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MANAGING PARTNER'S MESSAGE

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The economy ended on a positive and upswing mood last year. These upbeat sentiments in the local and global economy are expected to continue this year although there's concern about the growing trade war between the US and China that might impede global trade and the global economy as a whole. Even the US allies are not spared either in the "America First" stance by the Trump administration with new trade tariffs imposed on steel and aluminium imports to the US having to negotiate for exemptions or a better deal. In the words of Emeritus Senior Minister Goh Chok Tong; "these are worrying times for Singapore". For a country like Singapore which depends on free trade, these do not augur well .

On the home front, the Finance Minister tabled the Budget 2018 in February with numerous new and enhanced tax measures and incentives to prepare the country for a better future and building a caring society. As widely anticipated, Goods & Services Tax (GST) will increase but not until 2021 to 2025 giving the citizens and residents to time to 'prepare'. More of the details in our Budget Commentary.

I hope you will enjoy and benefit from the articles that we have for you on this issue. Have a good read and enjoy!

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Improvements to FRSs - Changes to FRS 103 *Business Combinations*, FRS 111 *Joint Arrangements*, FRS 12 *Income Taxes* and FRS 23 *Borrowing Costs*

On 7 March 2018, Accounting Standards Council ("ASC") adopts Annual Improvement 2015-2017 Cycle* issued by International Accounting Standards Board ("IASB"). This annual improvements to Singapore Financial Reporting Standards ("FRS") which makes narrow-scope amendments to four standards and may be adopted prior to the effective dates listed below.

Annual improvements are part of the maintenance process for financial reporting standards and contain interpretations that are minor and narrow in scope. Amendments made as part of this process either clarify the wording in the standard or correct relatively minor oversights or conflicts between existing requirements of standards.

**ASC also adopted this annual improvement to Singapore Financial Reporting Standards (International) ("SFRS(I)") on 7 March 2018.*

STANDARD AFFECTED	SUMMARY OF AMENDMENT	EFFECTIVE DATE
FRS 103		
Business Combinations	**SITUATION** A party to a joint arrangement obtain control of a joint operation that is a business. **CLARIFICATION** This is a business combination achieved in stages. **IMPLICATIONS** Acquirer to remeasure previously held interests at acquisition date fair values as per FRS 103.42 (as if entity had disposed of interest and re-acquired it at fair value). The entity recognises any difference between the joint operation's acquisition-date fair value and previous carrying value as a gain or loss.	Business combinations for which the acquisition date is on or after the beginning of first annual reporting period beginning on or after 1 January 2019. No restatement of accounting applied to such transactions in periods before the amendment is first applied.

STANDARD AFFECTED	SUMMARY OF AMENDMENT	EFFECTIVE DATE
FRS 111		
Joint Arrangements	**SITUATION** A party to a joint arrangement that is a joint operation **does not have joint control** of the joint operation. It **subsequently obtains joint control**. **CLARIFICATION** When party subsequently obtains joint control, it must **not remeasure** its previously held interest. This treatment aligns with accounting when an associate becomes a joint venture and vice versa.	Transactions where joint control obtained on or after the beginning of the first annual reporting period beginning on or after 1 January 2019.
FRS 12		
Income Taxes	**SITUATION** In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend to shareholders. Therefore, there is an adjustment to tax payable when the distribution is made. **CLARIFICATION** Such income tax consequences must be recognised: • At the same time as the liability to pay those dividends is recognised, and • In profit or loss, other comprehensive income ("OCI"), or the statement of changes in equity ("SOCE"), depending on where the entity originally recognised the past transactions or events that generated the distributable profits from which the dividends are being paid.	Transactions where joint control obtained on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. The amendment applies to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period presented.

