



Universität St.Gallen



Wealth taxes and valuation

9 September 2020

Peter Hongler – University of St. Gallen

*“From insight
to impact”* 

Overview

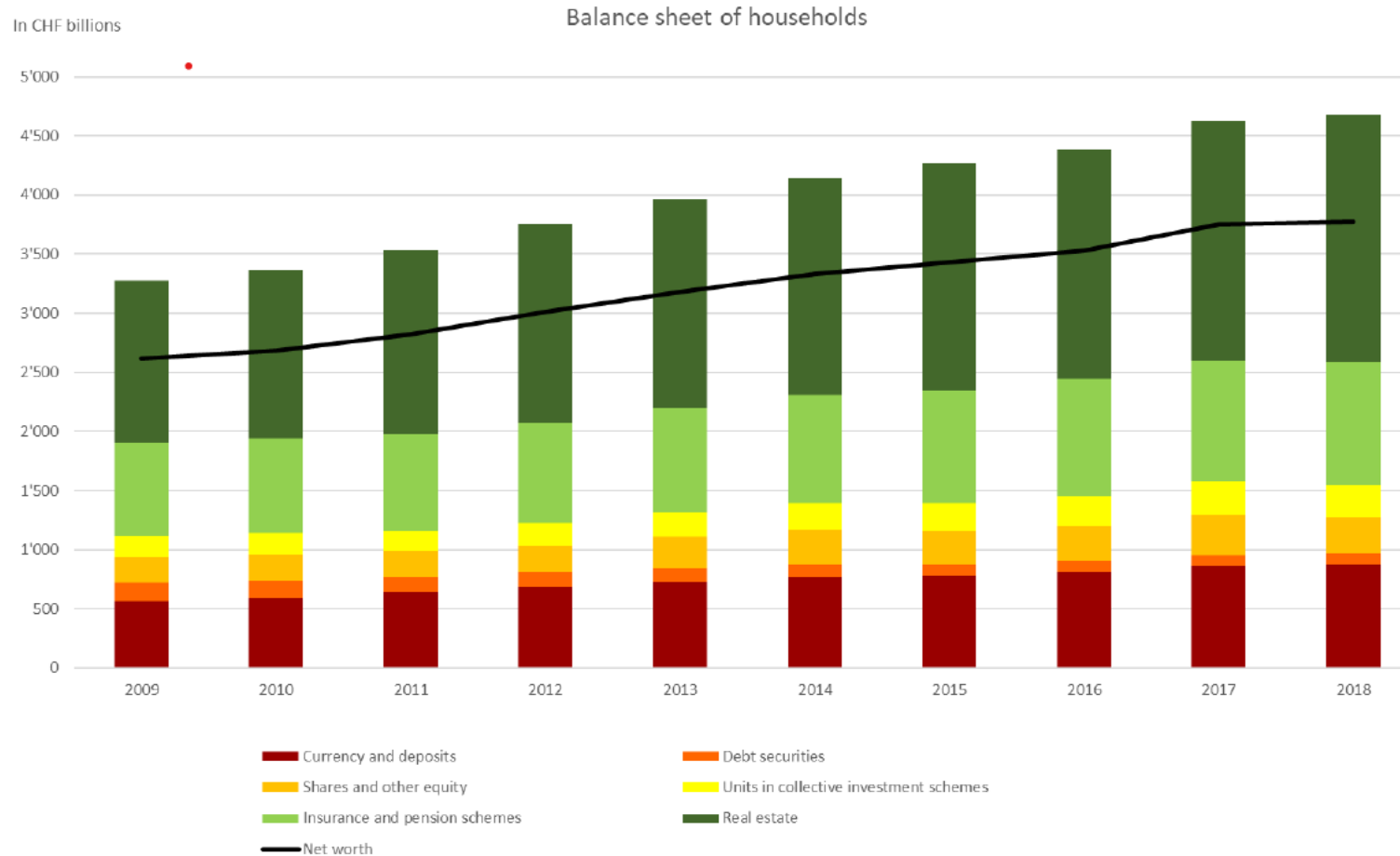
- The Swiss experience
- Listed shares
- Non-listed shares
- Other assets
- Food for thoughts

The Swiss experience

Wealth taxes in Switzerland - some key elements

- «Low» tax rates – between 0.13-1.03%
- Capital gains on private assets are tax free – a trade-off (?)
- Self-declaration
- Unilateral exemption for foreign real estate, foreign permanent establishments and foreign business operations
- Intercantonal allocation (!)

The Swiss experience



The Swiss experience

Wealth taxes with a broad base

- Non-harmonized but framework by the federation (Federal Harmonization Tax Act)
- **Art. 13 Taxable object**
 - (1) All net assets are subject to wealth tax
 - ...
 - (4) Household effects and personal effects are not taxed
- **Art. 14 Appraisal**
 - (1) Assets are measured at **fair market value**. The capitalized earnings value can be taken into account appropriately.
 - ...
 - (3) Intangible assets and movable assets being part of the business assets of the taxable person are value at the value applicable for income tax purposes. [...]

The Swiss experience

Asset categories

- Jewelry
- Art
- Cars
- **Shares**
 - **Listed**
 - **Non-listed**
- Other securities
 - Listed
 - Non-listed
- Real estate
- IP
- Depoits
- **Business property (private investments are in general not considered to be business property)**

Listed shares

- Market price
- Indirect holdings?

