

SINGAPORE INTRODUCES A SIMPLIFIED TRANSFER PRICING APPROACH FOR QUALIFYING DISTRIBUTORS

The new Simplified and Streamlined Approach (SSA) offers eligible businesses a more straightforward way to determine transfer prices for certain related-party distribution activities. However, its scope is limited, and cross-border tax implications still need to be considered.

Singapore has introduced a **new Simplified and Streamlined Approach (SSA) for qualifying baseline marketing and distribution activities, following the OECD's Amount B framework**. The scheme is available on an optional pilot basis for financial years beginning **between 1 January 2026 and 31 December 2028**.

Under the new rules, **eligible Singapore taxpayers can use a prescribed methodology to determine the remuneration of certain related-party distributors, sales agents and commissionaires**. Where the conditions are met, the Inland Revenue Authority of Singapore (IRAS) will treat the resulting transfer pricing outcome as consistent with the arm's length principle.

Companies that do not opt for the SSA will continue to apply Singapore's ordinary transfer pricing rules.

WHICH COMPANIES AND TRANSACTIONS CAN QUALIFY?

The SSA is designed for relatively straightforward distribution arrangements involving related parties. It covers two main types of transactions:

- **Buy-sell distribution:** a Singapore company purchases goods from related parties and resells them on a wholesale basis to independent customers.
- **Sales agency and commissionaire arrangements:** a Singapore entity acts as an agent or commissionaire, supporting the wholesale distribution of goods by a related party to independent customers.

Not all marketing and distribution activities are covered. Transactions involving services, intangible goods or commodities are excluded. Companies combining wholesale and retail activities may qualify only if their retail revenue does not exceed 20% of their three-year weighted average net revenue.

The Singapore entity must also perform activities that can be reliably assessed using a one-sided transfer pricing method, with the distributor or agent acting as the tested party. Other functions, such as manufacturing, research and development, procurement or financing, may exclude the transaction unless they can be separately assessed and priced.

A further condition concerns operating expenses, which must represent between 3% and 30% of the entity's net revenue, calculated on a three-year weighted average basis.

HOW DOES THE SIMPLIFIED APPROACH WORK?

The SSA uses a prescribed return-on-sales (ROS) methodology to determine the appropriate operating profit for the qualifying distribution activity. The applicable return is identified through a pricing matrix that considers the company's industry, operating asset intensity and operating expense intensity. A range of 0.50 percentage points above or below the prescribed return is allowed.

An additional operating expense cross-check is then applied to ensure that the resulting profit is consistent with the company's cost structure. Depending on the outcome, an adjustment to the initial return may be required.

The approach does not establish a single profit margin for all distributors. **The applicable result depends on the characteristics of the business and the relevant parameters under the IRAS framework.**

It is also important to note that the SSA is not necessarily the most appropriate method in every case. Where reliable internal comparable transactions are available and the Comparable Uncontrolled Price (CUP) method is more appropriate, IRAS expects taxpayers to use that method instead.

WHAT DOES THIS MEAN FOR COMPANIES OPERATING IN SINGAPORE?

The new framework may be relevant to international groups using Singapore as a regional distribution hub or as a base for sales agency activities across Southeast Asia. For example, an Italian manufacturer supplying industrial components to customers across the region through a Singapore subsidiary may wish to assess whether the subsidiary's related-party distribution arrangements qualify for the SSA. Asian groups using Singapore entities to distribute products internationally may also find it useful to review their existing transfer pricing policies.

However, the main consideration for cross-border groups is whether the tax authorities in the other jurisdictions involved will recognise the simplified outcome.

IRAS does not require foreign tax authorities to accept the application of the SSA simply because the Singapore entity has elected to use it. Singapore has committed to respecting qualifying SSA outcomes applied by certain covered jurisdictions with which it has an applicable double tax agreement (DTA). The current list includes countries such as Malaysia, the Philippines, Thailand and Vietnam, but not Italy.

For groups involving Singapore and Italy, this means that an Italian tax authority is not automatically required to accept the transfer pricing outcome determined under the Singapore SSA. If the foreign authority makes a different adjustment, double taxation may arise. Companies may then need to seek relief through the Mutual Agreement Procedure (MAP) under the applicable tax treaty.

WHAT SHOULD BUSINESSES REVIEW?

Companies with Singapore-based distribution entities should assess their existing arrangements before deciding whether to apply the SSA. In particular, they should:

- **Review related-party transactions** to establish whether their distribution or agency activities fall within the scope of the framework.
- **Check eligibility requirements**, including the wholesale and retail revenue thresholds and the operating expense ratio.
- **Review their operating model** to determine whether the Singapore entity performs additional functions that could affect eligibility.
- **Compare the potential outcome under the SSA** with the group's existing transfer pricing policy and available comparable transactions.
- **Check cross-border implications** and ensure that intercompany agreements, functional analyses and financial records support the chosen approach.

TAKE AWAY

The SSA offers eligible companies an additional option for managing transfer pricing on certain distribution activities in Singapore. For international groups using the country as a regional hub, it may be worth reviewing whether the new framework can simplify existing arrangements and provide greater certainty over the remuneration of local entities.

However, the decision should not be based on the Singapore rules alone. The position of the tax authorities in the other jurisdictions involved is equally important, particularly for groups with distribution structures spanning Europe and Asia.