STANDARD AFFECTED	SUMMARY OF AMENDMENT	EFFECTIVE DATE
FRS 12 *(cont'd)*		
Income Taxes *(cont'd)*	**IMPLICATIONS** In practice, linking dividend payments to past transactions in order to determine where the income tax consequences (if any) should be recognised may require judgement. For example, entities may pay dividends by reference to liquidity tests rather than by reference to accounting reserves. Also, unless affected entities currently separate reserves into those generated from transactions recognised in the profit or loss, OCI or the SOCE, systems may be need to be implemented to keep track of cumulative distributions made from each.	
FRS 23		
Borrowing costs	**SITUATION** When an entity uses funds borrowed generally for the purposes of constructing a qualifying asset, paragraph 14 of FRS 23 requires it to apply a capitalisation rate to the expenditure on that qualifying asset. This capitalisation rate is the weighted average of the entity's borrowings that are outstanding during the period, excluding borrowings made specifically for the purpose of constructing that, or any other, qualifying asset.	Annual reporting periods beginning on or after 1 January 2019. The amendment applies to borrowing costs incurred on or after the beginning of the annual reporting period in which the amendment is first applied (prospective application).

STANDARD AFFECTED	SUMMARY OF AMENDMENT	EFFECTIVE DATE
FRS 23 *(cont'd)*		
Borrowing costs *(cont'd)*	**CLARIFICATION** Once a qualifying asset funded through specific borrowings becomes ready for its intended use or sale (such borrowing costs incurred on the specific borrowings can no longer be capitalised as part of that qualifying asset), those borrowings become part of the pool of general borrowings. From that date, the rate applied on those borrowings are included in the determination of the capitalisation rate applied to general borrowings for the purposes of paragraph 14.	

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BDO Global IFRS Resources

The IFRS section of our BDO Global website includes a range of publications on IFRS issues such as:

BDO Intelligence (NEW!)

This publication takes IFRS at a Glance, and combines this with IFRS Interpretations Committee agenda decisions, together with BDO's own practical application guidance ('BDO Knows') for issues that are frequently encountered in practice. IFRS Intelligence will be issued by topic.

- Business Combinations
  This IFRS Intelligence includes the following practical issues and also the Interpretations Committee agenda decisions
  - Accounting for reverse acquisition that do not constitute a business
  - Deferred tax implications on acquisition of single-asset entity
  - Business combinations involving entities under common control
  - Treatment of expenses on business combination incurred by subsidiary but paid the parent
  - Others

IFRS in Practice

Practical information about the application of key aspects of IFRS, including industry specific guidance.

Latest publications issued in 2018

- IFRS 15 Revenue from Contracts with Customers
  This version of IFRS in Practice updates the version, published in December 2016 to include some additional examples and also includes an Appendix providing example disclosures for a fictitious company.
- IFRS 16 Leases
  This BDO IFRS in practice details the requirements of IFRS 16 and includes numerous practical examples.

IFRS at a Glance

'One page' and short summaries of all IFRS standards.

