Foundations – A good deal for society

An empirical study of the economic costs and benefits of charitable grant-making foundations in Switzerland

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Executive Summary

This study is the first of its kind to investigate whether setting up a tax-exempt grant-making foundation pays off for society, or whether the process primarily provides tax breaks which ultimately benefit those who set up the foundation, without generating adequate added value for the public at large.

The study is based on a comparative mathematical calculation where funds which flow to the general public in the form of donations from a charitable foundation are offset against those which society misses out on by exempting a charitable foundation from its tax liability. The analysis is undertaken with two model cases commonly found in practice: an endowed foundation and a spend-down foundation.

This paper explores new territory, since no calculation of its kind has previously been performed for Switzerland, nor – to the best of our knowledge – for Europe.

In all of the model calculations, it is clear that significantly more funds flow to society from charitable foundations than would have been the case had the assets in question been subject to ongoing taxation.
Depending on the canton, foundations start to “pay off” for society within as little as one month and up to a maximum of one and a half years after setup.

The break-even point for an endowed foundation is reached after just 214 days. From this point onwards, the grants disbursed by the foundation permanently exceed the taxes the founders would have paid had the assets been invested privately.

When a spend-down foundation is set up, the tax revenue lost by society is amortised by the grants made by the foundation after as few as 78 days.

Even if full advantage is taken of all available tax optimisation opportunities – something that rarely happens in practice – considerably more funds flow to the general public than are missed out on through the setup of a charitable foundation.

This rebuts the common misconception that grant-making foundations are a means of avoiding taxes to the detriment of society. Charitable foundations pay off for society within a very short space of time as the funds they give back rapidly exceed the tax contributions no longer being made.

The study thus provides convincing fiscal evidence supporting the legitimacy of grant-making foundations and justifying the tax privileges they are afforded.

Foreword by the authors

What is the benefit to society of exempting private foundations from their tax liabilities? Does this approach serve the greater good, or merely favour a few wealthy individuals by giving them an elegant solution to reduce their tax bills? This is a frequent subject of debate not just in the public arena, but also among various tax authorities. The fundamental issue at hand from a public as well as from a government perspective is a purely economic one: Does exempting a charitable foundation from taxes result in a better bottom line for society than simply collecting taxes on the assets concerned?

What makes the subject of charitable foundations so complex is the wide range of topics that intersect under the umbrella of this legal form. When dealing with foundations, legal and tax aspects are as crucial as asset management and financial reporting. At the same time, charitable foundations are always geared to delivering a benefit to the general public. It would therefore be remiss not to take into consideration the areas they work in and the role they play in society. Moreover, management and governance issues are becoming increasingly relevant to the responsible use of foundations' tight resources.

All of the aspects mentioned have already been covered by specialists from a wide range of fields. Only rarely, however, does teamwork straddle these industry borders. In this regard as well, this study breaks new ground. It was authored by foundation practitioners in collaboration with tax experts with the aim of merging two perspectives that at first glance may appear to have little to do with one another: taxes and the societal legitimacy of foundations.

We hope that the result of this interdisciplinary partnership will provoke a lively public debate as well as a discussion rooted in data and facts about the role played by grant-making foundations in society.

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I Introduction

Objective and content of the study

Foundations create "added value for society": this is a commonly held belief in the foundation community. Indeed, the annual foundation symposium held by the SwissFoundations in 2017 adopted precisely these words as its motto. Representatives of governments and administrations welcome the growing number of foundations and their financial contributions because they feel foundations provide added value for society. This added value is the reason for the tax privileges bestowed upon foundations. The motion proposed by Werner Luginbühl, member of the Council of States, in 2009 emphasises this in no uncertain terms: "Foundations are therefore given privileged tax treatment because they generate added value for society, they pursue a charitable purpose."[1]

The hypothesis that grant-making foundations pay off for society is thus more than a self-subscribed claim; it is the basis for the public legitimisation of foundations and especially for the tax breaks the state gives founders and foundations. This legitimisation cannot, however, simply be taken for granted. Just recently, at the World Economic Forum 2019, Dutch journalist and historian Rutger Bregman highlighted this interdependency with typical candour: "Just stop talking about philanthropy and start talking about taxes," he implored the audience in his speech, which was shared multiple times on social media. "We can talk for a very long time about all these stupid philanthropy schemes … but we've got to be talking about taxes. That's it: taxes, taxes, taxes – all the rest is bullshit in my opinion."

