

CCS-MS TRANSFER PRICING WEBINAR 2023

Transfer Pricing Strategies in an Evolving Singapore Landscape

Complete Corporate Services Pte. Ltd. and Moore Stephens LLP Singapore had jointly organised a transfer pricing ("TP") webinar on 7 September 2023 to discuss TP strategies in an evolving Singapore landscape.

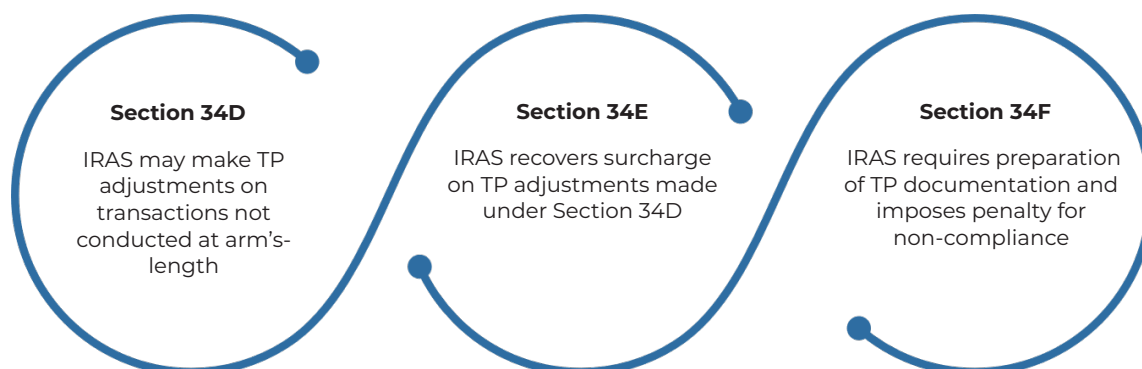
In the TP webinar we discussed four key areas as follows.

- The TP landscape in Singapore
- Observations in the current TP landscape 1 – Inflation
- Observations in the current TP landscape 2 – Increase in TP audits by IRAS
- TP documentation common errors and best practices

If you did not manage to attend the insightful TP webinar, do not worry as we have summarised our discussion points below.

The TP landscape in Singapore

The TP landscape has been developing rapidly over the years both globally and in Singapore. In Singapore's TP landscape today, IRAS continues to endorse the arm's length principle as the standard to guide TP. Additionally, the key transfer pricing legislations in Singapore are as follows.



Observations in the current TP landscape 1 – Inflation

The ongoing episode of high inflation is expected to translate into a decline in purchasing power which inevitably means a rise in costs for businesses. In our webinar, we went over the following considerations of inflation to MNEs:

Impact	Consideration
Uncertainty over interest rates	<ul style="list-style-type: none"> • Assess the suitability of fixed or floating interest rates on debt arrangements; • Assess if entities of the Group fall within certain regulations (e.g. thin capitalisation rules or interest deduction limitation); and • If used, companies should monitor safe harbour margins to reflect higher interest rates published yearly by the IRAS. Do note that every extension or refinancing of loan would be considered as a

Foreign exchange fluctuation	<ul style="list-style-type: none"> · Expectation of larger amount of foreign exchange fluctuation; · Assess which group entity should and can bear such fluctuation; and · Consider using hedging instruments to manage this risk.
Remuneration for different functional characterisation	<ul style="list-style-type: none"> · Intra-group services: Service recipients may end up incurring the full brunt of inflationary costs if service providers are remunerated on a cost plus mark-up model. Companies need to compare the cost of intra-group services, after accounting for inflation, with alternative third-party service providers to assess if the cost of services is reasonable. Otherwise, this might be a potential red flag to tax authorities. · Distributors and Manufacturers: Consistent review of forecasts, budgets and existing arrangement is recommended to account for the extent of inflation. The functional profile of distributors and manufacturers will ultimately determine where inflation costs will be placed if it has not been passed onto consumers. · Entrepreneurs: Entrepreneurs might end up bearing a significant portion of inflation costs as the main risk-taking entity. Assumptions for existing financial models for intellectual property's valuation may also be outdated. This can affect existing cost sharing arrangements.
Comparability analysis	<ul style="list-style-type: none"> · Expectation for more comparability adjustments as a part of your TP exercise to account for economic and commercial differences.
Intercompany agreements	<ul style="list-style-type: none"> · Review existing agreements for automatic adjustment clauses and consider such clauses for new agreements; and · Review existing loan agreements for financial covenants (e.g. debt or interest ratios) and make adjustments accordingly.

