



**Deloitte Singapore TP Webinar:  
New Singapore transfer pricing guidance for COVID-19 and  
strategic considerations**

October 2020

# Speaker and panellists



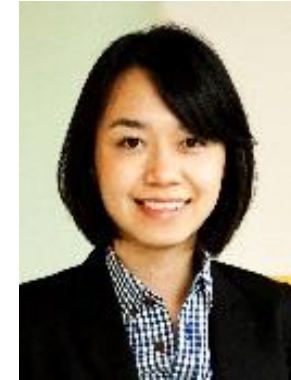
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**Presenter**

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# Agenda

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Topic	Presenter / Panellists	Timing
<b>Introduction</b>	Anh Pham / See Jee Chang / Jun Igarashi	10:00 a.m. – 10:05 a.m.
<b>Part 1: New Singapore transfer pricing guidance for COVID-19</b> 1) TP documentation and substantiation of arm's length outcomes for businesses impacted by COVID-19 2) Concession to apply term-testing for YA 2021 3) COVID-19 and the impact on APAs	Anh Pham	10:05 a.m. – 10:30 a.m.
<b>Part 2: Q&amp;A and strategic considerations</b>	Anh Pham / See Jee Chang / Jun Igarashi	10:30 a.m. – 11:00 a.m.

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# **New Singapore transfer pricing guidance for COVID-19**

# New TP Guidance for COVID-19

On September 7, 2020, IRAS issued guidance on COVID-19.

<https://www.iras.gov.sg/irashome/COVID-19-Support-Measures-and-Tax-Guidance/Tax-Guidance/Transfer-Pricing/>

The main points of the guidance are:



## Information to be included in Local File

Qualitative and quantitative analysis of the impact of COVID-19 on industry and taxpayers



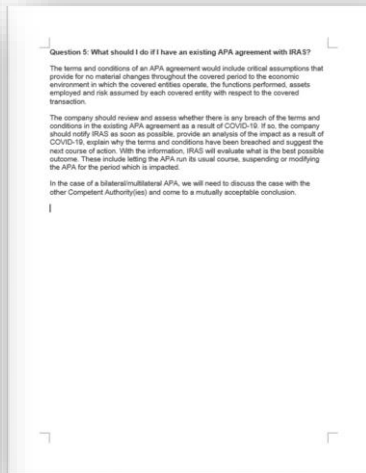
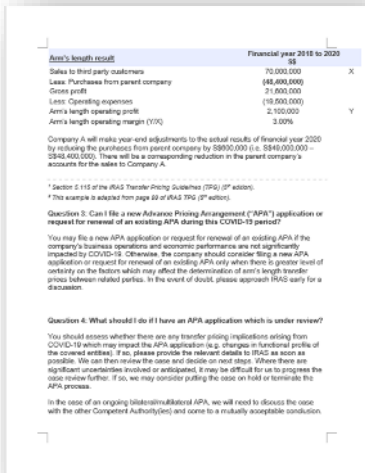
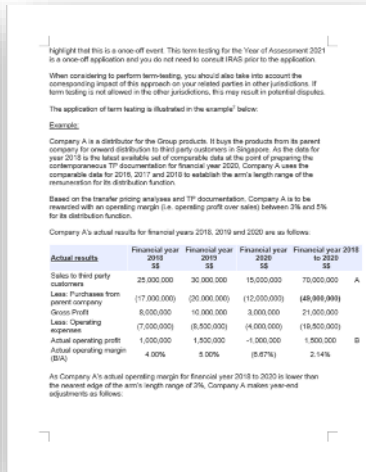
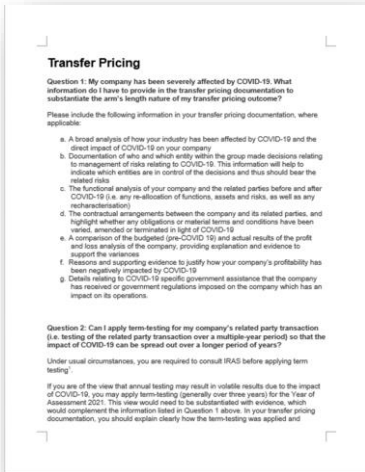
## Term-testing

Applicable without prior inquiry to IRAS only for the year of assessment 2021 (YA 2021)



