No. 14 | December 2018

# NewsLetter

English

Value Solutions
Treuhand & Unternehmensberatung

## CONTENTS

## 1. Current Status of Tax Proposal 17/STAF

On 28 September 2018 the Federal Councils issued the Federal Law on Tax Reform and the Financing of the AHV (STAF). Parliament made significant changes to the dispatch of the Federal Council. For cantons that cannot cut corporate taxes sharply there is the option of deduction against part of equity. Cantonal taxation of dividends from qualifying investments is not set at a mandatory minimum of 70%, but a minimum of 50% instead. When bringing cantonal tax legislation into line with STAF, most cantons intend to increase the taxation of dividends from qualifying investments over 50%. The increase in child and training allowances has been dropped. Regrettably, corrections have also been made to the capital contribution principle. If they wished to distribute tax-free capital reserves, listed companies used to have to distribute a similar amount of reserves subject to withholding and income tax in the hands of the recipient. The privileges recognized by the OECD (patent box, additional deductions for R&D, etc.) have been adopted unchanged. The deduction limit for privileges has been restricted to 30% of taxable profit.

If a referendum is called, voting is likely to take place in May 2019. The deadline for a referendum runs until 17 January 2019. It would appear that the organizers of the referendum are having trouble gathering the signatures required. What will happen if there is a referendum? Experts would not be surprised if voters reject STAF. Linking the tax proposal with the financing of the AHV is regarded as unfortunate. If the vote is lost, current cantonal tax privileges will have to be abolished without the introduction of any new ones to avoid sanctions being imposed by the EU and the OECD. That would definitely weaken Switzerland as a business location.

## 2. New levy for radio and television from 2019

From 1 January 2019 the new device-independent levy for radio and television will be charged, replacing the reception fee charged up to the end of 2018. The levy takes account of technological developments and so no longer depends on whether a household or firm has radios or television sets, since nowadays all sorts of other devices can also receive broadcasts. Serafe AG (the successor to Billag AG) collects the levy from private individuals, and the annual fee for radio and TV falls form CHF 451.10 in 2018 to CHF 365 (one franc per day) from 2019.

Companies with revenues over CHF 500,000 have to pay the levy. This amounts to between CHF 365 and 35,590 per year, depending on the amount of revenue. The figure is based on total revenue declared in item 200 on the VAT return (a company’s global revenue), so the levy is charged directly by the FTA. Companies with no registered office, place of residence or permanent establishment in Switzerland do not have to pay the levy, not even if they provide services in Switzerland and have their own VAT number.

## 3. Blockchain technology – accounting for crypto currencies

**What is a blockchain?**

An attempt at a simple explanation taken from the magazine Computer Week:

*A blockchain is a decentralized database that stores a constantly expanding list of transaction datasets. The database is extended linearly over time, similar to a chain with new links being constantly added on the end (hence the term "blockchain"). Once one block is complete, the next one is generated. Each block contains a checksum for the previous block.*

...well, if only it was that simple...

So it involves a decentralized network provided by network participants on which transactions are saved and checked.

The main advantages of a blockchain are:

- It's independent from a central unit (e.g. a bank's e-banking platform)
- Transactions can be publicly viewed and are checked by what are known as "miners" (some of the network participants) to see they are correct, which results in much greater transaction security overall
- There is an infinite number of potential everyday applications for network users in future

These benefits seem very abstract and hard to grasp. But when you consider that there are still some countries where banking and payments are not as secure as in, say, Switzerland, you can easily see that a public network validated by a large number of independent agents is more reliable for financial transactions than the local banking system.

The range of potential applications is not restricted just to replacing electronic payments. ICOs raised around USD 6.1 billion in 2017. An ICO is like an IPO (initial public offering) for a stock; shares in the company are opened up for purchase with crypto currencies. Daily trading volume in crypto currencies is of the order of USD 20 billion, seven times the turnover in stocks in the SMI. Other potential applications are being used or developed in crowdfunding, gaming, online casinos, even in contracts, notarial and insurance business.

But despite the large range of possible applications there are also distinct drawbacks, risks and legal uncertainties currently associated with blockchain technology:

- Redundant, decentral storage of all transactions uses huge resources. The leading crypto currency, bitcoin, is estimated to consume around 50-70 TWh of electricity every year. This is almost exactly the same as all the electricity used in Switzerland.
- Crypto currencies are subject to massive price fluctuations. About a year ago, one bitcoin was worth almost CHF 20,000. Within 12 months it has lost over 80% of its value. Since the end of November the price has been moving between CHF 3,500 and CHF 4,000.
- The technology is not infinitely scalable. If bitcoin were to handle as many transactions as Visa, the data capacity of the decentral network would be hopelessly overloaded. Thought has therefore been given to the idea of saving away the data of (just) a few global miners to counteract this. But that would go directly against the main advantage of the technology, which is transparent and public recording of all transactions.

- The absence or non-arrival of anti-money laundering regulations and the emergence of cases of theft and fraud have shown how sensitive crypto

currency prices are to this sort of news and in the recent past have triggered a clearly negative trend, even a loss of confidence.

**Accounting for crypto currencies**

The US Internal Revenue Service (IRS) has regarded bitcoins and other crypto currencies as assets since 2014. People are generally aware that crypto currencies are very widely used as a means of payment in Asia in particular. Some 40% of global transactions are processed through the Japanese yen.

