



New Transfer Pricing Guidelines on Centralised Activities in Multinational Enterprise Groups

The Inland Revenue Authority of Singapore (IRAS) published the e-Tax Guide – ‘Transfer Pricing Guidelines Special Topic – Centralised Activities in Multinational Enterprise Groups’ in March 2021.

Singapore is a preferred location for multinational enterprises to locate their global or regional headquarters, and this e-Tax Guide seeks to address some of the common transfer pricing considerations that are relevant to these headquarters. One of the key topics under this e-Tax Guide is the recognition that centralised activities and services are often undertaken by headquarter entities. The guide provides additional guidance on how the transfer prices for such activities should be analysed.

Broadly, the principles and guidance in the e-Tax Guide align with the IRAS’ Transfer Pricing Guidelines. The arm’s length principle continues to be endorsed and taxpayers are required to perform comparability and functional analyses, and select the most appropriate transfer pricing method when determining the arm’s length remuneration for centralised services. The e-Tax Guide reiterates transfer pricing documentation requirements and the associated fine of S\$10,000 should a taxpayer fail to comply with the transfer pricing documentation rules. In addition, the e-Tax Guide also briefly mentions the measures, such as Advance Pricing Arrangement and Mutual Agreement Procedures, that are available to help taxpayers obtain early tax certainty and/or relief from double taxation.

The e-Tax Guide discusses that there could be different degrees and intensity of centralised activities performed by regional headquarters. For example, on one side of the spectrum, a regional headquarters could act as a simple back office service provider versus the other side of the spectrum whereby it could be the principal in distribution, manufacturing or research and development and act as the entrepreneurial entity. Some examples that are discussed in the e-Tax Guide are as follows.

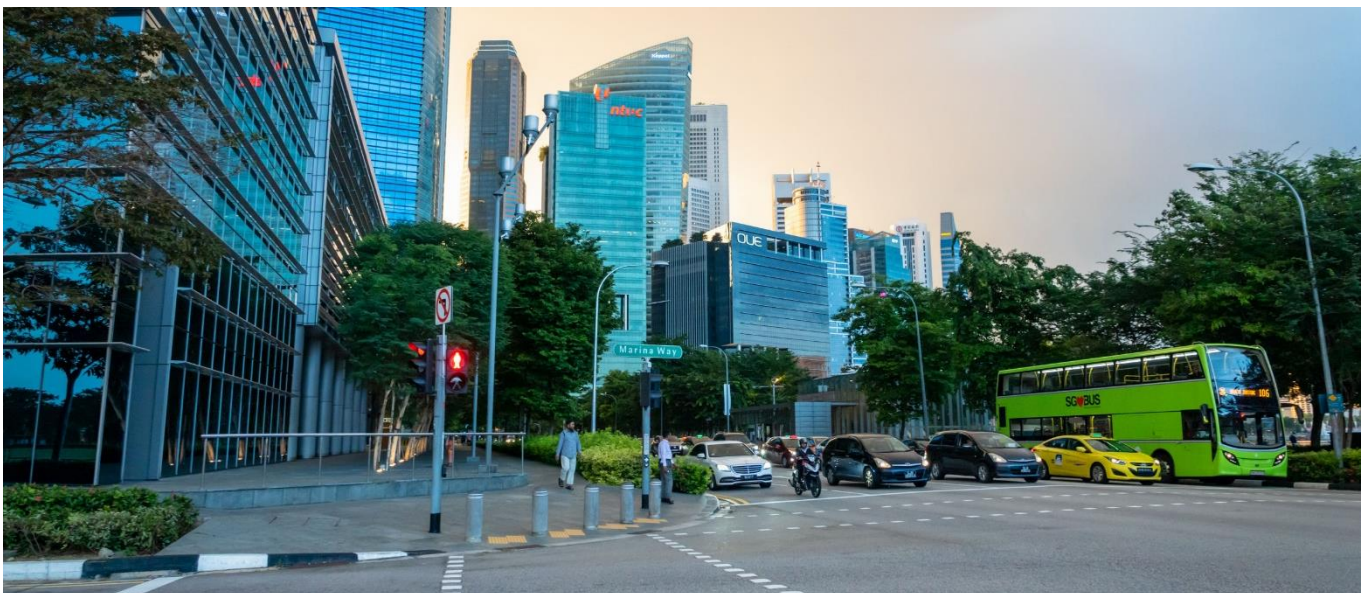
- In cases where the regional entity is a service provider, its costs incurred would provide a value to functions performed and therefore the cost-plus method or the transactional net margin method (TNMM) could be appropriate.
- In cases where the regional entity is a distributor and is responsible for driving sales, a return that is based on sales could be appropriate. On the other hand, in cases where the regional entity is a distributor and is not involved in driving sales, alternative profit level indicators that focuses on cost may be appropriate.
- In cases where the regional entity is involved in the core business processes as well as assumes significant risks, the profit split method may be considered most appropriate.

KPMG Observations

Following the introduction of transfer pricing legislation and transfer pricing documentation rules in the Income Tax Act and the publication of detailed transfer pricing guidance, including the most recent guidance on the transfer pricing implications of COVID-19, IRAS published yet another transfer pricing guidance on a topic very relevant to many multinationals operating in Singapore. This reflects IRAS' continued focus on transfer pricing and their commitment to strengthen Singapore's rules and guidance on transfer pricing. The e-Tax Guide also highlights that the remuneration to regional headquarters should commensurate to the functions performed, risks borne and assets used, and thus a cost-plus approach may not always be the most appropriate transfer pricing method. Taxpayers should ensure their related-party transactions, including centralised services, are conducted at arm's length and contemporaneous transfer pricing documentation should also be prepared where required.

How we can help

As a committed tax advisor to our clients, we welcome the opportunity to discuss how the e-Tax Guide may impact your business and how we can assist.



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