

Tax update

Withdrawal of withholding tax administrative concessions

The Inland Revenue Authority of Singapore (IRAS) has announced the withdrawal of administrative concessions that provide for a waiver of withholding tax (WHT) on:

- ▶ Payments made to non-resident related companies for services rendered in Singapore under a cost-pooling arrangement.
- ▶ Reimbursements of accommodation, meals and transportation expenses made to non-resident companies for services rendered in Singapore.
- ▶ Cost of airfare and accommodation borne on behalf of or reimbursed to non-resident professionals and public entertainers for short-term engagements in Singapore.

The above administrative concessions will be withdrawn for payments liable to be made on or after 1 November 2022.

This alert provides an overview of the administrative concessions and the key considerations for businesses after they are withdrawn.

Payments made under cost-pooling arrangements

Payments made to non-residents for technical or management services performed in Singapore are subject to Singapore WHT.

Currently, under an administrative concession granted by the IRAS, WHT is waived on payments made to a non-resident related company for services rendered in Singapore under a cost-pooling arrangement, if the arrangement meets the cost-pooling conditions stated in the IRAS e-Tax Guide on transfer pricing guidelines.

With effect from 1 November 2022, this administrative concession will be withdrawn. Singapore WHT will be applicable on payments liable to be made on or after 1 November 2022 to non-resident related company under cost-pooling arrangements for technical or management services performed in Singapore unless treaty relief applies.

Reimbursement of accommodation, meals and transportation expenses

Reimbursements of accommodation, meals and transportation expenses (including airfare) made to non-residents in relation to technical or management services performed in Singapore are subject to Singapore WHT.

Currently, under an administrative concession granted by the IRAS, WHT is waived on reimbursements of such expenses if they are made at the actual costs incurred without any mark-up or profit element, or made based on published rates.

With effect from 1 November 2022, this administrative concession will be withdrawn. Singapore WHT will be applicable on cost reimbursements of accommodation, meals and transportation expenses liable to be made on or after 1 November 2022 to non-residents for technical or management services performed in Singapore unless treaty relief applies.

Cost of airfare and accommodation borne on behalf of non-resident professionals and public entertainers

Payments made to non-resident professionals and public entertainers, including cost of airfare and accommodation for services rendered in Singapore are subject to Singapore WHT.

Currently, under an administrative concession granted by the IRAS, WHT is waived on costs of airfare and accommodation for short-term engagements (60 days or less in a calendar year) borne or reimbursed by the payer for non-resident professionals electing to be taxed on net income at the non-resident rate (presently at 22%) and non-resident public entertainers.

With effect from 1 November 2022, this administrative concession will be withdrawn. Singapore WHT will be applicable on the costs of airfare and accommodation borne or reimbursed by the payer in relation to fees due and payable to the non-resident on or after 1 November 2022 for services performed in Singapore unless treaty relief applies.

Key considerations

Applicability of treaty relief

The withdrawal of the administrative concession for service payments under cost-pooling arrangements does not mean that Singapore tax would automatically have to be withheld on all such payments. Parties to cost-pooling arrangements should consider if treaty relief is available for service payments made to residents of jurisdictions that have entered into Avoidance of Double Taxation Agreements with Singapore.

Similarly, where treaty relief is applicable on other payments made to non-residents for technical or management services performed in Singapore, the costs of accommodation, meals or airfare expenses constituting part of the service fee payment that are reimbursed to the non-resident may also enjoy treaty relief.

System updates and contracting considerations

Businesses should also take note of the effective date of withdrawal of the administrative concessions and make timely updates to their internal processes and controls for withholding tax compliance.

The higher tax costs from the withdrawal of the concessions should be kept in mind when contracting with non-residents, should the payer choose to bear the Singapore WHT.

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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APAC no. 12002926
ED None

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