Setting Up a Singapore Company in 2026:
Commercial Substance Matters!

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[4 September 2026]

Understanding the Commercial Substance Needs and Implications for Singapore Companies

Singapore has long been a preferred jurisdiction for businesses expanding across Asia, offering a stable business environment, strong corporate infrastructure and a competitive tax framework. However, incorporating a company in Singapore is only the starting point.

For businesses using Singapore as part of a cross-border structure, an equally important consideration is whether the entity has sufficient commercial substance to support its intended role. A company may be properly incorporated and meet its basic corporate requirements while its key activities, decision-making and functions take place elsewhere. This gap between legal structure and commercial reality can create tax and compliance risks.

The appropriate level of substance will depend on the company's business model and the role it performs. A regional headquarters, investment holding company, trading entity or service company will each have different functions and resource requirements. What matters is whether the company's activities, people, decision-making, governance and tax position are aligned with its commercial purpose.

In this article, Alitium considers why commercial substance matters for Singapore companies, the potential tax and compliance implications of a structure with limited substance, and the key issues businesses should address when establishing or reviewing a Singapore entity.

1. Does Your Singapore Company Have Real Substance, or Is It Merely a Legal Shell?

Having a Singapore-registered company does not, by itself, demonstrate that the business has a meaningful presence in Singapore. There is no blanket rule requiring every Singapore company to maintain a prescribed level of commercial substance; rather, substance becomes relevant in different ways depending on the company's activities, structure and the specific tax rules involved.

Commercial substance concerns whether a company's actual activities are consistent with the role it is intended to perform. A regional headquarters, investment holding company, trading entity or management company will naturally have different functions and resource requirements. The key question is whether the company genuinely performs the activities attributed to it, including where key decisions are made, who performs its functions, what resources support the business and what risks it actually assumes.

This matters because Singapore's tax framework can look beyond the legal form of an entity. Depending on the structure, substance may be relevant to tax residency, treaty positions, transfer pricing and the treatment of certain foreign-sourced gains. Ultimately, substance is not about creating a presence for its own sake; it is about ensuring that the company's legal structure reflects the business it genuinely carries out.

2. Singapore Incorporation Does Not Automatically Establish Singapore Tax Residency

One of the most common misconceptions is that incorporating a company in Singapore automatically makes it a Singapore tax resident. Under Singapore tax law, a company's tax residency is determined by where its business is controlled and managed, and its residency status may change from year to year. IRAS notes that this involves the making of strategic decisions concerning the company's policy and strategy, with the determination ultimately being a question of fact.

Generally, a company is considered a Singapore tax resident for a particular Year of Assessment (YA) if the control and management of its business was exercised in Singapore in the preceding calendar year. For example, a company is a Singapore tax resident for YA 2025 if the control and management of its business was exercised in Singapore throughout 2024. A company is non-resident when the control and management of its business is not exercised in Singapore.

This becomes particularly relevant for companies that are legally incorporated in Singapore but whose key decisions continue to be made elsewhere. For example, a company may have a Singapore-registered office and local corporate services provider, while its overseas directors and shareholders continue to make all material decisions relating to investments, contracts, financing and business strategy. In such circumstances, the legal existence of the Singapore entity may not, by itself, demonstrate that control and management is exercised in Singapore.

Board meetings are relevant, but they should reflect genuine decision-making. Simply arranging meetings in Singapore may not be sufficient if the underlying strategic decisions are made elsewhere and the wider facts point away from Singapore. This distinction matters not only when determining tax residency, but also where the company intends to rely on Singapore tax residence for other purposes, including applications for a Certificate of Residence and access to applicable treaty benefits.

3. Tax Treaty Benefits Should Be Considered Alongside the Underlying Structure

For businesses using Singapore as part of a cross-border investment or operating structure, tax treaty access can be an important commercial consideration. However, treaty analysis does not operate independently from the facts surrounding the entity. Questions concerning tax residence, beneficial ownership, the commercial purpose of the structure and the company's actual activities may become relevant, depending on the income and treaty provision involved.

For example, if a Singapore company is used as an intermediary between an overseas investor and an operating business, it should have a clear commercial rationale and a genuine role within the overall structure. This does not mean that the Singapore company needs a large team or significant operations; what matters is that its activities are consistent with the purpose for which it was established.

This becomes particularly relevant when the Singapore company receives dividends, interest, royalties, service fees or other cross-border income but has very limited activities of its own. Where a Singapore company receives significant cross-border income, it is increasingly important to demonstrate what the company actually does, why it is entitled to receive that income and how its activities support the role attributed to it.

