Investment and dividend strategy

Opportunities for your investment and dividend strategy

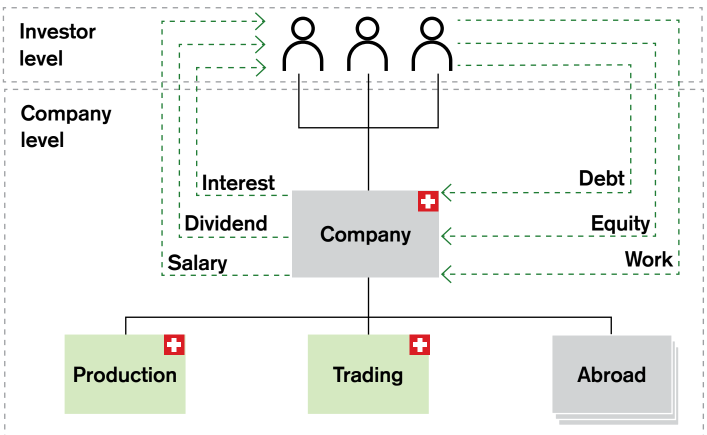
Is your company affected?
Are you employed by the company in which you are an investor? Does your company have financial resources that are not required for operations and could be distributed? Does your company have minimal share capital and substantial capital contribution reserves and/or retained earnings? 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 matters.

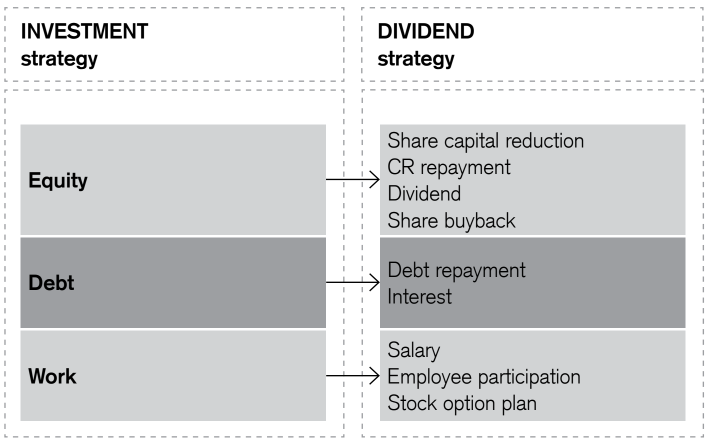
What changes will the TRAF bring?
Swiss voters approved the Federal Act on Tax Reform and AHV Financing (TRAF) on May 19, 2019. At the **investor level**, one consequence will be that partial taxation of dividends will increase to 70% at the federal level and at least 50% in the cantons. Gains from the sale of equities held as private assets are to remain tax-exempt. However, tax exemption in relation to transposition will be canceled altogether – that is, even if a person sells portfolio investments (< 5%) to a company they control.
In tandem with the TRAF, some cantons are poised to raise the wealth tax rate. In addition, AHV contributions on salary payments will be increased.

At **company level**, the introduction of the interest deduction on equity capital will relieve the burden on financial income. Cantons with a profit tax rate of at least 18% can allow an interest deduction on equity capital for tax purposes. In addition, the cantons will be able to grant discounts on tax on capital when these are assigned to participations, intracompany loans, and patents. Furthermore, the capital contribution principle will be restricted in the case of companies listed in Switzerland. In the future, it will only be possible for capital reserves to be distributed tax-free to the same extent as freely disposable, taxable retained earnings. In tandem with the TRAF, the corporate income tax is being reduced in the cantons.

Why the need to act now?
Given that the legal changes take effect on **January 1, 2020**, it is advisable to act now and examine the impact of the TRAF in order to take advantage of the changes in a timely and tax-efficient manner at both private and corporate level.

How can you benefit?
In terms of **investment strategy**, the introduction of the interest deduction on equity capital makes the equity financing of companies more attractive from a tax perspective. Nevertheless, it is important not to disregard the tax on capital. As far as **dividend strategy** is concerned, the increase in AHV contributions and increased tax on dividends makes it worthwhile to revisit the relationship between salary and dividend. This is illustrated by the following generic example:





The reduction in corporate income tax also impacts the dividend and salary strategy. This raises the question of the **optimum relationship between equity and debt capital**. If financial resources not required for operations are to be returned to the investor, this can take place via a reduction in share capital, share buyback, or dividend. Dividends (paid from disclosed reserves) can be agreed at an ordinary or extraordinary General Meeting.

Potential benefits

- A targeted investment and dividend strategy can be used to reduce the tax on income, wealth, profit, and capital, thereby increasing the enterprise value and boosting the credit rating.
- By converting capital contribution reserves into share capital, it is possible to minimize the consequences of the tightening of the capital contribution principle for companies (partially) listed in Switzerland.
- The tax efficiency of dividend distributions to the investor is increased if the distributions are paid before the TRAF enters into force and/or for purchasing additional pension benefits.
- The value of a company can also be realized by means of a tax-exempt (partial) sale of shares, provided the deal is correctly structured and the tax pitfalls are avoided.
- Wealth tax can also be reduced if the investment and dividend strategy is planned and structured with the following generation in mind.

Influencing factors

- Purpose and location of company being financed – in Switzerland and/or abroad
- The company's equity – share capital, capital contribution reserves, and retained earnings
- The company's debt capital – type of debt and total capital costs
- Business strategy and taxation of the company – profit and loss situation
- Interests of family members in Switzerland and abroad – impact on succession planning

Steps to follow

- Prepare investment and dividend strategy in line with private and business needs.
- Determine debt and equity capital as well as work within the company.
- Evaluate structuring options and model calculation of resulting tax advantages.
- Carry out a cost-benefit analysis.
- Prepare implementation plan and timetable.
- Meet with 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 the **targeted investment and dividend strategy** and the enterprise value thereby increased.

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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