
Treatment of withholding tax on SNB Bills

1. Introduction

The Swiss National Bank regularly issues tradable money market debt register claims (hereinafter referred to as ‘SNB Bills’). Auctions currently take the form of a variable rate tender with allotment using the American auction method (cf. www.snb.ch).

In respect of SNB Bills allotted according to the American auction method, the Swiss Federal Tax Administration (FTA) has specified the provisions governing withholding tax and payment obligations, and has also laid down the calculation basis for withholding tax.

2. Specifications

In consultation with the FTA, the following FTA specifications apply.

In principle, income from SNB Bills (i.e. the difference between the redemption price and the issue price) is subject to withholding tax at maturity. The withholding tax is deducted by SIX SIS Ltd on behalf of the SNB and transferred to the FTA. Based on the FTA instruction sheet ‘Merkblatt Geldmarktpapiere und Buchforderungen inländischer Schuldner’ (Money market instruments and debt register claims of domestic borrowers; available in German only) of April 1999 (S-02.130.1), the SNB can make redemption payments without deducting withholding tax to domestic banks and to foreign banks¹ that hold SNB Bills for their own account (own holdings) in a segregated custody account at SIX SIS Ltd. The SNB is also not required to deduct withholding tax from the income on SNB Bills if a central securities depository is our counterparty and this central securities depository holds the SNB Bills either for itself, for domestic banks or for foreign banks as own holdings in a segregated custody account at SIX SIS Ltd. If domestic banks hold SNB Bills for clients or for foreign banks

¹ A definition of the term ‘foreign banks’ is provided in the FTA instruction sheet ‘Verrechnungssteuer auf Zinsen von Bankguthaben, deren Gläubiger Banken sind (Interbankguthaben)’ (Withholding tax on interest on bank balances in cases where the creditor is a bank (interbank balances); available in German only), of 22 September 1986 (S-02.123).

without a confirmation of own holdings, they are required to deduct withholding tax and pay it to the FTA. In this case, only the redemption amount less the withholding tax is paid out. In this way, the obligation to pay tax is transferred from the issuer to a domestic bank. For tax purposes, the Principality of Liechtenstein is treated as a foreign country. A schematic diagram of the procedure is attached to provide clarification.

In the case of SNB Bills, the income subject to withholding tax is the difference between the redemption amount (generally the nominal value) and the effective issue price. Due to the large number of issue prices in the American allotment system, it is impossible or, at the very least, difficult to establish the effective taxable income at redemption, particularly where SNB Bills have changed ownership. Consequently, the FTA decided always to base its calculation of income subject to withholding tax on the lowest price accepted by the issuer (marginal price). The SNB publishes the marginal price for each auction on its website.

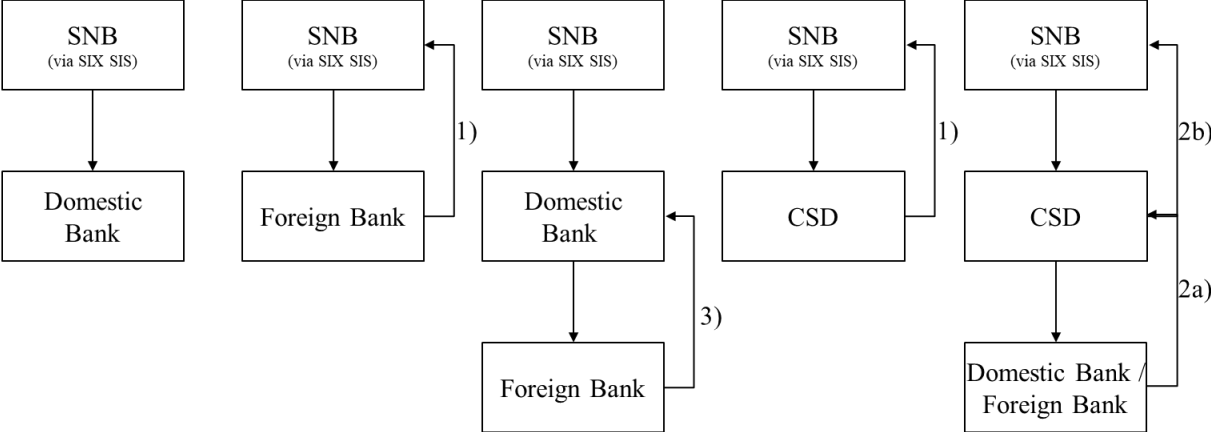
The effective withholding tax that has already demonstrably been deducted at redemption can, as a rule, be reclaimed by domestic investors in tax assessment procedures. In the case of investors abroad, the options for reclaiming withholding tax will depend on any dual taxation agreement that is applicable in the country in question.

