Question 1:

You work as a compliance officer in the Wealth Planning Department of Swiss Bank Asturia Ltd incorporated in Zürich.

Early one morning, a Relationship Manager (RM) invites you to attend a meeting with a new client, Mrs Giselle Müller, a German tax resident, who has recently transferred her investment portfolio to your institution.

a) During the meeting, Mrs Müller asks you a series of questions.

a1) As a German tax resident, Mrs Müller must pay taxes on all her income wherever it comes from. She would like to know, why? She also would like to know if it is possible, in certain countries, to benefit from tax-exemption for foreign source-income and asks for an explanation. (3 points)

a2) Mrs Müller holds a significant participation in an offshore company. She wonders if the entity would be considered as tax transparent or not. Provide an explanation of transparent (look-through) entities in general. (3 points)

a3) Explain to Mrs Müller the difference between the value date and the payment (or settlement) date when calculating accrued interest due in the context of a disposal of a vanilla bond in the secondary market from a tax perspective. (3 points)

In the afternoon you have a meeting with Hans Jorg Arm, an Austrian tax resident, who holds a portfolio of 250 shares of "La Cave Germanier Frères Ltd" incorporated in Sion, with the Swiss Bank Asturia Ltd.

b) Due to exceptional sales in 2020, "La Cave Germanier Frères Ltd" paid its shareholders a dividend of CHF 55.50 per share on 13th April 2021. Under the double taxation agreement between Switzerland and Austria (DTA CH/A), gross amounts of dividends are subject to a withholding tax of 15%. In Switzerland, the withholding tax rate on dividends is 35%.

b1) Assuming that the EUR/CHF exchange rate was 1.25 (EUR 1 = CHF 1.25) on the payment date and that the dividend distributions are taxed in Austria at 27.5%, what will the effective tax rate be applied to Hans Jorg Arm' dividends and the total tax paid considering a full withholding tax refund by the Swiss tax authorities? (4 points)

b2) What would your answer to the previous question b1) be if the Swiss tax authorities had refused to grant the tax refund of 20% to Hans Jorg Arm? (4 points)

In the evening you are visited by Mr. Roger Schmidt, a German tax resident.

c) Mr. Roger Schmidt is currently considering buying vanilla bonds on the secondary market.

c1) Explain what is meant in financial jargon as "coupon washing" practice. (2 points)

c2) Mr. Schmidt acquired a US vanilla bond (with exchange rate EUR 1 is USD 1.1670) 90 days after the previous coupon payment (coupon period equal to 184 days, with exchange rate at 1.2011 at coupon payment) for a nominal amount of USD 10,000 at an interest rate of 2.25%. Calculate the income from interest distributions using the standard method for your calculation. (3 points)

c3) Mr Schmidt has additionally unclarities about tax discounts:

i) Calculate the taxable discount from the zero-coupon bond given that Mr. Schmidt had acquired a US zero-coupon bond on 3rd December 2019 for a nominal amount of USD 17,000 at 68.42% (with exchange rate at 1.1885) and sold it on 11th November 2021 for the same nominal amount at 72.825%, considering the fee of USD 125 per transaction. Use the simplified calculation method for your calculation. (2 points)

ii) Give an example of a country tax system under which it is appropriate to calculate the taxable discount as in i) and explain why. (1 point)