New Reporting Requirements for Companies with Related-Party Transactions Exceeding SGD 15 million

The tax authorities have announced that, with effect from year of assessment 2018, companies must complete a new Form for Reporting of Related Party Transactions for tax return purposes if the value of related-party transactions disclosed in the audited accounts for the financial year exceeds SGD 15 million.

1. Introduction

The ringing in of 2017 also heralded a new reporting requirement for Singapore tax return purposes. With effect from year of assessment 2018 (i.e. relating to the financial year 2017), companies will be required to complete a new Form for Reporting of Related Party Transactions (the Related-Party Transaction Form) and submit it together with Form C. This was announced by the Inland Revenue Authority of Singapore (the tax authorities) on its website on 24 October 2016.

2. Highlights of the New Form

The new one-page Related-Party Transaction Form will need to be completed only if the value of the company’s related-party transactions disclosed in the audited accounts for the financial year exceeds SGD 15 million. The value of a company’s related-party transaction as disclosed in the audited accounts is the aggregate of:

- all amounts received/receivable from related parties and all amounts paid/payable to related parties as reported in the income statement, but excluding compensation paid to key management personnel and dividends; and
- year-end balances of loans and non-trade amounts due from/to all related parties.

The total value of related-party transactions includes both local and cross-border related-party transactions. Therefore, even if a company’s related-party transactions are all with local companies in Singapore, the Form must still be completed.

The values of the following categories of related-party transactions are to be reported on the Form:
- sales and purchases of goods;
- services income and expense;
- royalty and licence fee income and expense;
- interest income and expense;
- other income and expense; and
- year-end balances of loans and non-trade amounts.

The name of the company’s ultimate holding company, as well as details (names, countries, relationship, amounts transacted) of the company’s top five foreign related customers and suppliers also must be reported.

The Related-Party Transaction Form must be endorsed by an authorized person(s) of the company and submitted together with Form C. The transfer pricing documentation does not need to be submitted together with the Related-Party Transaction Form or Form C, but such contemporaneous documentation must be maintained by the company and submitted to the tax authorities upon request (30-day notice is typically given).

3. Uses of the Related-Party Transaction Form

The tax authorities will use the Related-Party Transaction Form as a transfer pricing risk assessment tool. While the audited accounts provide information on the quantum and categories of related-party transactions, other information – such as details on the top five foreign related customers and suppliers – is not available from the audited accounts. As such key details are important to the tax authorities in assessing the transfer pricing risk of each company, they now require companies to report such information on the Form.

4. Other Key Issues

Other noteworthy points addressed by the tax authorities on the Related-Party Transaction Form include the following.

As there may be some differences between the definition of “related party” under section 34D of the Income Tax Act (which lays out the arm’s length principle) and under the accounting standards, the tax authorities have clarified that the data to be completed on the Form will be consistent with the related-party transactions disclosed in the companies’ audited accounts prepared according
5. Conclusion

This is not the first time that the tax authorities have required the reporting of related-party transactions in Form C. In the years before year of assessment 2004, companies were required to disclose in Form C the value and counterparty of some related-party transactions, and whether arm’s length prices were charged. These requirements the tax authorities have reinstated and enhanced: such disclosure requirement in Form C gives an indication of their continuing focus on monitoring and auditing taxpayer compliance with transfer pricing documentation and arm’s length pricing requirements.

With the increase in cross-border transactions and global scrutiny of transfer pricing, the new Related-Party Transaction Form will be a tool for the tax authorities to collect data in order to improve their transfer pricing risk assessment of companies and to allocate resources to higher-risk cases, with a view to improving the enforcement of the arm’s length principle. Companies should thus take note of this new Related-Party Transaction Form for year of assessment 2018 and ensure that the Form is duly completed and submitted if the value of related-party transactions exceeds SGD 15 million. More important, companies should ensure that they have prepared robust and adequate transfer pricing documentation to support that the related-party transactions disclosed in the Form are in line with the arm’s length principle, as it is highly likely that the tax authorities will request such documentation when reviewing the data collected from the Related-Party Transaction Form.