The interdependency Bregman is calling into question is clear: Through donations and foundations, the state creates an alternate method of redistribution. Instead of skimming off taxes to fund public expenditure, Switzerland – like practically all other Western democracies – offers its citizens the opportunity to give their money directly to charitable organisations. In the conviction that this creates added value for society, the state grants founders and donors tax breaks on the contributions they make in order to attract funds which otherwise would not have been directed to public welfare causes. Until now, however, nobody has investigated whether this arrangement pays off.

That is where this study comes in. Published jointly by SwissFoundations, the association of Swiss grant-making foundations and PwC Switzerland, it calculates for the first time in Europe what financial impact setting up a foundation has on society at large.

The objective of the study is to provide a point of reference as to whether setting up grant-making foundations is a good deal for society.

1 Luginbühl, Werner, motion "Steigerung der Attraktivität des Stiftungsstandortes Schweiz" (Increasing the appeal of Switzerland as a location for foundations), 2009, www.parlament.ch/de/ratsbetrieb/suche-curia-vista/geschaeft?AffairId=20093344

Foundations and their role in society

This study considers all the financial implications of setting up a foundation. It is based on the assumption that one Swiss franc donated to society has the same value as one Swiss franc of tax.

The debate that is currently underway in the US and internationally on the legitimisation of foundations, however, shows that the issue is not just about money.[2] There is also a qualitative aspect, one that essentially boils down to one key – and ultimately political – question: Is society willing to accept a scenario where the state gives its citizens the freedom of deciding for themselves which public welfare issues they want to support? This is the crux of both large-scale philanthropy and small-scale donations: An individual contributes to a charitable organisation to support education, environmental protection or development work. Donors can deduct these contributions from their taxes to reduce their taxable income and thus their tax liability. Without these deductions, the taxes would be available to the state, which would use them for democratically legitimised purposes.

It goes without saying that we will not be able to address the ins and outs of this question in their entirety. We will, however, highlight some points which – aside from purely financial considerations – indicate that a Swiss franc donated to a foundation is a Swiss franc well-invested:

- Foundations are an expression of citizens' voluntary commitment to the common good. They are a pluralistic element in a society where the state is not expected to intervene on particular matters, but where these are tackled autonomously and independently. In this way, foundations are a mirror of Switzerland's political culture.

- Tax-exempt foundations are committed to the charitable purpose for which they were set up. Fulfilment of this purpose is subject to ongoing supervision. In addition to their statutory audit obligation, charitable foundations must provide an annual account of their finances and activities to the supervisory authority for foundations. This supervisory authority verifies whether the funds have been disbursed for the purpose stipulated in the foundation deed. Both the supervisory authority and the tax authorities set up security entities that verify the appropriate use of funds, prevent misuse and initiate sanctions in the event of non-compliance.

2 See Reich, Bob, Just giving – why philanthropy is failing democracy and how it can do better, Princeton 2018.

- Swiss foundation law ensures that the industry continually adjusts and realigns itself. Unlike in Germany, for example, where foundations that were once operational can never be wound down, in Switzerland, small and/or inactive foundations are systematically liquidated, merged or absorbed into other foundations in order to keep the industry up and running. 2018 saw 301 new foundations set up and 194 old foundations liquidated. So-called dormant foundations are subject to targeted assessments and called to action. Foundations that accumulate assets without disbursing funds risk having their tax-exempt status revoked.

- The argument that founders and foundations wield too much power does not hold water when you look at the figures. While the tally of CHF 100 billion in foundation assets and an estimated CHF 2 to 2.5 billion in annual grants sounds like a lot, the funding totals and grants are distributed among 13,000 charitable foundations that pursue different purposes.

- The amounts available to foundations are a drop in the ocean compared to the public sector budget. This drop, however, often makes a considerable difference in practice as foundations often support causes the state is not (yet) able or willing to take up. Foundations are flexible and, in contrast to the state, they can take risks. For these reasons, they frequently foster innovation and cultivate new ideas for which no funds are available in the public coffers. In this sense, many foundations perceive their assets as risk capital that drives society forward.

II Methodology of the study

Gathering data

The study is based on a comparative mathematical calculation where funds which flow to the general public in the form of donations from a grant-making foundation are compared with those which society misses out on by exempting a charitable foundation from its tax liability.