Need to knows

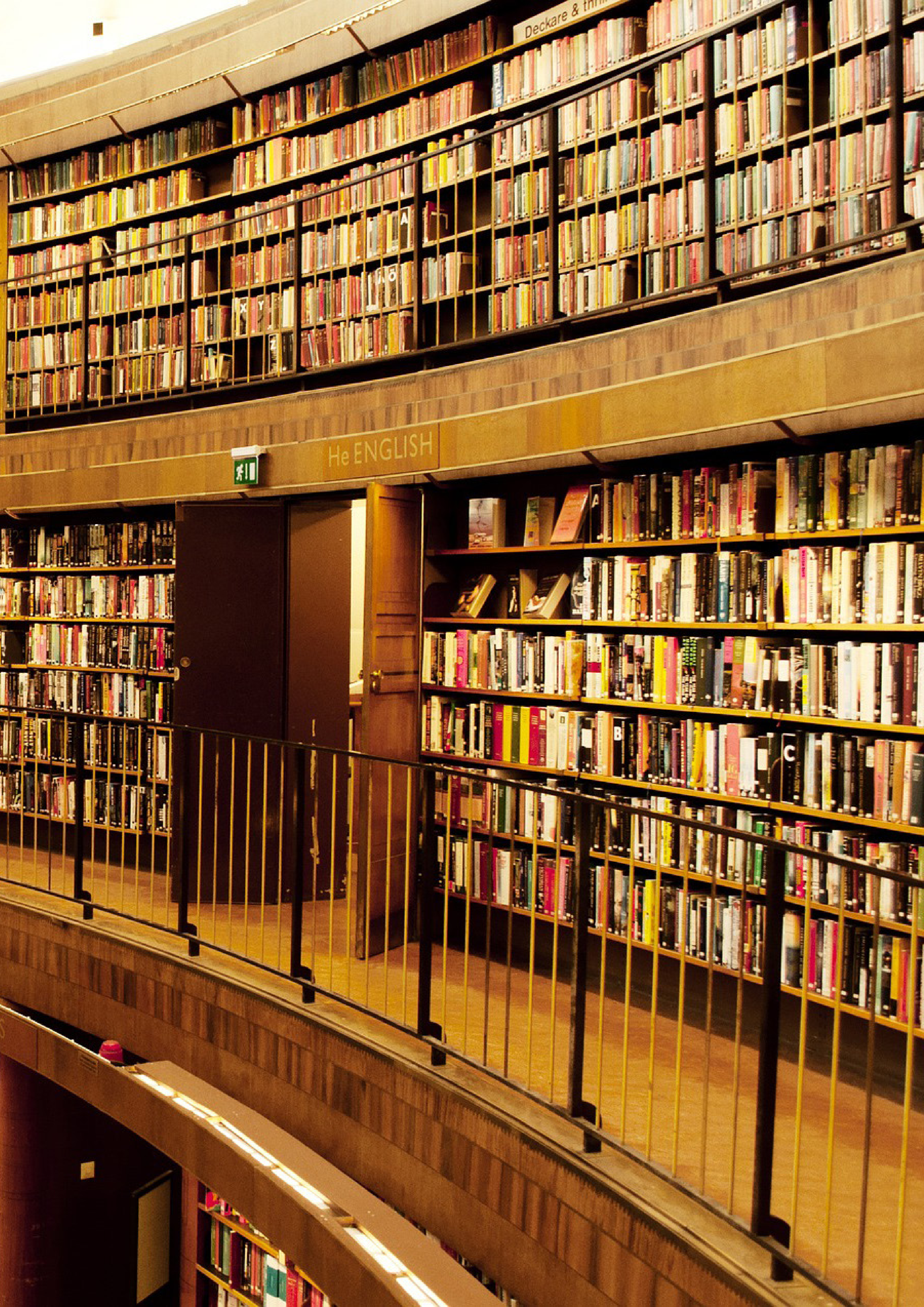
Updates on major IASB projects and highlights practical implications of forthcoming changes to accounting standards.

Recent publication is relating to IFRSs and Amendments effective in periods after 31 December 2017 years. This Need to Know covers a summary of changes made to IFRSs that will need to be adopted in periods after 31 December 2017 year-ends, together with a discussion about major projects the IASB currently has in progress.

IFR Bulletin

This is one of BDO's regular publications, focusing on the latest developments in the area of international financial reporting. They are issued when a new International Financial Reporting Standard or Interprettion is released or, if the subject is significant, when an exposure draft is issued for comment.

Comment letters on IFRS standard setting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Singapore Issues New Guidance on Preparation of Transfer Pricing Documentation

On 23 February 2018, the Inland Revenue Authority of Singapore ("IRAS") released a fifth edition of the Singapore transfer pricing guidelines ("2018 TPG") along with a set of the Income Tax (Transfer Pricing Documentation) Rules 2018 ("2018 TPD Rules"). The revised edition follows the amendments to mandatory transfer pricing documentation requirements, introduction of penalties for non-compliance and a surcharge on transfer pricing ("TP") adjustments as announced in the Income Tax (Amendment) Bill 2017. The 2018 TPG and the 2018 TPD Rules are effective from Year of Assessment ("YA") 2019.

