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IRAS e-Tax Guide

Income Tax: Benefits to Company Directors from Interest- Free/Subsidised Loans (Third Edition)

Published by
Inland Revenue Authority of Singapore

Published on 30 Jan 2026

First edition on 9 Sep 2014

Second edition on 30 May 2024

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1 Aim

- 1.1 This e-Tax Guide provides details on the tax treatment of benefits arising from interest-free or interest subsidised loans (“interest-free/subsidised loans”) provided by companies to their directors/shareholders.
- 1.2 It is relevant to:-
 - (a) companies that provide interest-free/subsidised loans to its directors/shareholders;
 - (b) directors/shareholders who are granted with such loans.

2 At a glance

- 2.1 Where interest-free/subsidised loans are made to the directors of a company, the directors derive a benefit from such loans. The income tax law regards company directors as employees, and the benefits so derived from interest-free/subsidised loans are taxable as employment benefits.
- 2.2 If company directors are also shareholders of the company, and interest-free/subsidised loans are made in their capacity as shareholders, the benefits derived from such loans would not constitute benefits from employment and hence, not taxable in their hands.
- 2.3 Whether the loan to the individual is provided to him in his capacity as a shareholder or as a director is a question of fact. Companies that provide such loans to their directors are required to report these benefits as the employment income of the directors for the year in which the loans were granted.
- 2.4 The value of interest benefits for interest-free/subsidised loans is computed based on prime lending rate or with effect from 1 April 2023, the 3-month compounded Singapore Overnight Rate Average (SORA) with a 1.5%-point spread.

3 Background

- 3.1 The benefits arising from interest-free/subsidised loans taken up in the capacity as directors are regarded as perquisites of employment and is taxable under Section 10(1)(b) of the Singapore Income Tax Act ("ITA").
- 3.2 For the purpose of ITA, the directors of a company are regarded as employees. The definition of employee under Section 2 of ITA was specifically amended in 1993 to include a director of a company.

4 Current tax treatment

- 4.1 Benefits arising from interest-free/subsidised loans provided to directors/shareholders of a company in their capacity as directors constitute perquisites of an employment and are taxable in their hands. On the other hand, benefits derived from similar loans made to shareholders would not constitute perquisite of an employment and hence, not taxable in their hands. This is provided that the loans are bona-fide loans made to the individuals solely in their capacity as shareholders.

5 Guidelines on determining shareholder's loan

- 5.1 Whether loans to directors/shareholders are provided to them in their capacity as shareholders or as directors is a question of fact.
- 5.2 Prima facie, the loans will be considered to be extended to individuals solely in their capacity as shareholders, rather than as directors, if the following elements are present:-
 - (a) The loans are neither remuneration nor benefits to directors disguised in the form of loans to shareholders. Some evidence that IRAS will consider:
 - (i) whether there is a genuine intent for a creditor/debtor relationship to exist between the company and shareholders;
 - (ii) whether there is reasonable expectation of the loans to be repaid and if the terms of the loans to shareholders are generally those found in a typical loan arrangement e.g. there is a repayment schedule or repayment terms etc;
 - (b) The loans are extended to all shareholders (including shareholders who are directors), under similar loan terms and the loan quantum determined on similar basis. The loan quantum extended to each of the shareholders, including the directors/shareholders should be determined on the basis of their respective shareholding in a company or other equivalent basis and not due to influence or

position held by the director/shareholder in the company. Similar loan terms (e.g. repayment schedules, interest rate charged, if any etc.) should also be applicable to loans extended to all shareholders (including directors/shareholders). Shareholders who are provided with loans should not arrange to divert the loan proceeds to other shareholders of the company for use by the latter.

- (c) The availability of contemporaneous documentary evidence to support that loans are made to the loan recipients in their capacity as shareholders (and not directors) of the company. Examples of such evidence are directors' or board's resolutions, approval at shareholders' meetings, minutes of meetings or other records etc.

6 Administrative procedure

- 6.1 Where interest-free/subsidised loans are provided to the individuals in their capacity as directors, the employers are required to report the taxable value of interest benefits as employment income of the directors for the year in which the loans were granted.
- 6.2 The employers have to compute the value of interest benefits based on prime lending rate or with effect from 1 April 2023, a 1.5%-point above the applicable 3-month compounded Singapore Overnight Rate Average (SORA) published by Monetary Authority of Singapore (<http://www.mas.gov.sg>) on 1 March and 1 September respectively¹. For the purpose of computing the interest benefits, you may refer to the interest rate published on IRAS website.
- 6.3 If the loan was repaid partially or fully during the calendar year, the interest benefits should be computed according to the number of months in that year for which the loan remained outstanding. The examples in Annex A illustrate the computation of taxable benefits.
- 6.4 For interest subsidised loans, any interest payable by the directors should be deducted from the value of interest benefits computed to arrive at the taxable interest benefits.

7 Contact Information

- 7.1 For enquiries on this e-Tax Guide, please contact us at www.iras.gov.sg (select "Contact Us" > "Individual Income Tax").

