CREDIT SUISSE

# Introduction of deduction for self-financing

## Opportunities created by TRAF for finance companies

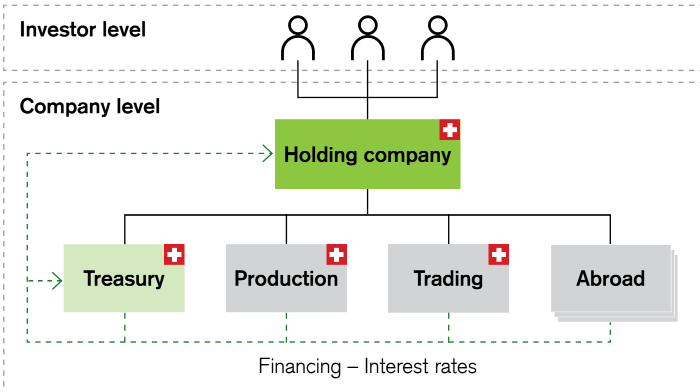
**Is your company affected?**
Does your company perform treasury functions in Switzerland or abroad? Does your company have loan receivables from Swiss and foreign group companies? Does your company have equity capital that is not needed for operations? If you can answer "yes" to any of these questions, you may **need to act** due to the TRAF. Our tax consultants are your point of contact, and will be pleased to discuss the opportunities and challenges created by the TRAF with regard to your tax and financial situation.

**What changes will the TRAF bring?**
Swiss voters approved the Federal Act on Tax Reform and AHV Financing (TRAF) on May 19, 2019. For **companies**, this means the abolition of privileges for holding, domiciliary, management, principal, and finance companies. Tax advantages will now be introduced for financial as well as research and development activities. Furthermore, the cantons will be able to grant discounts on tax on capital if equity capital is assigned to participations, patents, and intracompany loans. In addition, the cantons will cut their rates of corporate income tax.

The **interest deduction on equity capital** will provide tax relief for **financial and treasury income**. Specifically, this means that the cantons can allow an interest deduction on equity capital for tax purposes. However, the interest deduction on equity capital will only be possible if a company's corporate income tax charge (federal, cantonal, and municipal) in the cantonal capital exceeds 18%. Only in the Canton of Zurich is this condition likely to be met.

**Why the need to act now?**
The changes take effect on **January 1, 2020**. It is therefore important to examine right now whether financial and treasury functions in Switzerland and abroad should be restructured, and/or whether operating entities can be funded with more debt capital.

**How can you benefit?**
If you finance your companies via a holding, finance, or treasury company, the TRAF will mean that you lose the tax advantages you previously enjoyed. With the **interest deduction on equity capital**, it may be worth **bundling or restructuring intragroup financial flows in Switzerland** in order to reduce taxes on financial income over the long term. This is illustrated by the following generic example:




Finance activities can be concentrated in the holding company, treasury company, or another entity located in the Canton of Zurich, for example, so as to benefit from the interest deduction on equity capital.

**Potential benefits**
- The financing structure will be simplified by bundling financial flows.
- Interest deduction reduces the corporate income tax burden and improves the return on capital.
- By utilizing the leverage effect, the credit rating can be improved.
- Capital requirements abroad can be taken into account for tax purposes.

**Influencing factors**
- Tax burden in the cantons involved and abroad
- Cost of chosen measures for restructuring finance functions
- Equity ratio, amount of capital, and interest rates
- Extent of assets needed/not needed for operations within the company

**Next steps**

- Evaluate structuring options.
- Calculate the tax advantages from using a separate finance vehicle.
- Carry out a cost-benefit analysis.
- Prepare an implementation plan and timetable.
- Meet with cantonal tax authorities and obtain any tax pre-assessments.

**How can we help?**

Our tax consultants will analyze whether your costs and tax burden can be reduced through an adjustment of financial flows or the **concentration of finance functions**.

**What next?**

Let us know if you are interested in an initial analysis. We will be pleased to send you a **list of the information required**, and to meet with you to discuss **some initial solutions**.

**Contact us**

We will be happy to arrange a personal consultation. Please contact your advisor to schedule a personal consultation together with one of our tax consultants.

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