Companies can proactively consider the following steps to manage their TP risks as a result of the inflationary impact:

- Take a holistic overview of the group's value chain and reassess where the group should place its costs based on the group entities' functional profile with potential benefit or revenue from customers as a backdrop;
- Review and update or undertake benchmarking analysis for such arrangements;
- Consistently monitor related party transactions throughout the year to ensure that any adjustments can be made in a timely fashion;
- Relook and revise forecasts, budgets or financial models to consider inflation;
- Review their intercompany agreements to ensure that it is in line with the revised plans and contains flexibility for changes down the road.
- Maintain sufficient documentations while going through these exercises.

Observations in the Current TP Landscape 2 – Increase in TP Audits by IRAS

TP query/audits have been on an increasing trend both globally and in Singapore. Questions that have been raised by IRAS encompass various related-party transactions ("RPTs") (i.e. services, purchases, sales, loans, royalty, etc.). Additionally, related-party transactions below the TP documentation threshold may also be queried.

Given the foregoing, taxpayers have to be pro-active with their transfer pricing planning and monitoring for their existing RPTs and their envisaged RPTs.

We outline the below for your consideration.

For your existing RPTs

- Review your current TP policies to see if they are still up to date and if not take the necessary actions to update them.
- Ensure your related-party transactions are still priced at arm's-length and supported by TP studies.
- Ensure adequate and robust TP documentation has been prepared.
- Ensure supporting documents (e.g. intercompany agreements, invoices, etc.) are well kept.

For your envisaged RPTs

- Prepare robust TP planning studies for each of your RPT **before** entering into them.
- Prepare the necessary supporting documents (e.g. intercompany agreements, etc.)
- If you are planning to use IRAS' safe harbor (for your related-party services and/or loans), please ensure that the conditions are met.

TP Documentation Common Errors and Best Practices

TP documentation is the first line of defence for taxpayers in a TP audit. As such, preparing an adequate and robust TP documentation is always important. In this segment we noted several common TP documentation errors as follows.

- Date of completion not included in the TP documentation
- Incomplete group and entity level information
- Incomplete RPT information
- Incomplete TP analysis
- Usage of TP Documentation prepared for other jurisdictions that are not in line with IRAS' TP guidelines

As taxpayers we should be aware of these common TP documentation errors and ensure our TP documentation is prepared according to IRAS' TP guidelines.

Final thoughts

The TP landscape is changing rapidly and will continue to change both globally and in Singapore. With all these changes, tax authorities have also stepped-up their efforts to ensure compliance with these changes. In this process, they may also discover macroeconomic factors potentially disrupting your TP.

Hence, proper planning, reviewing and monitoring of your RPTs (or envisaged RPTs) should be done on a proactive basis. If you are unsure of where to begin in your TP journey, you can always reach out to us here at CCS.

OUR TAXATION SERVICES

As a business owner, every transaction you make with your related parties needs to be compliant with the transfer pricing requirements.

To achieve tax efficiency so as to enhance your return on investments, it is advisable that various tax issues be considered alongside the planning and structuring of your business.

The tax landscape is changing at a rapid pace and expert advice is essential to mitigate tax risks and maintain profitability. We can assist you through our comprehensive tax compliance, tax advisory and transfer pricing services to minimise your effective tax burden.



COMPLETE CORPORATE SERVICES

Complete Corporate Services is a leading integrated business solution provider. Working in parallel with your businesses objectives, our corporate solutions and innovative technologies enable you to maximise your capabilities for sustainable growth. Dedicated in the work that we do, our team of qualified professionals will work with you to ensure quality, effective and efficient service delivery.

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