

IRAS clarifies the transfer pricing treatment of share-based compensation

Revised treatment from YA 2026, with one-off relief for YAs 2022 to 2025

Overview

We draw your attention to the latest guidance from the Inland Revenue Authority of Singapore ("IRAS") on the treatment of share-based compensation ("SBC") expenses for transfer pricing purposes. The guidance affects Singapore entities that provide services to related parties and are remunerated on a cost plus basis, particularly those whose employees participate in share plans operated by an overseas parent or group company.

The guidance also introduces a time-limited opportunity to regularise past years. The first submission deadline falls on 15 November 2026, so affected taxpayers should act soon.

IRAS' position on SBC

IRAS considers SBC to form part of employee remuneration. It is therefore a cost of providing the service, in the same way as salaries and bonuses.

Where a company provides services to related parties and applies the Transactional Net Margin Method ("TNMM") with the full cost mark-up ("FCMU") as the profit level indicator, SBC expenses relating to the employees performing those services must be included in the cost base when applying the mark-up. This applies regardless of whether:

- ▶ the costs are recharged to the company by a related party (for example, through a group recharge of the share plan cost); or
- ▶ the costs are recognised only as notional expenses in the company's accounts, with no actual recharge.

In practice, this closes a gap we commonly see: service providers that leave uncharged or notional SBC out of the cost base, and so earn a mark-up on a lower cost base than IRAS expects.

Revised treatment from YA 2026

Under the revised treatment effective from Year of Assessment ("YA") 2026, uncharged or notional SBC costs themselves may be excluded from service income. However, the corresponding mark-up must still be included. This is set out in paragraph 5.120 of the IRAS Transfer Pricing Guidelines.

The effect is that the company is not required to recover the notional SBC cost itself from the related party, but it must earn the arm's length return on that cost. The table below compares a taxpayer that did not include notional SBC in the cost base to be marked up with the position after revising for SBC, using hypothetical figures and a 5% mark-up.

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Illustrative figures (S\$)	As filed (no SBC mark-up)	Revised (SBC mark-up)
Other service costs	900,000	900,000
Notional SBC (not recharged)	100,000	100,000
Cost base for mark-up	900,000	1,000,000
Mark-up at 5%	45,000	50,000
Service income (excl. notional SBC)	945,000	950,000
Increase in service income	–	5,000

Notional SBC is excluded from service income in both columns. The revision adds the S\$5,000 mark-up on it, increasing taxable profit by S\$5,000. Figures are illustrative only.

One-off relief for YAs 2022 to 2025

As a one-off measure, taxpayers that did not apply a mark-up on uncharged or notional SBC costs for YAs 2022 to 2025 may submit revised tax computations showing full details of the mark-up. Subject to submission by the deadlines below, IRAS is prepared to:

- ▶ apply the revised treatment to YAs 2022 to 2025; and
- ▶ waive the Section 34E surcharge on the resulting transfer pricing adjustments.

The waiver is significant. Absent relief, Section 34E of the Income Tax Act imposes a surcharge on transfer pricing adjustments, so voluntary correction within the window should materially reduce the cost of regularising prior years.

Submission deadlines

Year of Assessment	Submission deadline for revised tax computation
YA 2022	15 November 2026
YAs 2023 to 2025	28 February 2027

Action required

We recommend that potentially affected taxpayers act promptly. In particular, you should:

- ▶ **Assess your position.** Determine whether your entity provides services to related parties on a TNMM / FCMU basis, whether its employees receive SBC, and whether SBC (charged or notional) has been included in the cost base for YAs 2022 to 2025.
- ▶ **Quantify the exposure.** Where no mark-up was applied on uncharged or notional SBC, estimate the mark-up shortfall for each affected YA.
- ▶ **Determine whether revised tax computations are required.** If so, plan the submissions so that the 15 November 2026 deadline (YA 2022) and the 28 February 2027 deadline (YAs 2023 to 2025) are met. Given the lead time needed to collate SBC data from overseas group entities, we suggest starting now.
- ▶ **Prepare supplementary transfer pricing documentation.** Supplementary documentation may be required to substantiate the calculation of the adjustments, for example the SBC cost data and its source, the allocation of SBC to employees performing the relevant services, and the mark-up computation. Consider updating your transfer pricing documentation for the affected years as well.
- ▶ **Consider the GST implications.** Under IRAS' e-Tax Guide on GST: Transfer Pricing Adjustments (Sixth Edition),

transfer pricing adjustments may have corresponding GST implications where they change the original value of supplies made to or received from related parties. The GST treatment generally follows that of the underlying supply. However, administrative concessions may remove the need for a GST adjustment where the relevant conditions, including those relating to full input tax credit entitlement, are met. Affected taxpayers should therefore assess the GST treatment, applicability of these concessions and appropriate reporting period when regularising their transfer pricing position. Taxpayers should also retain supporting documents and records to substantiate the GST treatment adopted and their eligibility for any administrative concession applied.

- ▶ **Apply the revised treatment going forward.** Reflect the paragraph 5.120 approach in pricing policies, intercompany agreements and documentation from YA 2026.

How we can help

The BDO tax team can assist with reviewing your cost base and pricing policy, quantifying the adjustments, assess the corresponding GST implications, preparing the revised tax computations and supporting transfer pricing documentation, and engaging with IRAS where required. Please speak to your usual BDO contact.

This alert is intended for general information only and does not constitute professional advice. Please seek advice specific to your circumstances before acting. Based on IRAS guidance as at October 2026.