## APA

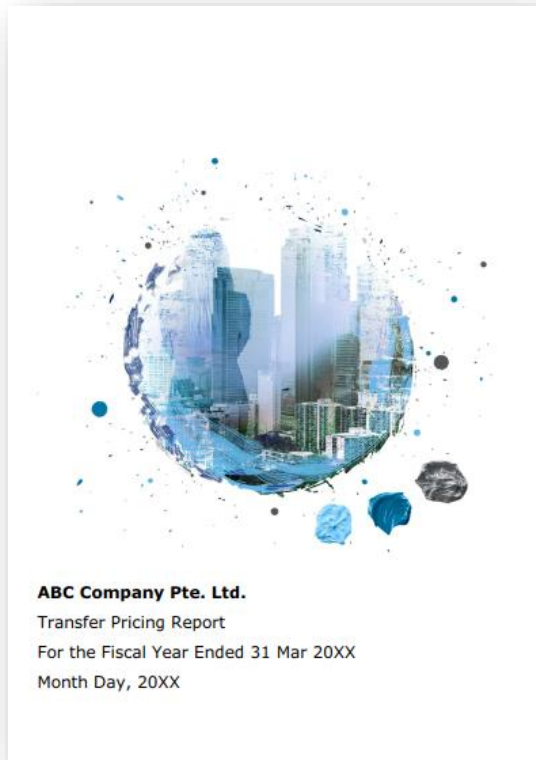
New/renewal, under review and existing APAs





# Details of TP Guidance for COVID-19

Local file is a document that demonstrates that transfer prices are determined in accordance with the arm's length principle



## 1. Corporate Profile

- i. Organizational structure
- ii. Product Overview

## 2. Industry analysis

- i. Global Markets and Competitors
- ii. Customer base
- iii. Market and Regulation

## 3. Related-party transaction

- i. Types and amounts of related party transactions
- ii. Pricing Policy

## 4. Functional and risk analysis

- i. Research and development activities
- ii. Manufacturing activity
- iii. Sales activity
- iv. Risk
- v. Value chain analysis

## 5. Economic analysis

- i. Verification method
- ii. Transfer pricing method
- iii. Search for Comparison Companies
- iv. Calculation of arm's length price

## 6. Conclusions



## Singapore TPD regulations

### 1. Obligation to Prepare (every year)

Total revenue > S\$10 million and required to prepare TPD for the immediate preceding year (Once the obligation is established, even if the gross income falls below S\$10 million in the following year, the obligation is enforced for 3 consecutive years.)

### 2. Exemption

- a) Transactions with domestic affiliates at the same tax rate
- b) Loan transactions with domestic affiliates and lender is not in the business of borrowing and lending money
- c) Loan transactions on which indicative margin is applied (loan not exceeding S\$ 15m)
- d) Routine support services on which 5% cost mark-up is applied
- e) Related party transaction covered by APA
- f) Transactions not exceeding certain value (e.g. S\$15m for FG or S\$1m for services)

### 3. Preparation deadline

Tax Return Deadline (By the end of November or mid Dec (for e-filing) for YA 2020)

### 4. Obligation to submit

Within 30 days upon IRAS' request

### 5. Penalty

S\$10,000 per violation (Other implications include refusal of APA application/not having access to MAP, application of 5% surcharge, etc.)



# Details of TP Guidance for COVID-19

The following information should be included in the local file where applicable:



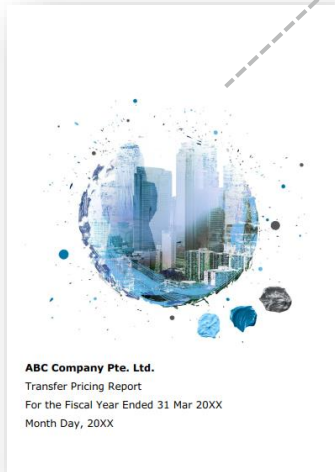
A broad analysis of how your industry has been affected by COVID-19 and the direct impact of COVID-19 on your company

- Prepare qualitative and quantitative explanations of the impacts common to the industry and the impacts directly on the company



Documentation of who and which entity within the group made decisions relating to management of risks relating to COVID-19. This information will help to indicate which entities are in control of the decisions and thus should bear the related risks

