

Transfer Pricing Documentation Singapore

What is a transfer pricing documentation?

Transfer pricing documentation (TP Documentation) is a report that includes and analysis on how taxpayers apply the arm's length principle to their international related party transactions. TP documentation is divided into three key areas:

1. **Company and Industry Analyses:** provide an overview of the taxpayer's business model. The industry analysis sets the 'big picture scene' of the macroeconomic conditions that can affect the business.
2. **Functional Analysis and Characterisation:** examines the supply chain by providing an overview of the transaction and how it is performed by the parties involved. The general rule is to include an analysis of (1) Functions, and activities being carried (2) Risks assumed by the parties involved and (3) Assets utilised to carry the functions.
3. **Economic and Benchmarking Analyses:** involves a 'test' to support what the functional analysis is suggesting as an appropriate remuneration for the tested party and the tested transaction. This test is performed using comparables data to support that either the prices or margins in relation to the tested transaction are in line with the market (in accordance with the arm's length principle).

Why is it important to prepare TP documentation?

The short answer is **RISK MITIGATION** and **ASSURANCE**.

TP documentation can be similar to an insurance policy to cover your related party transactions in case of an 'incident.' The incident in our case being a review or audit by the tax authorities. The end game is to defend the transaction with the TP documentation when times get tough with tax authorities.

TP documentation is seen as a 'good practice' by tax authorities, and it will definitely help in responding questions from them. This is particularly important given that related party transactions

are reviewed several years after the transaction has happened. Without TP documentation in place, it could be difficult to explain to tax authorities the reasons for the transaction, especially if the people involved moved out of the organisation or if the business has changed.

TP documentation will, therefore, assist in keeping evidence of the history of the transaction and what happen at the time the transaction was entered.

Who should prepare TP documentation?

Transfer pricing documentation is expected to be prepared by taxpayers who entered into related party transactions to show evidence on how the pricing of the transaction is in line with the arm's length principle.

Is TP Documentation a requirement for all related party transactions?

In practice, tax authorities around the world have an expectation that TP documentation is prepared to support the pricing of related party transactions. However, tax authorities provide some reliefs measures based on materiality and type of transactions.

Singapore IRAS has stated in its transfer pricing guidelines specific cases where taxpayers are not expected to prepare TP documentation. These cases are:

1. **Domestic Transactions:** Transactions between related parties located in Singapore where both parties are subject to the same Singapore tax rate (excluding loans).
2. **Loans:** Domestic loans between related parties located in Singapore where the lender is not in the business of borrowing and lending.
3. **Loans:** where taxpayers apply the indicative margin published by the IRAS and the loan complies with other conditions stated in the transfer pricing guidelines.
4. **Routine Services:** where taxpayers apply a 5% mark-up on cost for services considered as 'routine or low value added' as opposed to services core to the business activity. This exception applies only to 'routine or low-value services' that comply with all conditions stated in the transfer pricing guidelines.
5. **APA:** where the related party transaction is covered by an APA.
6. **Value of the transaction:** where the total amount of the related party transaction for the financial year does not exceed the below thresholds:

Type of related party transactions	Threshold (S\$) per financial year
Purchase of goods from all related parties	15 million
Sale of goods to all related parties	15 million
Loans owed to all related parties	15 million
Loans owed by all related parties	15 million
All other categories of related party transactions. Examples: service income, service expense, royalty income, royalty expense, rental income, rental expense, guarantee income, guarantee expense.	1 million per category of transactions

When do I prepare TP documentation?

TP documentation should be contemporaneous to the related party transaction. Ideally, the documentation should be prepared prior or at the time of entering the transaction and in any case no later than at the time of completing and filing the tax return for the financial year in which the transaction takes place. For instance, transfer pricing documentation for the financial year 2015 should be ready latest by the time you lodge the tax return for the financial year 2015.

Questions?

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