Deloitte.

Singapore | Business Tax | 15 June 2017

Singapore Business Tax Developments
IRAS clarifies tax treatment of service companies

Greetings from your tax team at Deloitte Singapore. We are pleased to update you on the following Singapore tax developments:

Singapore Business Tax Developments: IRAS clarifies tax treatment of service companies

The Inland Revenue Authority of Singapore ("IRAS") has provided clarification on the application of the 'cost-plus mark-up' basis ("CM basis") of taxation for service companies following a dialogue session with the Singapore Institute of Accredited Tax Professionals.

In the context of the CM basis of taxation, a 'service company' refers to a company that provides services only to related companies. The nature of services that a service company may provide includes management services, technical support services, procurement, administrative support services and customer support services.

From the perspective of the IRAS, service companies are typically cost centres that are reimbursed by their related parties either at cost or cost plus a certain margin. As their expenses are, in general, operating expenses of a revenue nature (e.g. overheads and staff costs), and such service company in general do not undertake risks nor own significant assets including Intellectual Property Rights, no major adjustments are expected to be made to the tax computation of a service company. This being the case, the IRAS is prepared to allow the chargeable income of a service company to be computed based on the mark-up on the total expenditure incurred by the service company (as per the Singapore Financial Reporting Standards) without any further tax adjustments. This is known as the CM basis of taxation and is an administrative practice of the IRAS. Where services are provided at cost or at non-arm's length prices to related companies, the IRAS would impute a profit on the transaction so as to reflect the market price that would be charged if the transaction was conducted on an arm's length basis.

The IRAS does not allow service companies adopting the CM basis to make the following claims:

- Double or further tax deductions on specified expenditure
- Enhanced deductions and cash payout under the Productivity and Innovation Credit ("PIC") scheme
- Capital allowances, losses and donations
- Foreign tax credits

The IRAS has announced that the CM basis has not been consistently applied and has clarified that, with effect from YA 2019, the CM basis of taxation will only be applicable to service companies providing routine support services. Routine support services are those listed in Annex C of the 4th edition of the IRAS e-tax guide on Transfer Pricing Guidelines and are rendered only to related parties. Examples of routine services include accounting and auditing, database administration, legal and payroll services. The chargeable income of service companies will be computed based on 5% mark-up on total expenditure without further tax adjustments.

Our observations

The CM basis of taxation helps to reduce tax compliance costs and provides certainty on the quantum of assessable income of, amongst others, taxpayers that operate cost centres in Singapore. Nevertheless, the CM basis is an administrative practice of the IRAS and is not provided for by law. As such, there is arguably some uncertainty over both the scope and application of the CM basis.

For example, a multinational company may set up a processing centre in Singapore to provide IT and other back-office support services to related companies in the region. Such a processing centre may be remunerated on a cost-plus basis and would employ a sizeable number of employees and incur material capital expenditure on computer hardware and software. Presently, there is some ambiguity over whether such a company would be required to adopt the CM basis of taxation or if the CM basis is optional and the company may elect to be regarded as carrying on a trade or business of providing services and submit a 'normal trading company' tax computation. Going forward, companies that perform only routine services for related companies but wish to make tax adjustments and tax claims (such as foreign tax credits) should be able to prepare their income tax returns and computation on a 'normal trading company' basis.

In addition, transitional measures would need to be put in place for companies that are currently on the CM basis but provide services that are not within the scope of routine support services. These companies would not be eligible for the CM basis of taxation with effect from YA 2019. There may be issues surrounding, amongst others, the tax base for claiming tax depreciation on plant and machinery purchased in prior assessment years (where capital allowances would not have been claimed previously) but are still in use.

Additional details on the CM basis will be provided by IRAS in the 3rd quarter of 2017.

We hope that you find this newsletter useful and we welcome your feedback.

Contacts

For more information on any of these issues, or any other Business Tax matters, please contact **Low Hwee Chua**, or your usual Business Tax Services contact in Deloitte.

Business Tax Services		
Name	**Contact Number**	**Email**
Low Hwee Chua Singapore Leader	+65 6216 3290	hwlow@deloitte.com
Ajit Prabhu Mergers & Acquisitions Tax Leader	+65 6530 5522	aprabhu@deloitte.com
Daniel Ho Partner	+65 6216 3189	danho@deloitte.com
Lee Tiong Heng Global Innovation & Investment Incentives Leader	+65 6216 3262	thlee@deloitte.com
Liew Li Mei Partner	+65 6216 3232	liliew@deloitte.com
Linda Foo Partner	+65 6530 5562	lfoo@deloitte.com
Michael Velten Financial Services Tax Leader	+65 6531 5039	mvelten@deloitte.com

Ong Siok Peng Partner	+65 6216 3257	spong@deloitte.com
Rohan Solapurkar Partner	+65 6531 5027	rohans@deloitte.com
See Jee Chang Partner	+65 6216 3181	jcsee@deloitte.com
Shantini Ramachandra Deloitte Private Tax Leader	+65 6800 2295	sramachandra@deloitte.com
Steve Towers International Tax Leader	+65 6216 3227	stowers@deloitte.com
Wong Chee Ming Partner	+65 6530 5595	cwong@deloitte.com

Deloitte Singapore | Add Deloitte as safe sender

Deloitte Touche Tohmatsu Limited
6 Shenton Way, OUE Downtown 2, #33-00,
Singapore 068809

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/sg/about to learn more about our global network of member firms.

Deloitte provides audit, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 245,000 professionals make an impact that matters, please connect with us on Facebook, LinkedIn, or Twitter.

About Deloitte Southeast Asia
Deloitte Southeast Asia Ltd – a member firm of Deloitte Touche Tohmatsu Limited comprising Deloitte practices operating in Brunei, Cambodia, Guam, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam – was established to deliver measurable value to the particular demands of increasingly intra-regional and fast growing companies and enterprises.

Comprising 290 partners and over 7,400 professionals in 25 office locations, the subsidiaries and affiliates of Deloitte Southeast Asia Ltd combine their technical expertise and deep industry knowledge to deliver consistent high quality services to companies in the region.

All services are provided through the individual country practices, their subsidiaries and affiliates which are separate and independent legal entities.

About Deloitte Singapore
In Singapore, services are provided by Deloitte & Touche LLP and its subsidiaries and affiliates.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

Deloitte & Touche LLP (Unique entity number: T08LL0721A) is an accounting limited liability partnership registered in Singapore under the Limited Liability Partnerships Act (Chapter 163A).

© 2017 Deloitte & Touche LLP

To no longer receive emails about this topic please send a return email to the sender with the word "Unsubscribe" in the subject line.