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Tax alert

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Singapore Transfer Pricing Guidelines (Ninth Edition) Issued

The Inland Revenue Authority of Singapore (IRAS) published the ninth edition of the e-Tax Guide on Transfer Pricing Guidelines on 4 June 2026, which provides clarification on treatment of stock-based compensation costs in intercompany recharges. This Tax Alert focuses on the key updates and how taxpayers in Singapore might be affected.

Overview

The Inland Revenue Authority of Singapore (IRAS) has made a welcome move to address a longstanding tension between the tax and transfer pricing treatment of share-based compensation (SBC). Less than seven months after the previous edition, IRAS released the Ninth Edition of the Transfer Pricing Guidelines (TPG9) on 4 June 2026, introducing a new FAQ on the transfer pricing treatment of SBC. The update will be particularly relevant for Singapore taxpayers applying the TNMM, including cost-plus and return-on-sales models. From Year of Assessment (YA) 2026, IRAS allows a practical concession under which uncharged and notional SBC costs may be excluded from the service income of the Singapore entity, while still remaining in the cost base for purposes of determining the arm's length mark-up. Read together with the recent changes to the tax deductibility rules for SBC, the concession helps narrow a mismatch that has affected a number of Singapore taxpayers.

Why this matters

The transfer pricing treatment of SBC has been an area of increasing focus by taxpayers including those in Singapore, particularly for multinational groups with Singapore entities that are remunerated under cost-based intercompany arrangements. The issue commonly arises where employees of a Singapore entity participate in an equity-based remuneration plan linked to shares in an overseas parent or another group company.

A common scenario is where the Singapore entity recognises an SBC expense for accounting purposes under Singapore Financial Reporting Standards (SFRS) 102, even though it did not itself issue the shares and may not make any payment to the parent or another group company. In other cases, SBC may economically relate to Singapore-based employees but may not be recognised in the profit and loss account of the Singapore employing entity. Taxpayers have often viewed these amounts as notional where they appear in the statutory accounts without a corresponding cash outflow from the Singapore entity.

The main concern was the mismatch in the tax and transfer pricing treatment. On the one hand, from a transfer pricing perspective, IRAS expected the SBC costs to be included in the cost base, in accordance with the applicable accounting treatment. As such, notional and/or uncharged SBC costs were expected to form part of the cost base and therefore be subject to mark-up, even where no actual recharge is made by the Singapore entity. On the other hand, the Singapore tax rules historically had quite restrictive circumstances where such SBC costs could be deductible. In such cases, including SBC in the cost base may increase the Singapore entity's taxable income without a corresponding deduction, potentially producing an outcome that goes beyond taxing an arm's length mark-up on the value-added activities performed in Singapore.

Singapore Budget 2025 began to address part of this broader mismatch issue by easing the tax deductibility rules for SBC costs. With effect from YA 2026, Singapore companies may claim a tax deduction for payments made to their holding company or a special purpose vehicle for the issuance of new shares in the holding company under an employee equity-based remuneration scheme, subject to the relevant conditions.

Clarifications under TPG9

The new FAQ under paragraph 5.120 in TPG9 clarifies IRAS' technical position that, where a Singapore entity charges related parties under a cost-plus methodology (for example, 100% + X%), SBC costs relating to that entity's employees should be reflected in both of the following:

a. The cost base of that entity for the purpose of applying the mark-up (i.e. X%); and
b. The service income that is charged to related parties (i.e. 100%).

This technical position applies both where the SBC costs should have been charged to the Singapore entity but was not charged and not recognised in its accounts (referred to here as "uncharged SBC"), and where the cost is not charged but is nevertheless recognised in the Singapore entity's accounts (referred to here as "notional SBC").

Importantly, IRAS has also clarified that with effect from YA 2026, it is prepared as a practical concession to allow uncharged SBC costs and notional SBC costs to be excluded from the service income charged to related parties where those amounts are not in fact charged on. For YAs 2025 and earlier, IRAS states that it will continue to apply its technical position.

However, in all cases, SBC (including uncharged SBC and notional SBC) remains relevant to the cost base for determining the arm's length mark-up.

What taxpayers should take away

The TPG9 clarification is important because it separates two distinct transfer pricing questions that are often conflated: first, whether SBC costs should form part of the cost base to be marked up; and second, whether the SBC amount itself must also be charged out as part of the service income. From YA 2026, IRAS has retained its technical position on the former while adopting a more practical approach on the latter where the SBC cost is not actually recharged.

For taxpayers, this may broaden the range of viable approaches to managing SBC in intercompany charging models. Depending on the facts, groups may compare the implications of recharging SBC, retaining the amounts as notional costs, or structuring arrangements so that the costs do not sit in the Singapore entity's accounts. That analysis should be undertaken holistically, taking into account accounting treatment, tax deductibility, transfer pricing outcomes and, where relevant, Pillar Two considerations in Singapore.

What to review now

Although the clarification applies from YA 2026, businesses should also assess whether there are implications for prior years, particularly as IRAS has made clear that there is no automatic retroactive application. In the absence of an express administrative concession for earlier periods, the appropriate treatment will depend on the facts, contemporaneous documentation and any prior engagement history with IRAS. Taxpayers with ongoing audits, existing disputes or material SBC balances in Singapore may therefore wish to review both their historical positions and their go-forward operating model, including whether proactive engagement with IRAS would be appropriate.

Businesses with Singapore entities operating under TNMM-based transfer pricing policies should consider whether the TPG9 clarification affects their transfer pricing policies, recharge mechanics, tax deductibility position and supporting documentation. For many groups, now will be a timely opportunity to revisit both historical treatment and future design before positions become embedded.

We would be pleased to discuss how the TPG9 clarification may affect your existing arrangements, historical positions and future transfer pricing model.

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