Two model cases – Mr Sigrist from Zurich and Ms Dubois from Lausanne – are used to analyse various scenarios: On the one hand, it is assumed that Mr Sigrist and Ms Dubois each set up a charitable grant-making foundation. In this case, a calculation is performed concerning the donations made by the foundations over the course of the year. These are “booked” as profit for society since they may only be channelled into not-for-profit projects which ultimately benefit society.[3]

In order to assess whether and when the foundations become profitable, the study calculates the taxes society misses out on due to the foundations:

- Firstly, we depict the extent of the tax relief Mr Sigrist and Ms Dubois receive when they set up their foundations. The taxes the public misses out on when the foundations are set up are regarded as the “societal costs” of a foundation and are included in the calculation.

- Secondly, the funds that are paid into a charitable foundation are deducted from the tax cycle. To calculate the overall tax losses, various scenarios are examined to determine the taxes the founders would have paid if they had not set up foundations, but had retained private disposal over the assets concerned.

3 The possibility is excluded that the revenue is used for any purpose other than charitable causes, as this would trigger the immediate and retroactive taxation of the foundation.

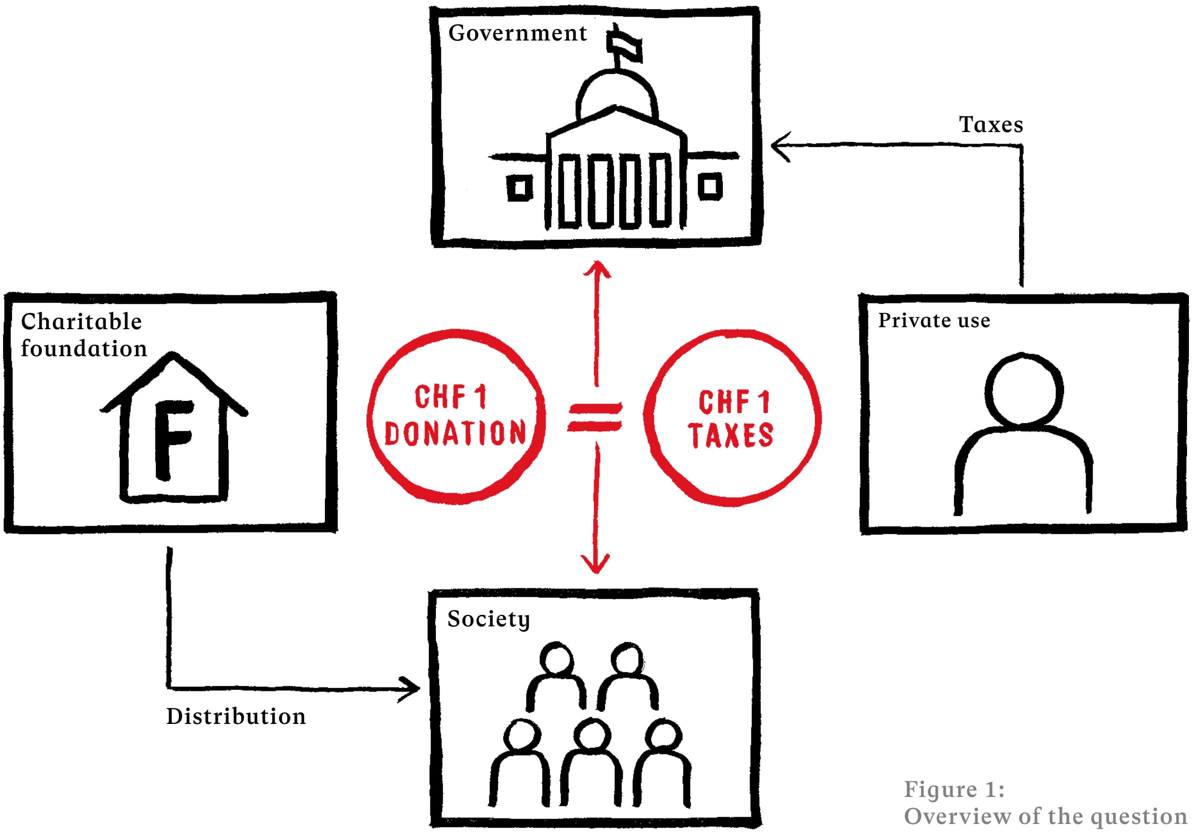


Figure 1:
Overview of the question

It should be noted here that – due to the federal structure of Switzerland – taxes differ from one canton to the next. The two founders in our model calculations reside in Zurich and Lausanne, respectively. An overview of the model calculations for all cantons is provided in the annex.