- Identify key decision makers and prepare qualitative explanations of decisions relating to risk management



### e.g.) Industry analysis

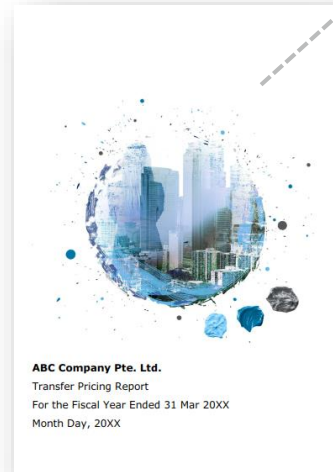
The industry, market, regulatory and economic conditions in which the group/applicable entity operates in that basis period

#### Tourism, hotel and restaurant industries

Decreased demand due to restrictions on outings and travel

#### Automobile and auto parts industry

Restrictions on outings and plant shutdowns affect both manufacturing and sales



### e.g.) Functional analysis

A functional analysis describing the functions performed, assets (including intangible assets) employed or contributed, and risks assumed by each party to each transaction

#### Perform functions = Bear risks

- ✓ Did the head office issue any instructions under the influence of COVID-19?
- ✓ Did the Singapore Company make its own decision in accordance with Singapore 's restriction measures?

The person who performed the functions (controlled) must bear the relevant risks but cannot only bear the risks without performing the relevant functions.



# Details of TP Guidance for COVID-19

The following information should be included in the local file where applicable:



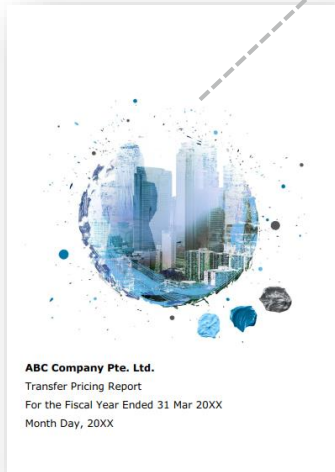
The functional analysis of your company and the related parties before and after COVID-19 (i.e. any re-allocation of functions, assets and risks, as well as any recharacterisation)

- Check for changes in functions and risks, and prepare a qualitative explanation



The contractual arrangements between the company and its related parties, and highlight whether any obligations or material terms and conditions have been varied, amended or terminated in light of COVID-19

- Check for changes in inter-company agreements and prepare qualitative explanations on those changes



### e.g.) Functional analysis

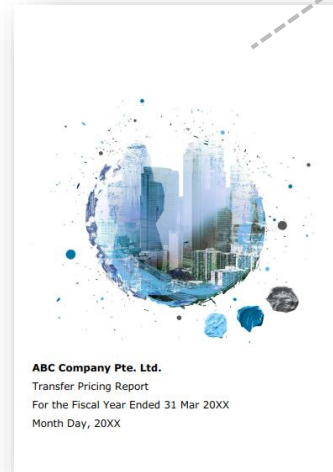
A functional analysis describing the functions performed, assets (including intangible assets) employed or contributed, and risks assumed by each party to each transaction

### Inventory control

Transfer of inventory control function from Singapore subsidiary to the Head Office

### Contract manufacturing

The Singapore subsidiary that was engaged in manufacturing and sales is converted to a contract manufacturing company (Head Office purchases all the products from the Singapore subsidiary for further distribution)



### e.g.) Inter-company agreements

Contracts or agreements showing terms of each transaction

### Force Majeure clause

Removing liability for "human actions" such as wars, riots, strikes, government orders etc., and "natural disasters" such as earthquakes, typhoons, floods, tornadoes, etc.

### Others

- ✓ Royalty rate reduction
- ✓ Reduction in fees





# Details of TP Guidance for COVID-19

The following information should be included in the local file where applicable:



A comparison of the budgeted (pre-COVID-19) and actual results of the profit and loss analysis of the company, providing explanation and evidence to support the variances

- Qualitatively and quantitatively explain that the difference between the budget and actual results was caused by COVID-19

**e.g.) Comparability adjustment (/special factor analysis)**  
 Information and documents to support any adjustments made to achieve comparability between the tested party or tested transaction and the comparable companies or transactions (where applicable)



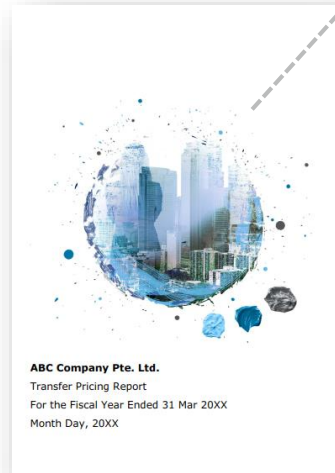
- Decrease in sales**  
How much impact on sales was there due to decreased demand, plant shutdown, etc.?
- Decrease in profit**  
How does COVID-19 impact profits and how is the actual profit compared to the budget?



