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Singapore Transfer Pricing Update: Aligning the 9th Edition TPG with Share-Based Compensation Tax Reforms

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The Inland Revenue Authority of Singapore (IRAS) released the 9th Edition of its Transfer Pricing Guidelines (TPG) on 4 June 2026, introducing targeted guidance on the treatment of share-based compensation (SBC). This development follows closely on the heels of the Budget 2025 corporate tax changes (effective from YA 2026), which expanded the tax deductibility of SBC arrangements.

Viewed together, these changes represent a coordinated shift by IRAS to address a longstanding inconsistency between transfer pricing outcomes and corporate tax treatment, particularly for multinational groups operating cost-based service models in Singapore.

A Longstanding Disconnect between TP and Tax

Historically, the treatment of SBC in Singapore created a structural inconsistency. From a transfer pricing perspective, IRAS has consistently regarded SBC as part of employee remuneration, meaning that such costs should form part of the cost base when applying arm's length pricing, especially under cost-plus arrangements.

This position applied broadly, regardless of whether the SBC cost was actually charged to the Singapore entity, uncharged but economically attributable, or merely recognised as a notional accounting expense. As a result, Singapore service entities were often required to apply a mark-up on SBC costs, thereby increasing taxable service income.

However, the corporate tax treatment did not always follow this economic outcome. Prior to YA 2026, tax deductions were generally not available for SBC linked to new shares issued by a parent company, particularly where there was no actual cash outflow or recharge.

The combined effect was a clear mismatch: taxpayers could face higher taxable income under transfer pricing rules without a corresponding tax deduction, leading to an economically distortive and often contested outcome.

Budget 2025: Expanding Tax Relief for SBC

Singapore took a significant step towards resolving this mismatch through enhancements announced in Budget 2025, which apply from YA 2026 onwards.

The key change is the introduction of a tax deduction for payments made by a Singapore entity to its holding company or a special purpose vehicle (SPV) in connection with the issuance of new shares under an Employee Equity-Based Remuneration (EEBR) scheme.

This represents a notable expansion from the previous regime, where deductions were typically limited to treasury shares or previously issued shares of the company or the holding company that are transferred to employees under EEBR schemes, and did not extend to new share issuances.



The amount of deduction is subject to a cap, being the lower of:

- ▶ The amount paid by the company for the shares issued or transferred to its employees.
- ▶ The price of the shares in the open market at the time of issue or transfer to the employees or if it is not possible to determine that price, the net asset value of the shares at the time of issue or transfer to the employees.

In all instances, the amount deductible is reduced by any amount payable by employees for the shares.

These changes significantly improve the alignment between economic cost and tax deductibility, but on their own do not fully address how SBC should be reflected in the transfer pricing computation of service income.

The 9th Edition TPG: Introducing Practical Relief on the TP Side

The 9th Edition TPG completes this picture by introducing a new FAQ (Paragraph 5.120) clarifying the transfer pricing treatment of SBC. This is the only substantive update in the new edition, but it addresses an issue that has long been a source of uncertainty and contention.

IRAS continues to reaffirm the underlying principle that SBC constitutes remuneration for employee services and therefore should remain part of the cost base when applying the arm's length principle. This maintains consistency with OECD guidance and prior IRAS positions.

The key development, however, is the introduction of a practical concession effective from YA 2026. While SBC must still be included in the cost base for purposes of computing the arm's length mark-up, uncharged and notional SBC costs may be excluded from the calculation of service income.

In contrast, SBC that is actually incurred and charged to the Singapore entity continues to be included in both the cost base and service income. This distinction introduces an important refinement in the application of transfer pricing rules, recognising the practical difficulties and distortions created by purely notional or uncharged amounts.

A More Coherent Framework From YA 2026

The interaction between the corporate tax changes and the updated transfer pricing guidance is critical. Taken together, they significantly reduce the mismatch that previously arose.

On the one hand, taxpayers are now able to access tax deductions for qualifying SBC payments, including those relating to new share issuances by holding companies or SPVs. On the other hand, the transfer pricing rules now provide relief from overstatement of taxable service income by allowing the exclusion of uncharged and notional SBC from the revenue side of the calculation.

This combined approach results in a more balanced and economically aligned framework, addressing what had been a persistent pain point for multinational groups operating in Singapore.



Implications for Taxpayers

For businesses, particularly those with Singapore entities operating under cost-plus service arrangements, these changes are expected to have a meaningful impact on both effective tax outcomes and compliance approaches.

There is now a need to carefully consider how SBC costs are classified and treated for transfer pricing purposes, distinguishing between incurred, uncharged and notional amounts. This classification directly affects whether such costs remain in taxable service income from YA 2026 onwards.

At the same time, companies should reassess the tax efficiency of their employee equity-based remuneration structures with respect to the expanded tax deduction rules, particularly where arrangements involve holding company share issuances or SPV recharge mechanisms may be involved.

Finally, the increased clarity provided by IRAS is likely to be accompanied by greater scrutiny, as the tax authority has now articulated a clear expectation on how SBC should be treated. Ensuring consistency between transfer pricing documentation and corporate tax filings will therefore be critical.

Conclusion

The release of the IRAS 9th Edition Transfer Pricing Guidelines, alongside the SBC tax deduction enhancements effective from YA 2026, marks a significant evolution in Singapore's tax framework for employee share-based remuneration.

While the arm's length principle continues to require SBC to be recognised within the transfer pricing cost base, the introduction of targeted concessions and broader tax deductibility has substantially improved the alignment between economic substance and tax outcomes. For multinational groups, this represents a welcomed development that brings greater clarity, reduces unintended tax burdens, and enhances Singapore's attractiveness as a base for regional operations.

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