Case studies

To help explain the complex calculations on which this study is based, the tax implications of setting up a foundation are illustrated using the example of two model cases. Mr Sigrist and Ms Dubois represent in terms of their social profile, gender and sums endowed two archetypal Swiss foundation setups.[4]

With regard to the foundations, the study focuses in particular on charitable grant-making foundations. In contrast to operating foundations that run care homes, hospitals or museums, there are two main features that characterise grant-making foundations: Firstly, they have their own assets and fund their grant-making activities with the earned returns (or, in the case of spend-down foundations, with the assets themselves). Secondly, in the vast majority of cases grant-making foundations are non-operating, but rather make their funds available to other organisations.[5]

4 See Section 5 of this study.
5 Sprecher, Thomas / Egger, Philipp / von Schnurbein, Georg, Swiss Foundation Code 2015. Grundsätze und Empfehlungen zur Gründung und Führung von Förderstiftungen, (Principles and recommendations for setting up and operating grant-making foundations), Basel 2015, p. 141.

Grant-making foundations account for around one half of the more than 13,000 charitable foundations operating in Switzerland. Two types of grant-making foundations are examined in this study:

Endowed foundations are the most common form of Swiss charitable grant-making foundation. According to the case law of the Federal Supreme Court, when implementing its investment policy, the Foundation Board must observe not only the principles of security, profitability, liquidity and risk distribution, but also the preservation of capital (FCR 124 III 97). The latter principle can be interpreted as the duty to preserve capital or assets. This means that only the returns should be used for the foundation purpose, and the underlying asserts should remain untouched. This setup provides the basis for foundations to last forever once they have been created. To illustrate just how sustainable this setup is, take the example of Insel-spital in Berne, which Anna Seiler bequeathed in her will in 1354 and is still in existence today.

→ In the study, this type of foundation is represented by the foundation set up by Mr Sigrist from Zurich.

As foundations have had fewer and fewer assets at their disposal in recent years due to dwindling returns, the spend-down foundation has gained in popularity. In the case of spend-down foundations, not only the income or return generated on the foundation assets, but also the foundation assets themselves are used to implement the foundation purpose. The founder is at liberty to specify in the foundation deed that the foundation assets may be used up – and in some cases even have to be.[6] Once the foundation assets have been exhausted, the foundation is usually wound down.

Unfortunately, there are no statistics about how many foundations in Switzerland are set up as spend-down foundations. Notable examples such as the Gebert Rüf Stiftung, which will deplete its assets of over 150 million Swiss francs over its lifetime, are testament to the growing appeal of this model. It is for that reason that it has been included in the study.

→ In the model calculations, this foundation type is represented by Ms Dubois from Lausanne.

6 Sprecher, Thomas / Egger, Philipp / von Schnurbein, Georg, Swiss Foundation Code 2015. Grundsätze und Empfehlungen zur Gründung und Führung von Förderstiftungen, (Principles and recommendations for setting up and operating grant-making foundations), Basel 2015, p. 156.

