In Singapore's **Transfer Pricing Guidelines**, **contractual agreements** are an important part of documenting related-party transactions to ensure compliance with the **arm's length principle**. The agreements clarify the roles, responsibilities, and pricing arrangements between the related parties. When preparing transfer pricing documentation, particularly the **Local File**, companies are expected to include and analyze the key contractual terms of their related-party transactions.

Key Aspects of Contractual Agreements in Singapore Transfer Pricing:

1. **Existence of Written Agreements**:
   - IRAS expects companies to have **written contracts** in place for all related-party transactions, such as sales of goods, services, royalties, and financial arrangements. These agreements must reflect **commercial reality** and align with what independent parties would have agreed upon.
2. **Contractual Terms**:
   - The key **contractual terms** of the agreements should be included in transfer pricing documentation. These include:
     - **Pricing terms**: The agreed-upon price for goods, services, or intangibles.
     - **Payment terms**: Timeframes and methods of payment.
     - **Delivery terms**: Obligations regarding the delivery of goods or provision of services.
     - **Rights and obligations**: What each party is responsible for in the transaction (e.g., warranties, returns, risk assumptions).
     - **Duration of the agreement**: The period for which the agreement is valid.
     - **Termination clauses**: Conditions under which the agreement can be terminated.
3. **Consistency with Actual Conduct**:
   - IRAS emphasizes that **contractual terms must align with the actual conduct** of the parties. If the actual behavior of the related parties differs from what is stated in the contract, IRAS will adjust the transfer pricing based on the **actual economic substance** of the transaction rather than the written agreement.

4. **Risk Allocation**:
    - The contractual allocation of risks (e.g., market risk, currency risk, product liability) between related parties must be documented and should reflect what independent parties would reasonably agree to. The risk allocation in the contract is an important part of the **functional analysis** and affects the choice of the transfer pricing method.
5. **Effect on Transfer Pricing Method**:
    - The nature of the contractual terms influences the selection of the appropriate **transfer pricing method**. For example, the **Comparable Uncontrolled Price (CUP) method** might rely heavily on pricing terms in contracts, while the **Transactional Net Margin Method (TNMM)** focuses more on profit margins resulting from those agreements.
6. **Supporting Documentation**:
    - Companies are required to maintain copies of the contractual agreements and any related correspondence, and these must be included in the transfer pricing documentation if requested by IRAS. This is especially important in cases where the agreement justifies certain pricing arrangements or risk allocations.

Contractual Agreements in the Local File:

- The **Local File** must contain a description of any **intercompany agreements** between the Singapore entity and related parties. This includes summaries of the key contractual terms and how they affect the pricing and risks in the transaction.

Contractual Agreements in Transfer Pricing Disputes:

- In the event of a **transfer pricing audit** or dispute, IRAS will review the contractual terms in detail to assess whether they align with the **arm's length principle**. The existence of well-drafted and commercially realistic contracts helps reduce the risk of adjustments.

Reference in IRAS Guidelines:

Contractual agreements are discussed as part of the **transfer pricing documentation requirements** in **Section 6** of the **IRAS e-Tax Guide on Transfer Pricing**. They are also considered in the **functional analysis** (Section 6.4) and when selecting the appropriate transfer pricing method.

In summary, documenting **contractual agreements** is a crucial step in preparing transfer pricing documentation for IRAS. The contracts must reflect the **economic reality** of the transactions, and their terms play a significant role in determining whether the pricing of related-party transactions complies with the arm's length standard.

Why Contractual Agreements Reports are Compulsory in Singapore Transfer Pricing Guidelines:

1. **Supporting the Arm's Length Principle**: The contractual terms between related parties need to reflect what would be agreed upon between independent parties. This helps IRAS assess whether the pricing of these transactions aligns with the arm's length principle.
2. **Part of Transfer Pricing Documentation**: As part of the **Local File**, IRAS requires the inclusion of **written agreements** for related-party transactions. The agreements provide evidence of the nature, terms, and conditions of the transactions, and they must be available for review if requested by IRAS.
3. **Functional and Risk Analysis**: Contractual agreements are also critical for the **functional analysis**, where IRAS reviews how risks, assets, and functions are allocated between the parties. The contracts help demonstrate the division of responsibilities and risks, which in turn affect the pricing method chosen.

Where Contractual Agreements Reports are Mentioned in IRAS Guidelines:

The requirement for documenting **contractual terms** is outlined in **Section 6.4** of the **IRAS e-Tax Guide on Transfer Pricing**. The guide emphasizes the importance of consistency between the contractual terms and the actual conduct of the parties.

In summary, **yes**, including and analyzing **contractual agreements** is a mandatory part of complying with Singapore's transfer pricing regulations, especially for companies involved in significant cross-border related-party transactions.