Reasons and supporting evidence to justify how your company's profitability has been negatively impacted by COVID-19

- Qualitatively and quantitatively explain the negative effects of COVID-19

**e.g.) Comparability adjustment (/special factor analysis)**  
 Information and documents to support any adjustments made to achieve comparability between the tested party or tested transaction and the comparable companies or transactions (where applicable)



- Negative impacts**
- Sales:
  - ✓ Reduced demand due to restrictions on travels and immigration, and telecommuting
  - ✓ Production and sales suspension / reduction due to plant shutdown



# Details of TP Guidance for COVID-19

The following information should be included in the local file where applicable:

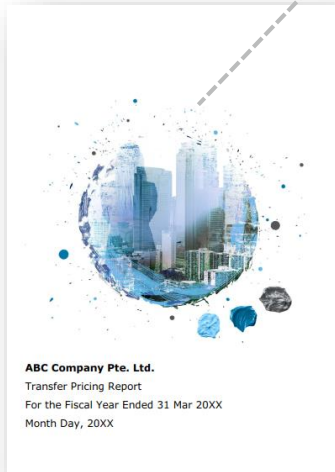


Details relating to COVID-19 specific government assistance that the company has received or government regulations imposed on the company which has an impact on its operations

- Describe the government subsidies and regulations that have affected business activities and their impacts

### e.g.) Comparability adjustment (/special factor analysis)

Information and documents to support any adjustments made to achieve comparability between the tested party or tested transaction and the comparable companies or transactions (where applicable)



### Subsidy

- ✓ Job Support Scheme
- ✓ Passing on of Property Tax rebate benefit
- ✓ Extended levy rebates and waivers for businesses in construction, marine shipyard, and process sectors

### Regulations

- ✓ Circuit breaker
- ✓ Stay At Home Notice Period (remain at home)
- ✓ Quarantine Orders (isolation)

# Details of TP Guidance for COVID-19

Term-testing only for YA 2021

## Single-year testing

To test the annual profit level of the company

## Term-testing

Test the multi-year (usually 3 years) profit level (weighted average) of the company

	FYE 2018	FYE 2019	FYE 2020	FYE 2018 - FYE 2020
Sales to 3P customers	25,000,000	30,000,000	15,000,000	70,000,000
Purchases from RP	(17,000,000)	(20,000,000)	(12,000,000)	(49,000,000)
Gross profit	8,000,000	10,000,000	3,000,000	21,000,000
Operating expenses	(7,000,000)	(8,500,000)	(4,000,000)	(19,500,000)
Actual operating profit	1,000,000	1,500,000	(1,000,000)	1,500,000
Actual operating margin	4.00%	5.00%	6.67%	2.14%

Arm's length range (Multiple Years)



# Details of TP Guidance for COVID-19

If the profit level falls below the range even after applying term-testing, consider year-end adjustments



## Term-testing

If the multi-year result is below the lower limit of the range, we will consider adjusting to the lower quartile.

	FYE 2018	FYE 2019	FYE 2020	FYE 2018 - FYE 2020	FYE 2018 - FYE 2020
Sales to 3P customers	25,000,000	30,000,000	15,000,000	70,000,000	70,000,000
Purchases from RP	(17,000,000)	(20,000,000)	(12,000,000)	(49,000,000)	(48,400,000)
Gross profit	8,000,000	10,000,000	3,000,000	21,000,000	21,600,000
Operating expenses	(7,000,000)	(8,500,000)	(4,000,000)	(19,500,000)	(19,500,000)
Actual operating profit	1,000,000	1,500,000	(1,000,000)	1,500,000	2,100,000
Actual operating margin	4.00%	5.00%	(6.67%)	2.14%	3.00%