Within the 2018 TPG, the entire Section 6 which deals with TP documentation has been re-written and a new section which deals with penalty and surcharges has been introduced. In line with Base Erosion and Profit Shifting project, the 2018 TPG draws upon some references from the recently updated 2017 OECD Transfer Pricing Guidelines when stating "that the contractual terms alone may not provide all the information necessary to perform a transfer pricing analysis ... and that the actual transaction should be determined from the actual conduct" – emphasising the importance of substance over form and that the burden of proof is on the taxpayer.

The key changes have been summarised hereunder.

1. Transfer pricing documentation

With effect from YA 2019, taxpayers who meet either of the following conditions must prepare a TP documentation under Section 34F(3) of the Singapore Income tax Act ("SITA") for their related party transactions undertaken in a basis period:

a) If the gross revenue derived from their trade or business is more than S$10 million for that basis period; or

b) TP documentation is required to be prepared for a transaction undertaken by the taxpayer in the basis period immediately before the basis period concerned.

Following from the above, the conditions for preparing a TP documentation has been revised substantially from YA 2019 and onwards. Taxpayers will not be required to consider the existing quantum thresholds (S$15 million for purchase, sales and loans and S$1 million for services and other categories) to determine the need for preparing TP documentation. From YA 2019, the conditions would be whether the gross revenue exceeds S$10 million or whether the taxpayer was required to prepare a TP documentation for the previous basis period. If the taxpayer satisfies any one of these two conditions, then the requirement to prepare TP documentation would be triggered.

It has been clarified that the subject condition (b) will only apply when the taxpayer was required to prepare a TP documentation under Section 34F(3) in the previous basis period. Therefore, YA 2020 will be the first year of its applicability. In other words, if for YA 2020, the gross revenue is below S$10 million, a TP documentation will still need to be prepared if for YA 2019 a TP documentation was prepared under Section 34F(3).

However, one would then need to refer to the 2018 TPD Rules which provide for the exemptions from preparing a TP documentation (even when the above condition of (a) or (b) is satisfied). If either one of the following conditions is satisfied, the taxpayer will be exempt from preparing a TP documentation.

a) Taxpayer's gross revenue is not more than S$10 million for the basis period and two immediately preceding basis periods; and the

TP documentation was required to be prepared under Section 34F for the two immediately preceding basis periods;

b) Related party domestic transactions (excluding loans) are subject to the same tax rate;

c) Related party domestic loan;

d) Related party loan on which an indicative margin is applied;

e) Routine support services on which a 5% cost mark-up is applied;

f) Related party transaction covered by an advance pricing agreement;

g) Related party transaction not exceeding S$15 million for related party purchases, sales and loans respectively and S$1 million for services, guarantees, lease or any other transaction respectively. In calculating the quantum thresholds, the amount should exclude the value of any transaction to which sub-paragraph (b), (c), (d), (e) or (f) applies as above.

Nonetheless, in cases where transfer pricing risks are high or taxpayers are unable to demonstrate compliance with arm's length principle; IRAS encourages preparation of TP documentation (even when not required to) in order to avoid adverse consequences.

2. Qualifying past TP documentation

IRAS requires taxpayers to review and refresh their TP documentation annually. In recognition that the transaction and the related parties to the transaction may not change significantly from year to year, IRAS allows taxpayers to use a past TP documentation to support the transfer prices in the concerned basis period.

The usage of past TP documentation is conditioned on it being a "qualifying past TP documentation". A "qualifying past TP documentation" is a document that was prepared in either of the two immediately preceding years. For example, a TP documentation prepared in either YA 2019 or YA 2018 will qualify as a "qualifying past TP documentation" for the basis period for YA 2020, subject to:

- Transaction in past TP documentation is of the same type of transaction undertaken in the basis period concerned;
- Transaction in the basis period concerned is undertaken with the same related parties as documented in past TP documentation; and
- Past TP documentation includes documentation at Group level and Entity level as prescribed in the 2018 TPD Rules.

