

## IMPORTANT UPDATE ON TRANSFER PRICING: IRAS RELEASE OF 8<sup>TH</sup> EDITION TP GUIDELINES DATED 19 NOV 2025



On 19 Nov 2025, the Inland Revenue Authority of Singapore released its eighth edition of the Transfer Pricing (“TP”) Guidelines (“**e-Tax Guide**”). This edition introduces several significant clarifications and refinements that may affect taxpayers. We summarise the key changes below.

### 1. Domestic Related-Party Loans:

IRAS has updated its guidance on the tax treatment of domestic loans, as set out in paragraphs 15.21 and 15.22 of the updated e-Tax Guide. The key points are:

- For taxpayers not in the business of borrowing or lending money, they may:
  - Use the IRAS indicative margin, or
  - Apply the arm’s length principle to determine the interest rate on domestic related-party loans.
- The Comptroller of Income Tax (“the Comptroller”) has clarified that to ease taxpayer’s compliance, Section 34D TP adjustments will not be made on domestic related-party loans if the parties are not in the business of borrowing or lending. Instead, the Comptroller will apply interest restriction rules, where relevant, to limit the borrower’s interest expense deduction.

#### Implications for Taxpayers:

- For taxpayers not in the business of lending, no TP adjustments apply to interest free domestic related party loans.
- Interest restriction rules will still apply if the lending party incurs interest expenses to fund these non-income producing loans.

#### Summary:

Taxpayers can continue to extend interest free domestic loans to related companies, subject to interest restrictions on lenders who incur funding costs.

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### 2. Cross-border Related Party Loans

Paragraph 15.25(b) of the e-Tax Guide provides guidance for outbound cross-border related party loans. The key points are:

#### 2.1 Interest-free Loans

- No TP adjustment will be made as no interest income is remitted to Singapore.
- Interest expense incurred to fund these loans is disallowed, as it is not incurred in the production of income

#### 2.2 Interest-Bearing Loans:

- TP adjustments apply when the interest income is received in Singapore, if the arm's length principle is not followed.
- For loans  $\leq$  S\$15 million, the IRAS indicative margin may be used.
- For loans  $>$  S\$15 million, the interest rate must be determined based on the arm's length principle supported by TP analysis.

#### Implications for Taxpayers:

- Interest-free cross-border loans do not trigger TP adjustments, subject to interest restriction rules if the Singapore lender incurs funding costs to finance the loan.
- Interest-bearing loans provided by the Singapore lenders must apply an arm's length interest rate, as TP adjustment may be made if the interest income is received in Singapore does not reflect arm's length terms.

#### Summary:

Taxpayers can continue to provide interest free cross-border loans subject to interest restriction if the Singapore lender incurs funding costs. Interest-bearing loans require careful alignment with arm's length principles to avoid TP adjustments.

### 3. Suggested Action Steps for Taxpayers

To manage the compliance and tax risk under the updated e-Tax Guide, taxpayers should consider taking the following actions:

- **Review loan arrangements** - Identify interest-free, interest-bearing, and funded loans.
- **Align interest rates** for cross-border loans - Apply IRAS indicative margin for loans  $\leq$  S\$15 million; use TP analysis for loans  $>$  S\$15 million; document the comparable and methodology.
- **Evaluate funding costs** - Assess lender financing costs and evaluate the interest restriction costs where relevant.
- **Update TP documentation** - Reflect revised interest terms, justification for interest-free arrangements and arm's length support for interest-bearing loans
- **Strengthen internal processes** – Implement policies for related party financing, cash pooling, loan approvals, and ensure future loans comply with TP and interest restriction rules
- **Restructure inefficient loans** - Consider capitalising, converting to equity or adjusting terms to improve tax efficiency.

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### 4. Conclusion

The e-Tax Guide clarifies the treatment of domestic and cross-border related-party loans, particularly interest-free arrangements. Taxpayers should review existing loan structures, ensure interest and funding costs are properly documented, and implement internal policies to maintain compliance and tax efficiency.

### Writers' Caveat

Please bear in mind that these articles provide a broad overview of the subject matter and are not intended to be comprehensive. It's crucial to consult your professional advisers before taking any specific action based on this information.



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