positions adopted by the IRAS on the treatment of uncharged and notional SBC costs

The IRAS has set forth the following practical concession with effect from the Year of Assessment (YA) 2026, where uncharged and notional SBC costs may be excluded from the service income, while still being included in the cost base for determining the arm's length mark-up. For these scenarios, the total service fee income will be computed based on the total costs incurred for the service provision plus an arm's length mark-up, as well as the mark-up applied on the uncharged or notional SBC costs.

The following table summarises the treatment of SBC costs before and from YA 2026 onwards:

Type of SBC cost	To include SBC costs in cost base?	To include SBC costs in service income?	
		YA 2025 and before	From YA 2026
Incurred SBC costs	√	√	√
Uncharged SBC costs	√	√	X*
Notional SBC costs	√	√	X*

** Only the SBC costs are excluded. The mark-up applied on the uncharged and notional SBC costs should continue to be included in the service income.*

Implications for Singapore taxpayers

The latest guidance issued by the IRAS has provided clarity for the first time on how SBC costs should be considered in determining the arm's length service charge from a Singapore transfer pricing (TP) perspective. In particular, the guidance reinforces the IRAS' longstanding tacit position that SBC costs constitute part of employee-related expenses and should therefore be included in the cost base when determining arm's length service charges (i.e., subject to a mark-up under cost-based TP methodologies or profit level indicators).

The TPG (ninth edition) indicates that the updated guidance applies prospectively from YA 2026 onwards. However, the IRAS retains their position regarding the prior years, hence taxpayers should review their historical treatment of SBC costs, including whether SBC costs were excluded from the cost base; and whether any uncharged SBC costs should have been included in prior years' service income computations. Taxpayers should be mindful that TP adjustments initiated by the IRAS may attract a 5% TP surcharge applicable on the amount of the adjustments initiated.

Taxpayers should also take note of the updates to the tax deduction rules on payments for the issuance of new shares of the holding company and transfer of treasury shares under the Employee Equity-Based Remuneration schemes.[1]

[1] For more details, please refer to our earlier alert dated 17 November 2025.

Next steps for Singapore taxpayers

Notwithstanding the clarification by the IRAS, several practical issues remain regarding how taxpayers should operationalise this guidance. Different stock options and equity-based compensation programmes (e.g., Employee Stock Ownership Plans (ESOPs), Restricted Stock Units (RSUs), performance shares) have varying vesting conditions, exercise terms and valuation mechanics. These differences create complexity in determining when SBC costs should be recognised for TP purposes, and how such costs should be measured across the lifecycle of the award, from the grant date up to the vesting date and the exercise date of these equity instruments.

In addition, Singapore taxpayers providing cross-border services should assess the TP treatment in the counterparties' jurisdictions including the practices adopted by the foreign tax authorities and the relevant jurisprudence. It is also unclear whether the IRAS would accept the opposite outcome where a foreign service provider includes uncharged or notional SBC costs in its cost base to compute the mark-up for the service fee charged to the Singapore related party. Divergent positions on the inclusion or recognition of SBC costs may give rise to inconsistencies and potential double taxation risk and therefore warrant careful evaluation and coordination across jurisdictions.

Taxpayers should continue to closely monitor developments relating to the treatment of SBC costs and ensure that their adopted positions are consistently applied and supported by robust TP analyses and documentation. Taxpayers should also develop an appropriate risk mitigation strategy to deal with potential double taxation or exposure arising from inconsistent treatment of SBC costs by the counterparty jurisdictions including consideration for mutual agreement procedure and legal remedies available.

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