It has been clarified that a qualifying past TP documentation cannot be used on a perpetual basis. To that extent, taxpayers will be required to prepare a fresh TP documentation in Year 4 i.e. YA 2021 if the TP documentation was previously prepared for YA 2018.

Once the TP documentation qualifies as a "qualifying past TP documentation", taxpayers have a choice of using it or preparing a new TP documentation. On the consideration that taxpayers opt to use the qualifying past TP documentation then a declaration (in any format) has to be made and the copy of this qualifying past TP documentation should be attached to the declaration (the declaration and the qualifying past TP documentation are referred to as "simplified TP documentation"). Such simplified TP documentation should be submitted to IRAS within 30 days upon request.

3. Transfer pricing surcharge

Effective from YA 2019, a 5% surcharge under Section 34E will be levied on TP adjustments which result in an increase of taxpayer's income or reduction of its losses. The 5% surcharge will be applicable independent of whether there is any tax payable arising from the adjustments or not. It is payable within one month from the date of notice specifying the levy of surcharge irrespective of any objection to or an appeal lodged against such assessment. The immediate impact will be on taxpayers cash flow and therefore a robust TP documentation would be necessary to defend or argue against any TP adjustments proposed by IRAS.

4. TP penalties

Section 34F introduces transfer pricing specific penalties compared to a generic penalty of S$1,000 in the past. From YA 2019, on conviction taxpayers will be levied a fine not exceeding S$10,000 for:

- Failure to prepare TP documentation by the due date of the filing of the tax return;
- Failure to prepare TP documentation in accordance with the requirements prescribed by the 2018 TPD Rules;
- Failure to retain TP documentation for a period of at least five years from the end of the basis period in which the transaction took place;
- Failure to submit the TP documentation within 30 days of written notice served by the Comptroller; or
- Submission of false or misleading documentation.

Key takeaways

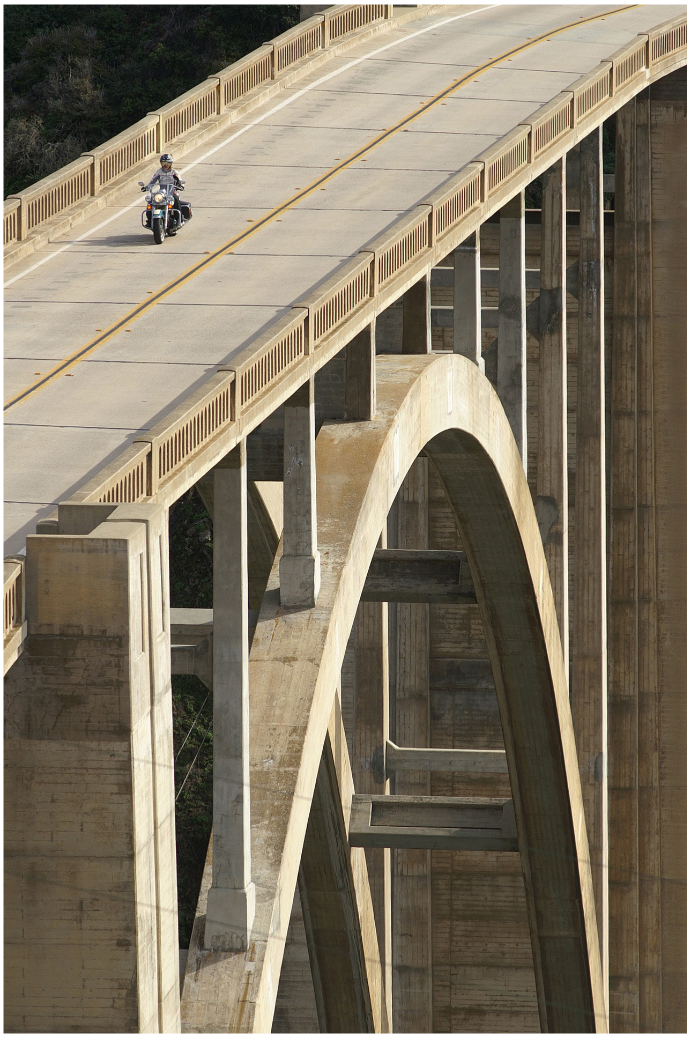
The Guidelines set out detailed rules for the preparation of transfer pricing documentation.

