Complete Corporate Services

# TAX ALERT

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**Our monthly tax newsletter provides timely and relevant updates on key developments in Singapore's tax and regulatory landscape. From legislative changes to updates on compliance requirements, each issue is designed to help businesses stay informed of recent developments.**



## Related-Party Domestic Loans

A taxpayer that becomes a creditor of a related party should apply the arm's length principle by charging an interest rate that reflects what would be agreed between independent parties. Likewise, when receiving a loan from a related party, the taxpayer should ensure the interest terms are consistent with those that would be set under arm's length conditions.

Not all loans need to be formalised through written agreements. They can include interest-bearing arrangements like credit facilities, as well as interest-free intercompany balances that arise from the sale of goods or services. If these balances remain unpaid for a prolonged period, longer than what an independent third-party creditor would reasonably allow, the Inland Revenue Authority of Singapore (IRAS) may treat them as loans for transfer pricing purposes.

### Previous Approach

Under the previous framework, for related party domestic loans provided by a taxpayer not in the business of borrowing and lending, the IRAS has applied a practical "interest restriction" approach - rather than requiring a full transfer pricing analysis, the taxpayer's deductible interest expense was capped at the interest income earned. While this method does not fully conform to the arm's length principle, it served as a reasonable proxy in order to simplify compliance.



### New Approach

The IRAS has discontinued the interest restriction approach for related party domestic loans entered into on or after 1 January 2025. Under the new rules, taxpayers will be regarded as having complied with the arm's length principle if:

a. Neither party is in the business of borrowing and lending; and
b. The IRAS indicative margin is applied to derive the interest rate.

To reduce compliance efforts, the S$15 million threshold previously applicable to the IRAS indicative margin will no longer apply in such cases. However, if taxpayers meet condition (a) but choose not to apply the indicative margin, they must instead determine the interest rate through a full arm's length transfer pricing analysis.

For related party domestic loans where either party is in the business of borrowing and lending, the existing approach continues to apply. The interest rate must reflect arm's length terms, determined using either the indicative margin (for loans up to S$15 million) or a benchmarking analysis.



**Goods & Services Tax (GST) – Medical Expenses**

Under Regulation 26 of the GST (General) Regulations, the GST incurred on medical expenses for employees is generally not claimable. Such expenses include maternity healthcare, preventive and therapeutic treatments, dental treatments, and medicine.

In its latest e-Tax Guide, "GST: Fringe Benefits (Eleventh Edition)" published on 28 April 2025, the IRAS has clarified that "medicine" excludes items purchased that are self-administered and not part of the provision of medical treatment (e.g., first aid kits, personal protective equipment, etc.).

In other words, GST incurred on such expenses will be claimable, subject to normal input tax conditions such as the maintenance of valid tax invoice and ensuring that the expenses are incurred for business purposes.

**Withholding Tax (WHT) – Qualifying Debt Securities**

A person who makes payments of a specified nature (e.g. royalty, interest, technical service fee etc.) to a non-resident company or individual must withhold a percentage of the payment and pay the amount withheld to IRAS as WHT.

On 25 April 2025, the IRAS has updated its website FAQ to add a new FAQ section in relation to the WHT treatment for fees or premiums paid by issuers to non-resident noteholders or bondholders in connection with the early redemption, exchange, or tender of qualifying det securities (QDS).

Previously, such fees or premiums, paid in excess of the principal amount, would attract WHT as they are considered made in connection with the underlying indebtedness of the principal amount of the notes or bonds. However, with effect from 15 February 2023, withholding tax does not apply to any fee or premium paid by the issuer of QDS when the payment is made on early redemption or upon maturity. In this regard, for payments after the said date on the early redemption of QDS, the fees or premium paid by the Issuer in excess of the principal amount of the existing notes/bonds will not be subject to withholding tax, where the noteholders/bondholders: -

i. validly tendered their existing notes/bonds by a certain deadline and accepted for purchase by the Issuer pursuant to the tender offer or invitation memorandum;
ii. validly tendered their existing notes/bonds by a certain deadline and accepted the new notes/bonds for exchange by the Issuer pursuant to the exchange offer; or
iii. had their existing notes/bonds redeemed through the call option by the Issuer.



**Transfer Pricing (TP) – New e-Learning Resources**

On 8 April 2025, IRAS launched new e-Learning modules on the Global Anti-Base Erosion (GloBE) rules and Domestic Top-up Tax (DTT) to support corporate taxpayers in understanding Singapore's implementation of the Multinational Enterprise Top-up Tax (MTT) and DTT.

These resources are designed to assist corporate taxpayers and in-scope multinational enterprise groups in navigating the new global minimum tax framework and complying with the relevant requirements. Access to the e-Learning modules can be found here.

If you require any clarification on the updates shared in this newsletter or would like to discuss how these developments may impact your business, please feel free to reach out to us. Our team is ready to assist you with your tax compliance and advisory needs.




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