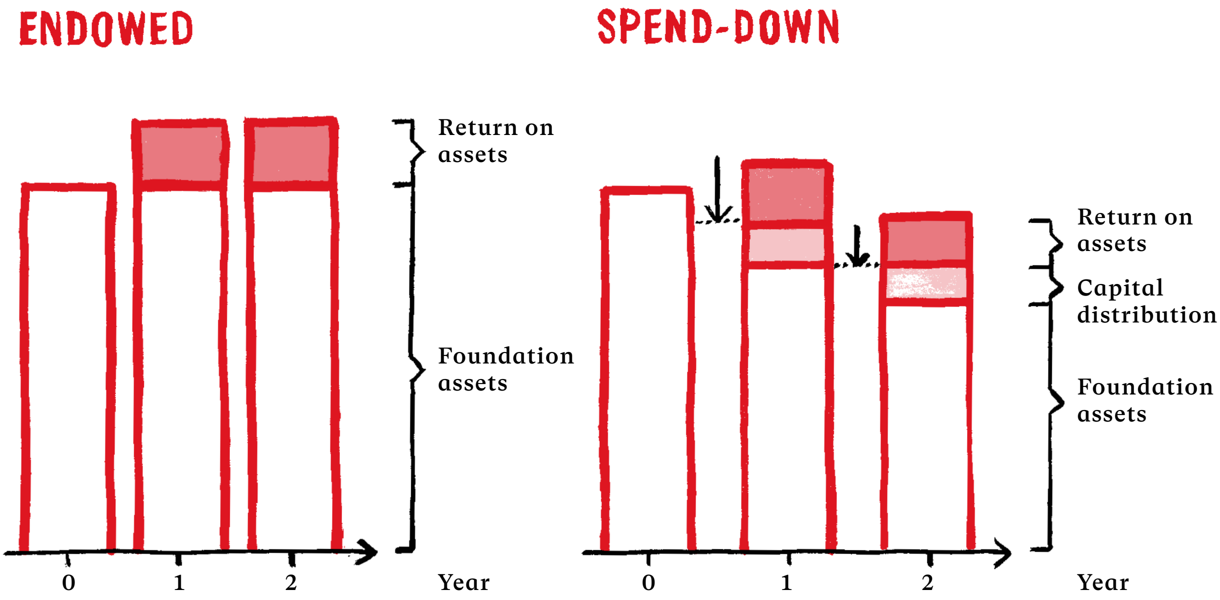
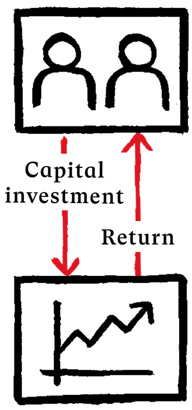


Figure 2: Foundation types, compared

Alternatives to foundations

To compare and contrast the tax implications, the study calculates the taxes that would have flowed to society if Mr Sigrist and Ms Dubois had not set up foundations, but had instead kept the money for their private use. There are of course many possible uses here; the not-to-be founders could have spent the money, invested it or given it away. Two typical cases are assumed to calculate the tax implications:



Private asset investment

The study works on the obvious assumption that – instead of setting up a foundation – the founders invest the funds for their own use and keep the income generated for themselves. In this scenario, the taxes due on the investment income are calculated for each case.

Figure 3:
Private asset investment

Private investment company

The second model is based on the assumption that the founders invest the funds in a private investment company to consolidate their assets. Here, too, the tax implications are calculated both on setup and on recurring income in order to create a complete picture for the scenario.

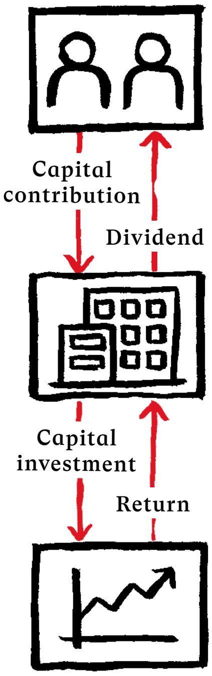


Figure 4:
Assets invested in private investment company

This results in four model calculations.

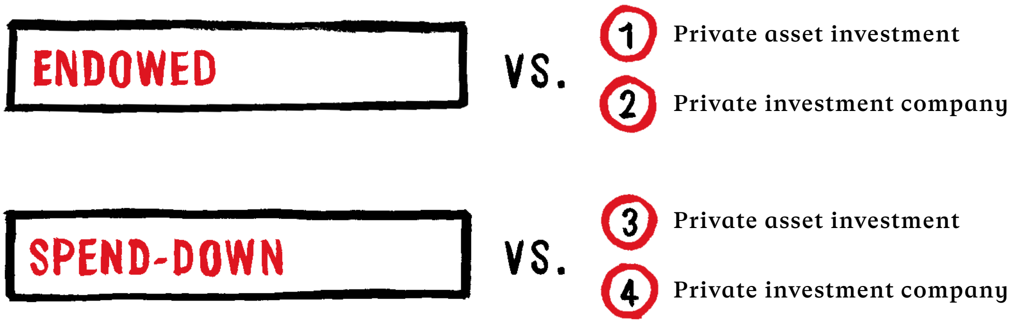


Figure 5:
Overview of comparisons

For the sake of completeness, it should be noted at this point that one variant “Simple donations” (i.e., private patronage) has not been included in the analysis because from a tax perspective it does not exhibit any substantial differences to setting up a charitable foundation. In addition, in the case of a charitable foundation, the commitment of assets to a public cause is guaranteed, whereas in the case of private donations the funds can be cut off at will at any time.