Whilst the introduction of gross revenue threshold may relieve small businesses from transfer pricing requirement, the onus lies with the taxpayers to determine whether they qualify for the TP documentation exemption. Failure to properly ascertain such exemption may result in penalty. The operation of the exemption rules is somewhat complex and will require careful analysis of the facts to avoid the imposition of penalties.

With the availability to use past TP documentation, taxpayers would not be required to prepare new TP documentation on the presumption that the past TP documentation contains necessary information as prescribed under the 2018 TPD Rules and is a qualifying past TP documentation. It is therefore important to review the past TP documentation to ensure all the relevant conditions have been met. Again, if past TP documentation has been inappropriately relied upon as current TP documentation, penalty may ensue.

To demonstrate Singapore's commitment to the OECD's BEPS project, information requirements in the Group level documentation on intangibles and financing have been aligned with the OECD's Action 13 requirements. Taxpayers will therefore need to undertake a detailed analysis of the Group's R&D and financing activities to ensure that profits are allocated to jurisdictions where value is created.

All in all, it is recommended that taxpayers perform a detailed assessment of their related party transactions to determine their compliance obligations as any error will result in penalties and surcharges impacting your cash flow. The introduction of TP specific penalty and a surcharge demonstrates that IRAS is adopting a hard line approach to those defaulting on the TP compliance requirements in Singapore.



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The Advantages With Cost Transformation

Companies are always incurring costs – but what makes a company effective depends on whether they are able to improve their good costs and reduce their bad cost without hurting the company's performance.

How are companies going to manage their cost while maintaining and improving the quality of their products and/or services? How can the company convince their stakeholders that cost transformation is a necessity for future growth?

While there are many advantages to cost transformation, these are the top benefits a company reaps after performing a successful cost transformation initiative.

1. Better identification of key growth assets

The starting point to cost transformation is differentiating high-performing assets (good costs) from low-performing assets (bad cost). Cost transformation seeks to improve the resources used for high-performing assets while limiting/reducing resources allocated to low-performing assets.
As a result of this, the company will be better able to differentiate themselves as a result of allocating more resources to their strengths, hence improving their unique selling proposition; while cutting cost by reducing resources granted to low-performing assets.

2. Cash Rich

By limiting the company's overall expenses, the company is able to place a maximum cap on how much money is spent. This has the impact of allowing the company to accumulate cash enabling them to be cash rich; opening doors for investment, capital purchases and paying off debt.

3. Improved financial planning

Cost transformation facilitates financial planning as the company's costs are better managed and have a limit placed on them. By knowing the amount the company will be spending in a specific period allows financial managers to be better able to plan a budget for the future.

4. Adoption of new technology

Employment of better technology has the potential of reducing fixed costs of production. In the long-run, better adoption of new technology not only cuts costs but may also improve efficiency and productivity.

An example is Uber, the transport corporation. After setting up a web based platform (its primary fixed cost), Uber's next step to growing its business was through its operations (Uber Drivers) which incurred a low marginal cost. This overall process allowed Uber to cut cost while attracting Uber drivers and customers to their platform.

5. Improving Supply Chain Management

Cost transformation may have the indirect effect of forcing a company to relook at its current supply chain management and change the supply chain if it is incurring higher costs than expected. Similar to identifying key growth performers, this point focuses on simplifying the supply chain to produce the best outcome – cutting cost while improving the management of the supply chain.

An example Starbucks, it is cash rich as a result of cost transformation is Starbucks in 2007 and 2008. Sales were falling and costs were rising (supply cost). What Starbucks did was terminate partnerships with their outsourcing partners while keeping their most efficient partners. Their transformation program was successful and during the course of 2009 and 2010 had managed to save more than USD $500 million and improving their supply chain management.

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