3. Contact

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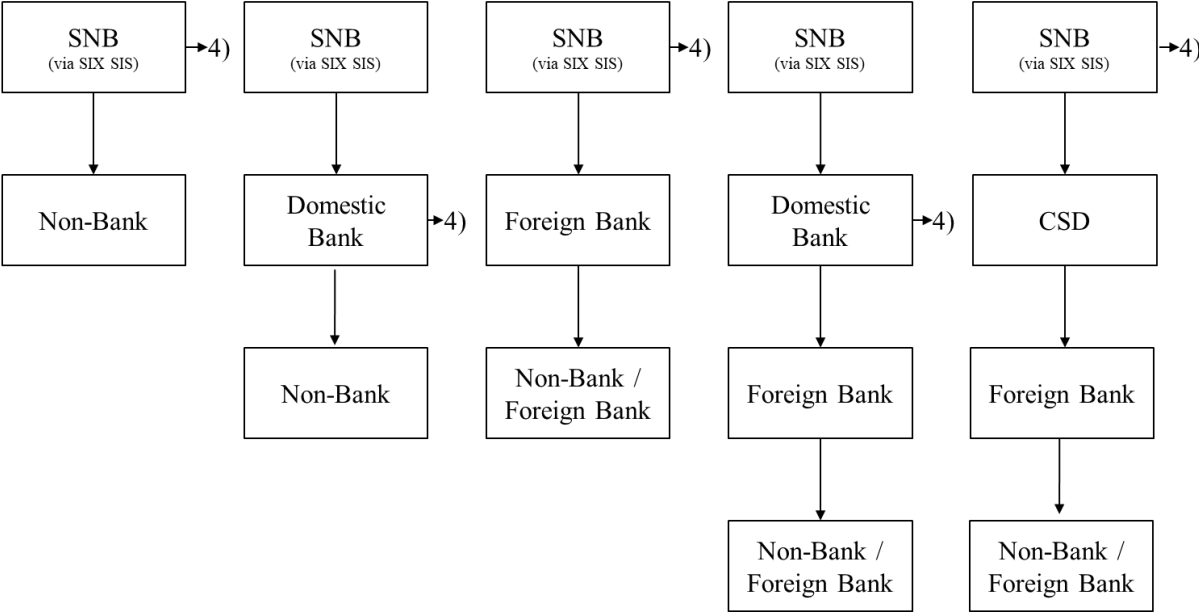
Attached: Schematic diagram

Without deduction of withholding tax



- 1) Tax exemption granted only if the Foreign Bank or the CSD holds SNB Bills for its own account (own holdings) and in a segregated custody account at SIX SIS.
- 2) Tax exemption granted only if CSD holds SNB Bills
 - a. for a Domestic Bank or Foreign Bank (that has explicitly confirmed holding the SNB Bills as own holdings) and
 - b. in a segregated custody account at SIX SIS.
- 3) Tax exemption granted only if the Foreign Bank has explicitly confirmed holding the SNB Bills as own holdings.

With deduction of withholding tax



- 4) Required to pay withholding tax to the FTA.