Tax Alert
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GST Treatment on Transfer Pricing (TP) Adjustment

In this issue, we provide insights into the GST treatment of common TP adjustments.

GST treatment on TP adjustments clarified

It is common for a business to make TP adjustments to comply with the arm's length principle for income tax purpose. However, such TP adjustments may have GST impact. The Inland Revenue Authority of Singapore (IRAS) recently updated the e-Tax guide that clarifies the GST treatment for TP adjustments and provided an administrative concession.

TP adjustment for income tax purposes

TP rules require that transactions between related parties should be priced on an arm's length basis. TP adjustments may be required in the event when related parties have not transacted with each other on an arm's length basis and therefore the transfer price of the transaction is adjusted to bring it to arm's length.

A TP adjustment may arise in various scenarios, such as a voluntary TP adjustment (year-end adjustment or self-initiated retrospective adjustment), through a TP audit by the Comptroller of Income Tax, or an adjustment to effect the agreed outcome under Advance Pricing Arrangement or Mutual Agreement Procedure.

A TP adjustment for income tax purposes may indicate that a taxpayer may have understated or overstated the value of supply or import of goods or services for GST purposes.

Administrative concession provided

From the GST perspective, where a TP adjustment is made, a corresponding GST adjustment is generally required if such TP adjustment results in a change in the original value of the supply of goods or services, or a change of price of imported goods or services.

In practice, before the IRAS e-Tax guide was issued, a business will need to submit relevant information to and apply for a short payment permit with Singapore Customs for TP adjustment made if that adjustment leads to an under-declaration of the value of goods imported before it could claim the additional GST paid. It could be administratively time-consuming and cumbersome for businesses to extract information for past imports and attribute the year-end TP adjustment to each individual batch of goods imported.

Now, such administrative burden has been removed if the TP adjustment will not have an overall GST impact irrespective of an increase or decrease in price.

A business can also qualify for the concession if the goods are imported under import GST suspension scheme, such as Major Exporter Scheme. However, goods imported under Import GST Deferment Scheme (IGDS) are excluded. If the business is under IGDS, it must be entitled to full input tax credit on the imported goods before it can enjoy the concession.

Type of transaction	Conditions
Taxable imports	The business[1] is entitled to full input tax credit on the import or the imported services are not subject to Reverse Charge
Standard-rated supplies	Both the business and related party are entitled to full input tax credit on the supply made
Zero-rated and exempt supplies	The business is entitled to full input tax credit on the purchase and expenses

[1] If the business is part of a GST group, the group is entitled to full input tax credit.

It is worth noting that a partial exempt business can enjoy the concession provided that it meets the abovementioned conditions. Businesses should self-assess if they can meet the conditions. No separate application for the administrative concession needs to be made to the IRAS or Singapore Customs.

What if the conditions are not met

For a business that does not meet the above conditions, GST adjustment will be required for any TP adjustment made where the change in the value of supply or import of goods and services is reflected in its financial statements and/or such TP adjustment is a taxable or allowable for income tax purposes.

For cases where a business under-declared the import value of goods as a result of the TP adjustment and needs to pay additional GST accordingly, Singapore Customs now allows it to take up a single short permit for the TP adjustment, without tracing back to each import permit.

Where a business overpaid GST on goods imported, it can now claim the input tax provided that it has not claimed the import GST in full previously.

The GST adjustment required following the TP adjustment depends on nature of the original supply made. Where the original supply involves both standard-rated and zero-rated, a reasonable proxy can be used to apportion the value of supply for the purposes of the GST adjustment.

To further reduce the administrative burden, the IRAS accepts certain proxies to arrive at the value of supplies in managing TP adjustments. It is worth noting that the guidelines and administrative concession can also be applied to TP adjustments made prior to the issuance of this guide retrospectively.

How we can help

Transactions between related parties are becoming more common and tax authorities around the world are increasing their scrutiny of taxpayers' transfer pricing. We are also increasingly seeing tax authorities starting to scrutinise the customs and indirect tax implications caused by TP adjustments. Taxpayers should be cognisant to assess the GST impact that TP adjustments (both adjustments made by tax authority or internal adjustments).

Please contact us if you need assistance in understanding the implications of the e-Tax guide on your business, or to review whether any of the TP adjustments meets the conditions of administrative concession and if not, what are your next steps.

To uncover more insights on the global tax implications of COVID-19, read our COVID-19 Global Tax Developments Summary
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