Adjust (reduce) the purchases from related parties

Arm's length range (Multiple Years)

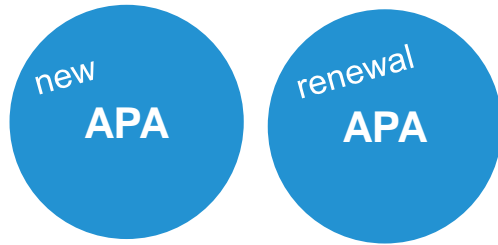


Term-testing may not be approved in some overseas countries or regions, so it is necessary to confirm with these countries first before applying or making adjustments

# Details of TP Guidance for COVID-19

## Action varies depending on the APA status

APA requires considerations on a case-by-case basis. Please consult a specialist if you have any questions.



New and renewal

No significant impacts from COVID-19

➔ Applicable

Significant impacts from COVID-19

➔ Recommend deferring submission until a greater level of certainty about factors which may affect determination of arm's length transfer prices

➔ Contact IRAS if in doubt



Under review

Not impacted by COVID-19

➔ Continuation of examination and negotiation

Impacted by COVID-19

➔ Inform IRAS immediately of any changes in the functions or risks of the covered entities

➔ IRAS will decide whether or not to proceed. IRAS will also discuss with the Competent Authorities for BAPA / MAPA



Existing

**Important business or economic conditions that are prerequisite for the continuity of the APA**

Examples: No major changes have been made to nature of business or business organization; no major revisions have been made to laws and regulations governing the business; and no major changes have been made to the economic conditions surrounding the business (exchange rates, etc.).

No breach of critical assumptions or other conditions

➔ Continue

Breach of terms and conditions

➔ Provide IRAS with impact analysis, reasons for the breaching, and proposed next course of action

➔ IRAS decides whether to let the APA run its usual course, suspend or modify the APA period with impacts

# **Q&A and strategic considerations**

## Q&A Session

### Q1

**Please provide us some advice on typical TP issues relating to COVID-19 (via the three cases below) and applicability of the Guidance from the three perspectives below.**

#### Cases:

Case 1: Due to COVID-19, Singapore entity's margin falls below the inter-quartile range

Case 2: Singapore company is a trading / distribution hub of SEA / APAC operation

Case 3: Singapore Regional HQ provides management support services to SEA / APAC related parties

#### Perspectives:

i) Expected issues and potential argument points with the tax authorities

ii) Preparation of TP documentation (including supporting documents) for the future years (i.e. YA 2021 and beyond) and this year (i.e. YA 2020)