III Tax overview

Tax exemption for charitable foundations in Switzerland

In Switzerland, foundations that pursue a charitable purpose are exempted from paying taxes on the profit and capital committed exclusively and irrevocably for this purpose.[7]

A purpose is defined as charitable if it is in the public interest and benefits the community, for example, in the areas of social welfare, art and culture, science and education, development work or environmental protection.
A foundation may only disburse its funds for the purposes specified in the foundation deed. An important stipulation in this regard is that the group of recipients is open and not restricted to a limited number of people. These specifications must not only be enshrined in the statutes, they must also be implemented in everyday operations.

As well as fulfilling the objective condition of being in the public interest, the foundation must also meet the condition of altruism (i.e., putting the interests of others over one's own) in order to achieve tax exempt status. The foundation's activities must not be geared towards making a profit or serving its own means. In addition, the members of the Foundation Board must serve in an honorary capacity and may only be awarded minimal compensation, if any.

According to Swiss law, a charitable foundation is its own entity; the possibility of assets flowing back to the founders is excluded. If a foundation is wound down, the remaining funds are transferred to another charitable organisation pursuing a similar purpose.

Foundations are also prohibited from sitting on returns in order to accumulate capital. While Swiss law does not provide for any pay-out rules (something that is common practice in Germany or the US, for example, where foundations are required to disburse a specific portion of the returns generated), foundations in Switzerland are nonetheless required to make continual use of the funds they have at their disposal, otherwise they risk having their tax exempt status revoked. They may only amass reserves to the extent that these are in an "appropriate ratio" to any future expenditure.[8]

If these preconditions are met, foundations are exempted from all taxes on profit and capital. They nevertheless still pay value added tax on any goods purchased or services commissioned. If they own real estate, they are also liable for property taxes.

7 Federal Act on Direct Federal Taxation (Bundesgesetz über die direkte Bundessteuer, DBG) Art. 56 lit. g, Federal Act on the Harmonisation of Income Taxes of the Cantons and Municipalities (Bundesgesetz über die Harmonisierung der direkten Steuern der Kantone und Gemeinden, StHG) Art.23 lit.
8 See Circular No. 12 of the Federal Tax Administration dated 8 July 1994.

Tax deductions when setting up a foundation

Setting up a foundation constitutes a gift that is generally subject to gift tax or – in the case of setup by will – inheritance tax in Switzerland, at the cantonal level. If, however, the assets endowed are used to set up a charitable foundation, the gift tax or inheritance tax is waived.

Donors and founders can claim the contributions they make to charitable, tax-exempt institutions – be they foundations or associations – when they file their taxes, and thus reduce their tax liabilities. In the case of direct federal taxation, the upper deduction limit is 20% of other taxable income (for legal entities, a similar limit of 20% of net profit applies). In contrast to other countries such as Germany, this amount can be claimed only once, in the year the donation is made and not in the years that follow. Furthermore, in Switzerland there are no special rules for foundations – again in contrast to Germany where founders can claim a special contribution deduction of up to EUR 1 million, in addition to the 20%.

The tax exemption amount for direct federal taxation was increased from 10% to 20% in the 2006 revision of foundation law. All cantons with the exception of one have implemented this change. The canton of Basel-Land even allows founders to offset charitable contributions against their cantonal taxes up to 100% of taxable income.

Taxes paid when assets are used privately

If founders do not set up a foundation but instead invest the funds privately or channel them into a private investment company, the returns on these assets are subject to tax. In the calculations below, various forms of taxation are applied. These are explained in brief below:

Income tax and wealth tax

At the level of natural persons – that is, founders – income tax and wealth tax are the most pertinent forms of taxation. Income tax is applied both by the state, as well as by the cantons and municipalities, to a maximum of approximately 23% to 41%.

Wealth tax is levied solely by the cantons and amounts to between 0.1% and 1%. The levels of both taxes depend on where the natural person resides.

The model calculations are based on two cantons (Zurich and Lausanne); respective calculations for all other cantons are provided in the annex to the study.

Tax on earnings and capital tax

As is the case for all corporations, non-tax-exempt private investment companies must also pay tax on earnings. This tax is levied not only by the cantons and municipalities, but also by the federal government (direct federal tax). The private investment company must have its registered office or place of effective administration in Switzerland in order to be liable for tax on earnings and capital tax.

