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NEWSLETTER

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Dear Sir or Madam,

For the most tax-effective structure of a company, it is not enough just to look at taxes which directly affect only this company. What must also be considered are taxes that affect the owner, plus social security contributions which, especially for high incomes, could be regarded as taxes. Below, we will give you an overview of what else, apart from taxes, needs to be optimised.

Contributions to Old Age and Survivor Insurance and Unemployment Insurance

Next to taxes, there are also social security contributions. With the Old Age and Survivor Insurance, the annual pensionable maximum is CHF 84’600. Anything above this is subject to a charge of 10.25%, without an increase in the Old Age and Survivor Insurance pension. Thus, this charge is a pure tax. It is similar with the Unemployment Insurance; the contribution of 2.2% up to CHF 148’200 results in entitlements, a contribution of 1% above that is pure tax as it has no influence on entitlement. On top of that, an owner of an SME (AG) pays Old Age and Survivor Insurance contributions, but as a de facto self-employed person is excluded from Unemployment Insurance benefits.

Levies for sole proprietorship

With a value added of up to CHF 100’000 turnover per year, sole proprietorship is the correct legal form. Apart from cost-effective accounting, levies are also already optimised. Contributions to Old Age and Survivor Insurance are within a pensionable range, and as a self-employed person, there are no Unemployment Insurance payments. Provisions according to the Occupational Pensions Act can be arranged on a voluntary basis.

Occupational benefit provision

However, with a higher income, an adequate occupational benefit provision is required. To allow voluntary purchase into the pension fund, you should not take the Occupational Pensions Act minimum as a starting point. The aim of these purchases is to reduce both taxable income and taxable assets. All financial assets within Occupational Pensions Act are exempt from tax on assets. Private assets, on the other hand, will be subject to tax up to 1%. Therefore, creating tax-free assets within Occupational Pensions Act is indispensable for the most tax-efficient structure of a company.

Option legal entity (AG, Ltd)
With value added above CHF 500’000 choosing the form of a corporation seems obvious. On the one hand from a company law’s point of view, to integrate partnerships, investors and others, on the other hand to optimise levies. Since Corporate Tax Reform II has come into effect, dividends have been taxed at a privileged rate. Thanks to this, double taxation has been reduced. Now dividends are tax-privileged which helps avoid double taxation. It can now make sense to pay out dividends instead of salaries. In particular dividends, in contrast to salaries, are not subject to social contributions, which makes them particularly attractive from an integrated point of view. For decades there had been arguments with the tax administration about setting salaries as high as possible to avoid double taxation, now the argument has turned on its head. There are now also discussions about a minimum wage to ensure that Old Age and Survivor Insurance does not get a raw deal. Corporation Tax Reform III, which would again have reduced the tax privileges of dividends, has been rejected at the ballot boxes. Now it remains to be seen what the new proposal will look like.

A pure maximisation of dividends at the expense of salary is not called for. The lower the salary, the lower the structuring options within Occupational Pensions Act, and consequently the options for voluntary purchases. However, the latter should absolutely continue to exist, as these are among the most important instruments for tax management and for tax optimisation. A balanced relationship within a happy medium is the best solution. Even for independent professions (doctors, lawyers, et al), it could make sense, considering tax aspects, to choose the legal form of a corporation.

What remains as a drawback is the contribution of an employee of his or her own company towards the unemployment insurance fund. These contributions are due, but, based on company status, benefits will be refused once unemployment kicks in. Only the state can do that – demanding insurance premiums while refusing insurance benefits.

The huge tax burden of up to 50% for higher incomes requires comprehensive consultancy to design a company’s value-added in a tax-efficient way.

Kind regards
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