UPDATES TO THE SINGAPORE TRANSFER PRICING GUIDELINES ("TPG 9TH EDITION") – SHARE BASED COMPENSATION ("SBC")

The Inland Revenue Authority of Singapore ("IRAS") released the TPG 9th Edition on June 4, 2026. The update provided in this TPG applies to a Singapore company that provides related party services (through its employees who receive SBC under group employee stock options or other forms of employee share ownership plans) and is remunerated on a cost-plus basis for the related party services rendered.

This TPG introduces a new Frequently Asked Question ("FAQ") section to clarify if SBC should be included in:

(1) the Singapore company's cost base when applying a cost-plus mark-up; and
(2) the service income of that Singapore company for the related party services rendered.

There are 3 possible scenarios in relation to SBC:

a) SBC is charged and recognised in the Singapore company's financial accounts ("incurred SBC");
b) SBC is not charged by the Singapore company's related parties and thus not recorded in the Singapore company's financial accounts ("uncharged SBC"); or
c) SBC is not charged by the Singapore company's related parties but recorded in the Singapore company's financial accounts in accordance with the relevant Financial Reporting Standards ("notional SBC").

We set out the treatment of SBC before and from YA 2026 as below:

<u>Before YA 2026</u>

IRAS viewed that SBC was part of the cost of providing related party services and should be included in the cost base for the purpose of applying the mark-up. In addition, the Singapore company is required to include SBC in its service income.

<u>From YA 2026 onwards</u>

IRAS maintains its views that SBC is part of the cost of providing related party services and should be included in the cost base for the purpose of applying the mark-up.

However, to balance technical alignment with practical considerations, IRAS is prepared to exclude uncharged or notional SBC from service income with effect from YA 2026.

To illustrate, consider the below scenario of a company with an SBC arrangement and providing services to its related parties:

Cost of services	–	S$200,000
SBC	–	S$10,000
Mark-up	–	5%

Summary of the changes with the background facts applied:

<table>
<tr><th rowspan="2">Scenario</th><th>Before YA 2026</th><th colspan="2">From YA 2026</th></tr>
<tr><th>Include SBC in cost base and service income?</th><th>Include SBC in cost base?</th><th>Include SBC in service income?</th></tr>
<tr><td>Incurred SBC</td><td rowspan="3">Yes

Cost base
S$200,000 + S$10,000
= S$210,000

Service income
S$210,000 x 105%
= S$220,500</td><td rowspan="3">Yes

Cost base
S$200,000 + S$10,000
= S$210,000</td><td>Yes

Service income
S$210,000 x 105%
= S$220,500</td></tr>
<tr><td>Uncharged SBC</td><td rowspan="2">No
Service income
S$200,000 + (S$210,000 x 5%)
= S$210,500</td></tr>
<tr><td>Notional SBC</td></tr>
</table>

Corporate tax implications

Separately, we summarise the relevant corporate tax treatments before and after YA 2026 in the table below:

<table>
<tr><th>Scenario</th><th>Before YA 2026</th><th>After YA 2026</th></tr>
<tr><td colspan="3">Tax deductions on:</td></tr>
<tr><td>Incurred SBC</td><td colspan="2">Deductible if qualifying conditions are met</td></tr>
<tr><td>Uncharged SBC</td><td colspan="2">Not deductible</td></tr>
<tr><td>Notional SBC</td><td colspan="2">Not deductible</td></tr>
<tr><td colspan="3">Taxability on service income</td></tr>
<tr><td>Incurred SBC</td><td rowspan="3">Incurred, Uncharged and Notional SBC shall be included in the service income and are taxable.</td><td rowspan="3">Incurred SBC shall be included in the service income and is taxable. While Uncharged and Notional SBC can be excluded from the service income and are not taxable.</td></tr>
<tr><td>Uncharged SBC</td></tr>
<tr><td>Notional SBC</td></tr>
</table>

FURTHER INFORMATION

Should you have any queries as to how these developments may impact your business, please do not hesitate to get in touch with your usual contact at Pioneer Associates; or please write and call us on:

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