Section 10(6) and the share plan rules applied to tokens

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Singapore has a specific regime for employee share plans. Section 10(6) taxes gains from rights to acquire shares, meaning options and share awards, at the time of exercise or vesting. The taxable amount is the open market value of the shares at that time less the amount paid. Where the shares are subject to a selling restriction, the taxing point is deferred to the date the restriction lifts and the value is taken at that date.[1] The regime applies only to shares in a company. A token that is not a share falls outside section 10(6) and is taxed under the general rule of section 10(1)(b) described above.

The difference matters for token options and token warrants. An employee who holds an option to buy tokens at a strike price is taxed under the general rule at the time the option is exercised, because the benefit is realised then. The amount is the token value less the strike. That result is the same as section 10(6) would produce. The difference emerges with selling restrictions. Section 10(6) defers the taxing point for restricted shares to the lifting of the restriction. The general rule has no such deferral, so a locked token is taxed at receipt. A company that wants deferral for

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its token plan must therefore design the plan so that the tokens are not delivered until the lock-up would have ended, which in practice means using a vesting schedule in place of a lock-up.

Security tokens that represent shares are shares for the purpose of section 10(6), because the section looks at the legal right and not at its form. A Singapore company that tokenises its shares on a permissioned ledger and grants options over the tokenised shares is operating a share option plan to which section 10(6), the deemed exercise rule and the QEEBR deferral all apply. The tokenisation of employee equity is therefore tax-neutral in Singapore, which is also true in Switzerland for ledger-based securities under Art. 973d ff. of the Code of Obligations (see Part D, Chapter III).

Example

A Singapore protocol company grants an engineer 100,000 governance tokens on joining in January 2025, vesting in four annual tranches. The tokens trade at S$ 0.50 at grant and S$ 3.00 when the first 25,000 vest in January 2026. The engineer has employment income of S$ 75,000 in the year of assessment 2027. Suppose the company had instead granted 25,000 tokens outright in January 2025 with a one-year on-chain lock. The engineer would then have had income of S$ 12,500 in the year of assessment 2026, subject to any discount for the lock. The later increase of S$ 62,500 would be a capital gain if he is an investor. The second design is better for the engineer when the token is expected to rise. The company must weigh that against the risk of paying tax on tokens that later fall to nothing, which the vesting design avoids.

Notes

1. Income Tax Act 1947, s. 10(6) (gains or profits from any right or benefit to acquire shares in a company granted by reason of employment; taxing point at exercise, assignment or release, or on lifting of a moratorium). ↩

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