Dividends, interest and royalties

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The treaty reduces Swiss withholding tax on dividends from 35 per cent to 5 per cent where the beneficial owner is a company holding at least 10 per cent of the paying company's capital, and to 15 per cent in other cases. Singapore imposes no withholding tax on dividends, so the article matters only for the Swiss-to-Singapore direction. Interest is taxable in the source state at up to 5 per cent, which matters for Singapore's 15 per cent domestic withholding on interest paid to non-residents and for Switzerland's 35 per cent withholding on bond interest and bank deposit interest. Royalties are taxable at source at up to 5 per cent, which reduces Singapore's 10 per cent domestic rate on royalties paid to Swiss residents.[1]

For digital-asset groups the dividend article is the one that bites. A Zug AG that pays a dividend to its Singapore parent withholds 35 per cent and the parent reclaims 30 per cent under the treaty. Alternatively the Zug AG applies the notification procedure for the 5 per cent rate at source if the Swiss Federal Tax Administration has granted approval under Form 823B. The Singapore parent must be the beneficial owner and must be resident in Singapore for treaty purposes, which requires the certificate of residence from IRAS that only a company with real management in Singapore obtains.[2] The residual 5 per cent Swiss tax is then only partly relieved in Singapore. The dividend fails the headline-rate condition of section 13(8) (Chapter

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II of this Part) and is taxed in Singapore at 17 per cent on remittance with a credit for the Swiss tax, which leaves Singapore tax of about 12 per cent of the gross dividend. The Swiss subsidiary of a Singapore parent is therefore a structure that costs about 17 per cent in total on distributed profit. Most groups prefer to keep the Zug company as the parent.

Token distributions are harder to place within the articles. A protocol that pays its token holders a share of fees is making a payment that is neither a dividend (no shares), nor interest (no debt claim) in most designs, nor a royalty. Such payments fall under Article 21 on other income, which gives the exclusive taxing right to the state of residence of the recipient.[3] A Singapore resident receiving protocol fee distributions from a Swiss foundation's protocol therefore pays no Swiss tax and, if an investor, no Singapore tax either, which makes Singapore a favourable residence for a token holder who receives yield. The reverse, a Swiss resident receiving distributions from a Singapore-based protocol, is taxed in Switzerland as income from movable property.

Notes

1. Singapore–Switzerland DTA 2011, Art. 10 (dividends: 5 per cent for a company holding at least 10 per cent, otherwise 15 per cent), Art. 11 (interest: 5 per cent) and Art. 12 (royalties: 5 per cent). ↩
2. Withholding Tax Act (WHTA; VStG), SR 642.21, Art. 20 and Withholding Tax Ordinance, Arts 26a ff. (notification procedure for dividends within a group; Form 823B for treaty cases); FTA, treaty relief forms for Singapore residents. ↩
3. Singapore–Switzerland DTA 2011, Art. 21 (other income taxable only in the state of residence, subject to the permanent establishment exception). ↩

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