iii) APA and MAP strategies

### Q2

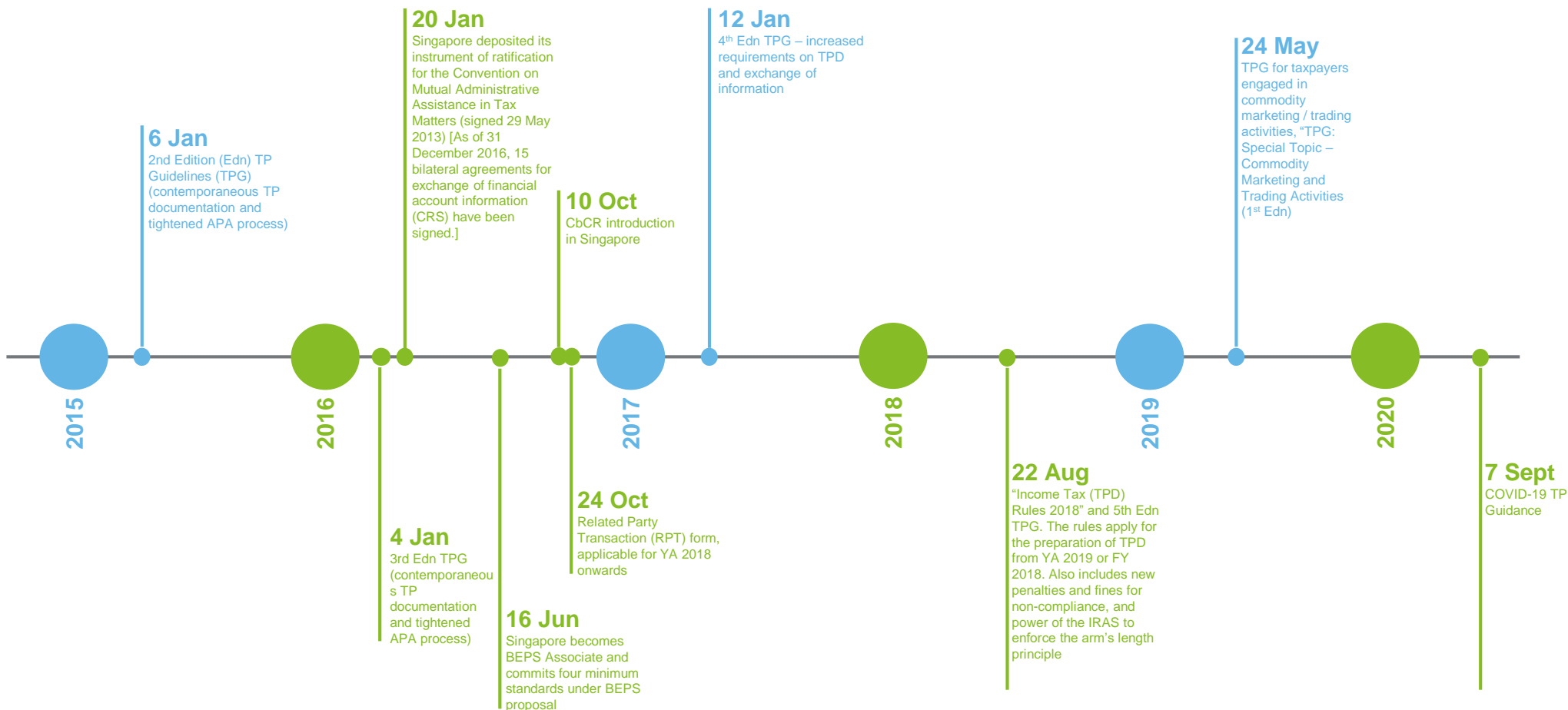
**Under the post-BEPS and COVID-19 era and with limited resources (human, finance etc.) for TP risk management, do you have any tips on efficient and effective TP risk management (TP strategies, TP documentation, TP audit management, etc.)?**

1. Steps to follow to manage TP risks relating to COVID-19
2. What to keep in mind in order to prepare TP documentation efficiently (with low costs and quickly) and effectively (convincing)
3. Ideas to prepare for future TP audits and investigations

# **Appendix 1 – Singapore Transfer Pricing regulations**



# TP Regulations



# TP Compliance Requirements

Requirements	TP documentation	Country-by-country (“CbC”) reporting	Related party transaction (“RPT”) form
<b>Content</b>	The Singapore TP Guidelines contain an expanded list of information required to be included in the TP documentation, particularly organised into “Group level” and “Entity level” information. However, the guidelines do not require or advocate that the documentation be prepared in a “master file” and “local file” format/report.	Global allocation of income, taxes paid, and certain indicators of the location of economic activities among tax jurisdictions in which the reporting MNE group operates, and a listing of all the entities for which financial information is reported.	Disclose information on RPT: <ul style="list-style-type: none"> <li>• Particulars of company;</li> <li>• Ultimate holding company;</li> <li>• Details of RPT; and</li> <li>• Specific information on sale of goods, provision of services, purchase of goods and services, loans and non-trade amounts</li> </ul>
<b>Applicability</b>	<ul style="list-style-type: none"> <li>• Annual gross business for the basis period concerned exceeds SGD 10M; or</li> <li>• Required to prepare TPD under Section 34F for the immediate preceding year</li> </ul>	<ul style="list-style-type: none"> <li>• Singapore MNE group;</li> <li>• Consolidated group revenue at least SGD 1,125M; and</li> <li>• Having subsidiaries/operations in least one foreign jurisdiction</li> </ul>	Value of RPT exceeds SGD 15M
<b>Deadline</b>	Before the tax filing date <ul style="list-style-type: none"> <li>• YA 2020: 30 November (manual filing) or 15 December (e-filing)</li> <li>• YA 2021 onwards: 30 November</li> </ul>	Within 12 months from the end of the financial year (which starts on or after 1 January 2017)	Before the tax filing date <ul style="list-style-type: none"> <li>• YA 2020: 30 November (manual filing) or 15 December (e-filing)</li> <li>• YA 2021 onwards: 30 November</li> </ul>

Singapore supports the BEPS Action Plan, and endorses and adopts the OECD arm’s length principle

## **Appendix 2 – CVs of presenter and panellists**

# Panellists

## Profile



**Jun Igarashi**  
**SEA Japanese TP Leader**  
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Jun Igarashi is a Tax partner with the Transfer Pricing service line at Deloitte Tohmatsu Tax Co.