¹ For example, the 3-month compounded SORA published on 1 March 2023 and 1 September 2023 was 3.2% and 3.6% respectively. The interest rates for the purposes of computing the value of interest benefits for the relevant periods are as follows:

- a) From April 2023 to September 2023 – 4.7% (3.2% + 1.5%)
- b) From October 2023 to March 2024 – 5.1% (3.6%+1.5%)

8 Updates and Amendments

	Date of amendment	Amendments made
1	12 Sep 2014	Additional illustrative examples are provided in Annex A
2	30 May 2024	<ul style="list-style-type: none">• Updated paragraphs 2.4 and 6.2 on the use of 3-month SORA with a 1.5% spread with effect from 1 Apr 2023.• Updated examples in Annex A with the use of different interest rates.• Editorial changes to paragraphs 2.3 and 5.2.
3	30 Jan 2026	Updated examples in Annex A for clarity

Annex A

Examples illustrating the scenarios whereby the interest-free loans are granted to the directors/shareholders in their capacity as directors

Example 1

Mr Lim is a director of Sunshine Holdings Pte Ltd, a family-owned company, and managed its operation. Apart from Mr Lim who holds 55% of the shareholding, his wife and two siblings each holds 15% of the shareholdings of the company. While Mr Lim and his wife are the directors of the company, his two siblings are not. According to company policy, only directors are eligible to apply and receive interest-free loans from the company. Mr Lim was granted an interest-free loan of \$200,000 for the period from 1 Mar 2022 to 31 Dec 2023. Mr Lim made use of the loan to purchase a motor car for his personal use. He repaid the loan by 1 Jan 2024.

As the loans are not extended to all shareholders and only extended to directors, Mr Lim was provided with the loan in his capacity as a director and consequently, the benefits arising from the interest-free loan constitute his employment perquisite.

The taxable interest benefits for YA 2023 and 2024 are as follows:

Year of Assessment	Outstanding Loan	Interest Rate	Amount of Interest Benefit
2023	\$200,000	5.25%	\$8,750 [#]
2024	\$200,000	Jan to Mar 2023 = 5.5% Apr to Sep 2023 = 4.7% Oct to Dec 2023 = 5.1%	\$10,000*

[#]\$200,000x5.25%x10/12

*The amount is arrived at as follows:

2023	Amount of Interest Benefit
Jan to Mar	\$200,000 x 5.5% x 3/12 = \$2,750
Apr to Sep	\$200,000 x 4.7% x 6/12 = \$4,700
Oct to Dec	\$200,000 x 5.1% x 3/12 = \$2,550

Example 2

Mr and Mrs Ong both serve as directors and shareholders of Ocean Pte Ltd, with Mr Ong holding 60% of the company's shares and Mrs Ong holding 40%. In Dec 2020, Mrs Ong received a director's fee of \$5,000 and was also provided an interest-free loan of \$300,000 by the company. In contrast, Mr Ong was not provided with any interest-free loan and was paid director's remuneration amounting to \$200,000.

Mrs Ong began repaying the loan in Jan 2023, making ten equal monthly installments. The loan was completely repaid by the end of Oct 2023.

The board minutes documented that the loan was approved under the director's loan scheme. There were no shareholder resolutions or additional documentation to suggest that the loan was granted based on shareholding. As such, IRAS assessed that the loan represented a form of remuneration, considering the substantial size of the loan relative to Mrs Ong's relatively modest director's fees. The benefits received from the interest-free loan are thus regarded as an employment perquisite and are subject to tax.

The taxable interest benefits for YA 2021 to 2024 are as follows:

Year of Assessment	Outstanding Loan	Interest Rate	Amount of Interest Benefit
2021	\$300,000	5.25%	\$1,312.5 [#]
2022	\$300,000	5.25%	\$15,750
2023	\$300,000	5.25%	\$15,750
2024	\$300,000	Jan to Mar 2023 = 5.5% Apr to Sep 2023 = 4.7% Oct to Dec 2023 = 5.1%	\$5,767.50*

[#] $\$300,000 \times 5.25\% \times 1/12$

*The amount is arrived at as follows:

2023	Outstanding loan	Amount of Interest Benefit
Jan	$\$300,000 - \$30,000 = \$270,000$	$\$270,000 \times 5.5\% \times 1/12 = \$1,237.50$
Feb	$\$270,000 - \$30,000 = \$240,000$	$\$240,000 \times 5.5\% \times 1/12 = \$1,100$
Mar	$\$240,000 - \$30,000 = \$210,000$	$\$210,000 \times 5.5\% \times 1/12 = \962.50
Apr	$\$210,000 - \$30,000 = \$180,000$	$\$180,000 \times 4.7\% \times 1/12 = \705
May	$\$180,000 - \$30,000 = \$150,000$	$\$150,000 \times 4.7\% \times 1/12 = \587.50
Jun	$\$150,000 - \$30,000 = \$120,000$	$\$120,000 \times 4.7\% \times 1/12 = \470
Jul	$\$120,000 - \$30,000 = \$90,000$	$\$90,000 \times 4.7\% \times 1/12 = \352.50
Aug	$\$90,000 - \$30,000 = \$60,000$	$\$60,000 \times 4.7\% \times 1/12 = \235
Sep	$\$60,000 - \$30,000 = \$30,000$	$\$30,000 \times 4.7\% \times 1/12 = \117.50
Oct	$\$30,000 - \$30,000 = \$0$	0
Total		<u>\$5,767.50</u>