Non-listed shares

- Is there a fair market value?
- If not, fair market value → **“Practitioner’s method”**
- **[Two times the capitalized earnings value (CEV) + net asset value (NAV)] / 3**

$$CEV_t = \frac{NE_t + NE_{t-1} + NE_{t-2}}{3} \cdot \frac{1}{i}$$

$$CEV_t = \frac{2 \cdot NE_t + NE_{t-1}}{3} \cdot \frac{1}{i}$$

Where NE = net earnings (without extraordinary revenue and expenses) in the respective tax period t, t-1 or t-2; and i = capitalization interest rate. i = currently 7%

It depends on the canton whether formula (1) or (2) is used.

Non-listed shares

Net asset value

- Starting point is the financials (Swiss GAAP!) – hidden reserves are allowed according to Swiss GAAP
- Some amendments are mandatory (e.g. listed shares; real estate)

Non-listed shares

Two current problems

- Valuation of service companies
- Valuation of start-ups

Non-listed shares

Valuation of service companies

Decision, Tax Appeal Court Zurich, 18 February 2020
Appeal pending at the Cantonal Administrative Court

Facts:

- Valuation of shares of a law firm
- Shareholders argue that the net asset value should be decisive for a law firm (CHF 6'547 per share)
- Assessment following the practitioner's method: CHF 37'500 per share (CEV approx. 5.5 Mio.; NAV approx. CHF 650'000; 100 shares)

Main line of reasoning

- Income of a law firm depends on the success of the employees (i.e. lawyers) – difficult to compare to other companies such as industrial companies
- A lower value was agreed in the shareholders agreement
- New partners paid the NAV to become shareholders (third party price!)

Non-listed shares

Valuation of service companies

Findings of the courts

- Sale to other lawyers who worked for the law firm is not a “third party sale”
- Shareholders agreement is not decisive → valuation is an objective task and not based on subjective consideration, i.e. private law contracts are not decisive
- Practitioner's method is in line with the legal base

Non-listed shares

Valuation of start-ups

- In case of newly incorporated companies, in the start-up phase the NAV is decisive. However, if there is a financing round, some cantons have considered the valuation for financing purposes as the fair market value
- Since 1 November 2016 the canton Zurich has taken a more liberal approach: only the NAV is relevant until there are “*representative business results*”

Non-listed shares

Valuation of start-ups

- Ex-post valuation?
- Various problems (sale of minority stakes, employee stock, etc.)
- Not really in line with our procedural approach – once you are assessed, you are assessed!

Other assets

Cars

- Purchase price
- Depreciations allowed

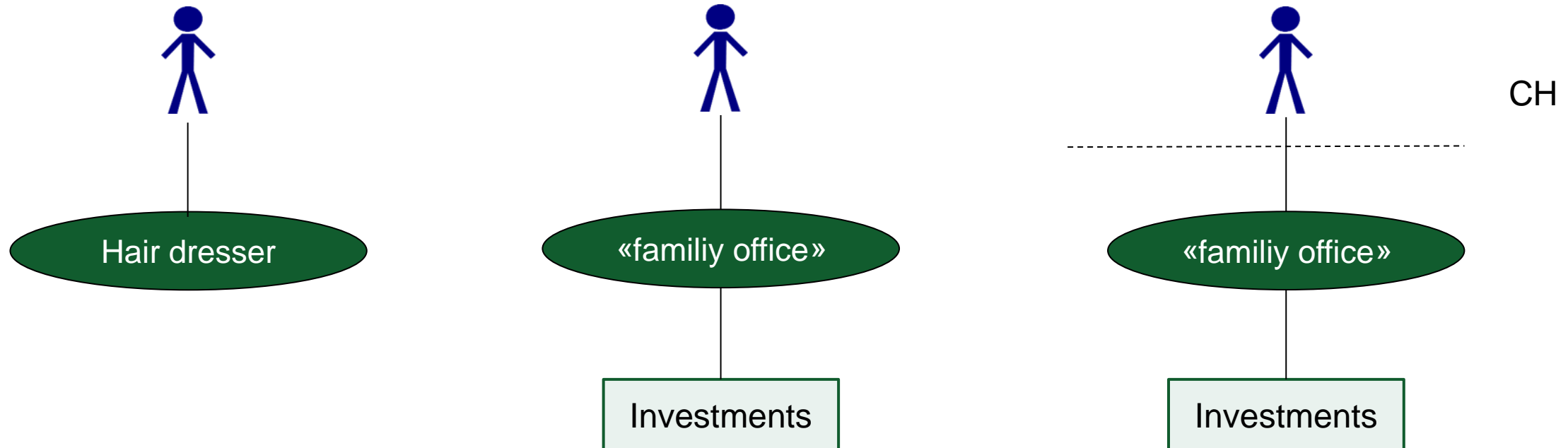
Art

- Fair market value (often insurance value)
- Subject to negotiations

Other assets

Business assets

- Book value
- Foreign business operations / permanent establishments are exempt
- But capital gains are subject to income taxation (and social security contributions)



Food for thoughts

- **Any need for reform?**
- **More fundamental reform?**
 - Introduction of a capital gains tax instead of levying a wealth tax? Politically difficult (cantons vs. federation)
- **Narrow the base / different valuation mechanism?**
 - From a comprehensive wealth tax to a wealth tax on listed shares (fair market value), non-listed shares (practitioner's method) and real estate (defined valuation method)
 - Hair-cut of 30% on non-listed shares?
- **Broaden the base?**
 - Include pension schemes – would flatten the wealth/age ratio (see Martinez)

Universität St.Gallen (HSG)
Dufourstrasse 50
9000 St.Gallen
Schweiz
+41 71 224 21 11
info@unisg.ch
unisg.ch