Crypto currencies qualify to be recognized as assets under the Swiss Code of Obligations (OR):

Article 959a OR states that assets must be recognized “if they can be disposed of due to past events, an inflow of funds is likely and their value can be reliably estimated.”

We can therefore speak of a requirement to recognize them as assets. But which item on the balance sheet should crypto currencies be recognized under? Unlike IFRS, where they come under intangibles, the professional body of auditors, Expertsuisse, prefers them to appear under current or non-current securities or even within inventories.

If they are an investment they are treated as non-current securities. But if the crypto currencies have the nature of liquidity, they should appear as current. A company whose purpose is to trade in crypto currencies must report them accordingly as inventory.

Depending on the nature of the investment, the currency is also measured accordingly. A crypto currency that is cash or cash equivalent is carried at the price on the reporting date, non-current assets and inventories are normally recognized at historic cost. The lower-of-cost-or-market principle applies in all cases, so if the price fall below historic cost the losses must be taken through the income statement immediately.

## 4. Reporting badwill

Goodwill can arise in consolidated accounts from a share deal, or at the level of an individual company from an asset deal. Negative goodwill (also known as "badwill" or "lucky buy") always occurs where the value of the net assets taken over in an acquisition exceeds the purchase price. This is fairly rare, so the treatment of badwill under the Code of Obligations or Swiss GAAP FER is not clear.

The treatment under **International Financial Reporting Standards (IFRS)** is unambiguous. Badwill arising from a "lucky buy" must be recognized in full through the income statement immediately at the time of acquisition. Recognizing the difference as a liability is not permitted under IFRS, as this goes against the "past event giving rise to a current obligation" principle. Hence, goodwill and badwill are treated differently. Goodwill is recognized as an asset and subjected to an annual impairment test, whereas badwill has to be taken to income at the time of acquisition.

Under the **Swiss Code of Obligations (OR)**, what matters are the factors that resulted in the price discount. If a cautious assessment shows that the reasons which caused the price discount will not occur (e.g. future losses), then the badwill can be taken through the income statement as with IFRS (in practice it is often transferred directly to retained earnings). To anticipate unfavorable future prospects the Code of Obligations also offers the option under the principle of prudence to recognize a deferred liability and depreciate this over a fixed period, as with goodwill. In our view, however, this would result in hidden reserves being released very year.

As with the Code of Obligations, **Swiss GAAP FER** offers three options. Taking badwill through the income statement, like IFRS, is possible. A further option is to recognize the badwill as a liability and release it over a certain period (in line with Swiss GAAP FER 30.14 and 30.15 – Treatment of Goodwill), or to offset it against shareholders' funds in accordance with Swiss GAAP FER 30.16 (again, just like for goodwill).

Under both Swiss GAAP FER and the Code of Obligations, taking badwill (a "lucky buy") through the income statement or offsetting it against shareholders' funds is preferred to recognizing it as a liability. There is no "past event giving rise to a current obligation" to justify recognition as a liability.

## 5. In-house news

**All e-mails from Value Solutions are now digitally signed**

For some time now, fraudsters have been sending fake emails to gain access to their data. Unfortunately there are also e-mails with the sender "Valuesolutions" in circulation.

So that you can verify in the future whether the e-mail actually comes from us (Value Solutions or Tria), we will digitally sign all our e-mails from now on. You can recognize this by the red symbol (red medal, white medal from Outlook 2019) in the e-mail message.

Please delete doubtful e-mails without digital signature and personal salutation immediately and do not open attachments or links under any circumstances. Never reply to a questionable e-mail, initiate a payment or disclose personal data. Of course you can always call our staff or send a (new) e-mail to inquire if an e-mail is from us.

**New Hires**

**Amel Akhlafa, in training as a trustee with Swiss Federal certificate**: Joined us on 1st December 2018

**Jacqueline Portmann, Intern**:
Will be joining us on 1st January 2019

**Congratulations**

**Patrick Döbeli** this autumn very successfully passed his examinations to become a **Certified Fiduciary, Federal Diploma of Higher Education**


34

# Total range of services

### Tax consultancy

We take a holistic approach to tax planning, assist you in your tax planning and represent your interests with the authorities.

- Advice on all tax matters relating to company formations, conversions, mergers, divisions, renovations, liquidations, registered address relocation and succession planning
- Fiscal advice for company acquisitions and sales, joint ventures and MBOs/MBIs
- Annual statement assistance for tax purposes, preparation of tax returns and representing your interests with the tax authorities

### Trust services & management consulting

Let us handle all business, taxation and legal financial and business issues for you.

- Development of efficient accounting solutions and implementation on your premises or at our offices
- Timely monitoring of finances and situation-specific information
- Support with recurring tasks such as VAT returns, payroll administration and insurance issues
- Advice on all corporate finance matters such as M & A services, transactions, private placements, financing, etc.

### Auditing

We advise and assist you in controlling and monitoring your company. We develop solutions to enable you to react to any changes in the economic and regulatory environment in time.

- Examination of financial statements, prepared in accordance with national or international accounting standards
- Examination of pension funds, public corporations or revisions in terms of the Money Laundering Act
- Audit of the internal control system and the acceptance of internal audit assignments

**Value Solutions Treuhand und Unternehmensberatung AG**
Riedstrasse 7
CH-6330 Cham
T +41 (0)41 748 35 50
F +41 (0)41 748 35 51
E info@valuesolutions.ch
www.valuesolutions.ch

Value Solutions
Treuhand & Unternehmensberatung