4. Foreign Asset Disposals: Why Economic Substance Can Matter

Substance can also become important when a Singapore company derives gains from selling assets located outside Singapore. Under Section 10L of the Income Tax Act 1947, which applies to relevant disposals from 1 January 2024, certain gains from the disposal of foreign assets may be subject to Singapore tax when received in Singapore. Foreign-sourced disposal gains from the sale or disposal of a foreign asset, other than intellectual property rights, will not be treated as income chargeable to tax in Singapore if the entity has adequate economic substance in Singapore.

Businesses should therefore look beyond where an investment holding company is incorporated. When reviewing the structure, consider:

- who makes the investment decisions;
- what activities the Singapore entity actually performs; and
- what resources support those activities and what role the entity plays in managing the investment.

For example, an entity established to hold and manage a portfolio of investments should be able to demonstrate how those investments are managed in practice. The appropriate level of substance will depend on the nature and scale of the business, rather than on a one-size-fits-all requirement. In practice, tax planning and substance planning should go hand in hand: if tax outcomes depend on the activities of a Singapore entity, those activities should be built into the structure from the beginning and maintained throughout its lifecycle.

5. Related-Party Transactions Must Reflect the Functions Actually Performed

Substance also becomes relevant when a Singapore company provides services to, or receives services from, related parties. Regional management companies are a common example: a group may establish a Singapore entity to provide management, consulting, procurement, technology, finance or other support services to subsidiaries across Southeast Asia. If the Singapore entity genuinely performs these functions, the related-party charges should reflect the functions performed, assets used and risks assumed. Singapore's transfer pricing rules apply the arm's length principle to related-party transactions, with IRAS emphasising that profits should be taxed where the real economic activities generating those profits are performed and where value is created.

The contractual description of a service is therefore not enough. If a Singapore company charges a regional subsidiary a substantial management fee, for example, there should be a corresponding level of activity and evidence supporting the services provided. This may include personnel, agreements, records of work performed, decision-making authority and other documentation demonstrating the commercial basis of the arrangement.

Conversely, where the Singapore entity performs limited functions but receives a disproportionate share of the group's profits, the structure may warrant closer review. Transfer pricing is therefore not simply a question of selecting an appropriate percentage or mark-up; it begins with understanding what each entity actually does.

6. Corporate Governance Is Part of the Substance Analysis

Substance is not limited to people and activities; governance also matters. A company may technically satisfy its corporate requirements while having very limited involvement in its own business decisions. Where directors are appointed only to fulfil statutory requirements and substantive decisions are consistently made outside Singapore, there may be a disconnect between the company's formal governance structure and how the business actually operates.

For a Singapore company intended to have a meaningful regional role, directors and management should have sufficient information, authority and involvement to perform their responsibilities. This includes maintaining appropriate board records, documenting material decisions, retaining relevant contracts and financial records, and ensuring that the company's governance arrangements correspond with its actual activities. Good governance does more than satisfy a compliance requirement: it creates an evidentiary record of how the company operates and where important decisions are made.

7. Substance Should Be Proportionate to the Business Model

There is no single formula for determining what constitutes sufficient substance in Singapore. The appropriate level will depend on the nature, scale and complexity of the business. A passive investment holding company, for example, will naturally have a different operating profile from a regional headquarters with senior management and employees overseeing businesses across multiple markets; expecting both structures to have the same level of local activity would not make commercial sense.

The better approach is to start with the business model and work backwards. If the Singapore entity is responsible for managing regional operations, the relevant management functions should have a genuine presence there. If it is established to hold and manage investments, there should be appropriate decision-making and oversight around those investments. Where it provides services to related parties, the people and resources performing those services should be identifiable. The same principle applies to risk: where the Singapore entity is expected to assume financial or commercial risks, it should have the capacity, authority and resources to manage those risks in practice.

This is why substance is best considered as part of the initial structuring exercise, rather than something to be added later. A structure that reflects the business from the outset will generally be easier to operate, document and defend than one adjusted only after questions arise.

8. What Businesses Should Review Before Implementing a Singapore Structure

For businesses establishing or restructuring a Singapore entity, substance should be considered at the structuring stage, rather than only after questions arise. Its commercial purpose, activities, decision-making, resources, related-party arrangements and tax position should be aligned, with documentation that accurately reflects how the business operates. The objective is not to create substance for its own sake, but to ensure that the people, functions, resources and governance of the Singapore entity make commercial sense for its intended role, creating a structure that is commercially credible, operationally workable and compliant from the outset.

If you are considering establishing a Singapore company, restructuring an existing entity or reviewing whether your current structure reflects its commercial reality, speak with Alitium before making changes.

How Alitium Can Help

Alitium can assess a structure from a broader tax, substance, transfer pricing, governance and corporate compliance perspective, identifying potential issues before they become costly to resolve. Where a Singapore entity forms part of a wider regional structure, our Singapore team works closely with our teams in Vietnam and Malaysia to ensure that substance, tax residency and treaty positioning are addressed consistently across each jurisdiction involved.

Contact our team: singapore@alitium.com

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