Jun has been involved in TP practice for more than fourteen years with experience of working in Japan, U.S. (Washington D.C. and New York) and Singapore. Jun has been involved in advisory projects for many multinational corporations across industries such as oil and gas, high-tech group, pharmaceutical, trading house, logistics etc. Jun has advised clients on global TP planning & documentation, assistance in transfer price audit defence, tax appeals and Advance Pricing Agreement Procedures ("APA"), value chain transformation and tax reporting & strategy.

Jun was a member of PwC's Global Japan Business Network ("JBN") as a Country Leader of PwC Singapore and Myanmar's Japan business practice and responsible for providing comprehensive supports to Japanese clients in Singapore and Myanmar by leading more than 20 Japanese professionals with various service lines.

He graduated from Georgetown University Tax LL.M (Masters of Law with distinction) in Washington D.C. United States. He also received B.A. in Law from Waseda University in Tokyo, Japan and M.S. in Business Systems from Monash University in Melbourne, Australia.



**See Jee Chang**  
**Partner – Singapore TP Leader**  
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jcsee@deloitte.com

Jee Chang leads the transfer pricing practice in Deloitte Singapore. He has more than 24 years of experience in taxation, and had previously worked for the Inland Revenue Authority of Singapore ("IRAS") for more than 10 years. At the IRAS, he was Tax Director of the Tax Policy & International Tax Division, where he served as Singapore's Competent Authority, responsible for the negotiation of Advance Pricing Arrangements ("APAs"), settlement of transfer pricing disputes, and conducting tax treaty negotiations. He led the team in IRAS responsible for formulating the policy and technical considerations for implementing a transfer pricing regime in Singapore, and in that role, he was vitally involved in developing the Singapore transfer pricing guidelines that were issued in 2006 and he served as the key technical resource person in IRAS with regard to transfer pricing matters.

He has also been recently appointed by the Minister for Finance, as a member of the Income Tax Board of Review, the tax tribunal in Singapore. In addition, Jee Chang is a member of the IRAS TP roundtable, an industry consultation group that meets with the IRAS regularly to discuss TP issues, as well as feedback on TP concerns or issues faced by businesses. Jee Chang is also a member of the Taxation & Levies Committee, which conducts regular dialogue sessions with the IRAS to discuss tax issues in Singapore.

He graduated with a Bachelor of Accountancy from the Nanyang Technological University and a Master of Business Administration from INSEAD. He is a regular speaker at seminars and he lectures at the Singapore Tax Academy and at IRAS' internal specialist training programmes. Jee Chang is a Chartered Accountant with the Institute of Singapore Chartered Accountants, and an Accredited Tax Advisor with the Singapore Institute of Accredited Tax Practitioners.

# Presenter

## Profile

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**Anh Pham**  
**Senior Manager**

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+65 6800 2318  
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Anh has more than 13 years of TP experience in TP across SEA.

She has advised companies including multinational companies and local conglomerates in reviewing and/or designing restructuring models including operational model, functional model and transactional (or TP) model taking into account their commercial considerations and objectives in the context of increasingly complex tax and transfer pricing environment, reviewing cost sharing models, value chain transformation, developing pricing policies with profit alignment and TP strategies, Mutual Agreement Procedures (“MAP”) and Advance Pricing Agreements (“APA”), and preparing core TP documentation and managing global / regional TP documentation. She also has experience in advising multinational companies with their TP planning and defending their TP arrangements in TP audits.

Her experience spans across various industry groups such as electronics, retail, pharmaceuticals, real estate, logistics, insurance, consumer goods, foods, garment, tobacco, oil and gas, and other service sectors.

Anh obtained Masters of Business Administration at University College of Dublin, Dublin, Ireland. She is also a member of the UK Association of Chartered Certified Accountants.



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