The cantons and municipalities also apply capital tax at the level of private investment companies, whereby individual cantons provide for the option of offsetting tax on earnings – if any such tax is owed – against any capital tax paid.

Stamp duty

In the case of private investment companies, there is also the question of stamp duty. This obligation becomes due when a company issues new share capital. The tax rate is 1% subject to an allowance of CHF 1 million; in the case of share capital issued above par, any issue costs and the taxes themselves can be deducted.

Gift tax and inheritance tax

Gift tax and inheritance tax are levied solely at the cantonal level, although the cantons of Schwyz and Obwalden apply neither gift nor inheritance tax.

In the event of an inheritance, the surviving spouse in all cantons is exempted from both gift tax and inheritance tax. This stipulation applies as well to the registered partner. Inheritance tax is also waived for direct descendants (children and grandchildren) in all cantons, subject to very few exceptions. If the inheritance goes to the siblings, a tax rate of 4% to 25% applies, depending on the canton. All other relations (nieces, nephews, etc.) or non-related persons pay gift or inheritance tax of between 7% and 50%, with a prevailing rate of taxation of 20-40% in most cantons.

IV Foundations – A good deal for society

Using the taxes and rates specified above, the study calculates how much the general public misses out on in taxes when a foundation is set up. This loss is compared with the gain reaped by society in the form of grants from charitable foundations.

The study applies an annual payout ratio of 3% to calculate the contributions made (i.e., the money that flows back to society). The authors deem this ratio to be realistic, even in consideration of the ex ante administration costs still due at the foundation level. The calculation is on the conservative side given that in 2017 Swiss grant-making foundations achieved a return of 8.83% after costs. With an average equity weighting of 46%, from 2015 to 2017 foundations achieved a multi-year average return of 14.52% (4.84% p.a.), indicating that the assumed rate of disbursement of 3% per year is realistic over the longer term as well.[9]

Like private donations, contributions made by foundations are also exempted from value added tax, meaning these sums are available to the organisations in full to fund their initiatives and projects.

Endowed foundations, in comparison

In the first model case, the endowed foundation run by Mr Sigrist is compared with the two alternative tax-liable forms of investment outlined in Section 2. The figures used for the calculations represent realistic values derived from real-life case studies.

9 The figures are taken from the SwissFoundations Benchmark Report 2018. For three years, SwissFoundations has invited its members to take part in a benchmark on costs and returns in asset management. In 2018, 34 grant-making foundations with total assets of CHF 9.5 billion participated in the survey.

Mr Sigrist, 52 years old, married, two children, Protestant, successful entrepreneur, resident of the city of Zurich. He is taxed on net income of approximately CHF 2 million and assets of around CHF 100 million. Alongside his business activities in the IT sector, Mr Sigrist would like to establish an endowed foundation in Zurich with a value of CHF 20 million. He decides on a charitable grant-making foundation dedicated to the causes of education and research. His target return is 3%, to be disbursed in full each year.

If Mr Sigrist pays CHF 20 million into a grant-making foundation, society benefits from the grants made by the foundation to support charitable projects. Applying the assumed rate of interest of 3% results in annual grants of CHF 600,000 which the foundation invests each year in education and research projects.

This sum is compared to the costs to society due to the setup of the foundation. The most prominent of these costs is the tax revenue that is lost when Mr Sigrist deducts the foundation value:

→ Mr Sigrist can claim the foundation value against his income tax up to a maximum of 20% of his taxable income. Of the total foundation value of CHF 20 million, with a taxable net income of CHF 2 million Mr Sigrist can deduct CHF 400,000 from his taxable income. Given the applicable marginal tax rate in Zurich of 39.6%, he saves approximately CHF 158,000 in income tax by setting up the foundation.

Added to these one-time costs on setup is the ongoing lost tax revenue. If Mr Sigrist were to retain the funds in his possession, he would have to keep paying taxes on these assets. As a result, these taxes also need to be factored into the calculation to provide a complete picture. Because the taxes to be paid depend directly on what Mr Sigrist would instead do with the funds, the ongoing taxes due are calculated using two examples.

Comparison 1: Endowed foundation vs. private asset investment

In the first model case, setting up a foundation is compared with a scenario where Mr Sigrist keeps the money, invests it privately and pays taxes on it annually. As the figure shows, money flows back to the general public in various ways:

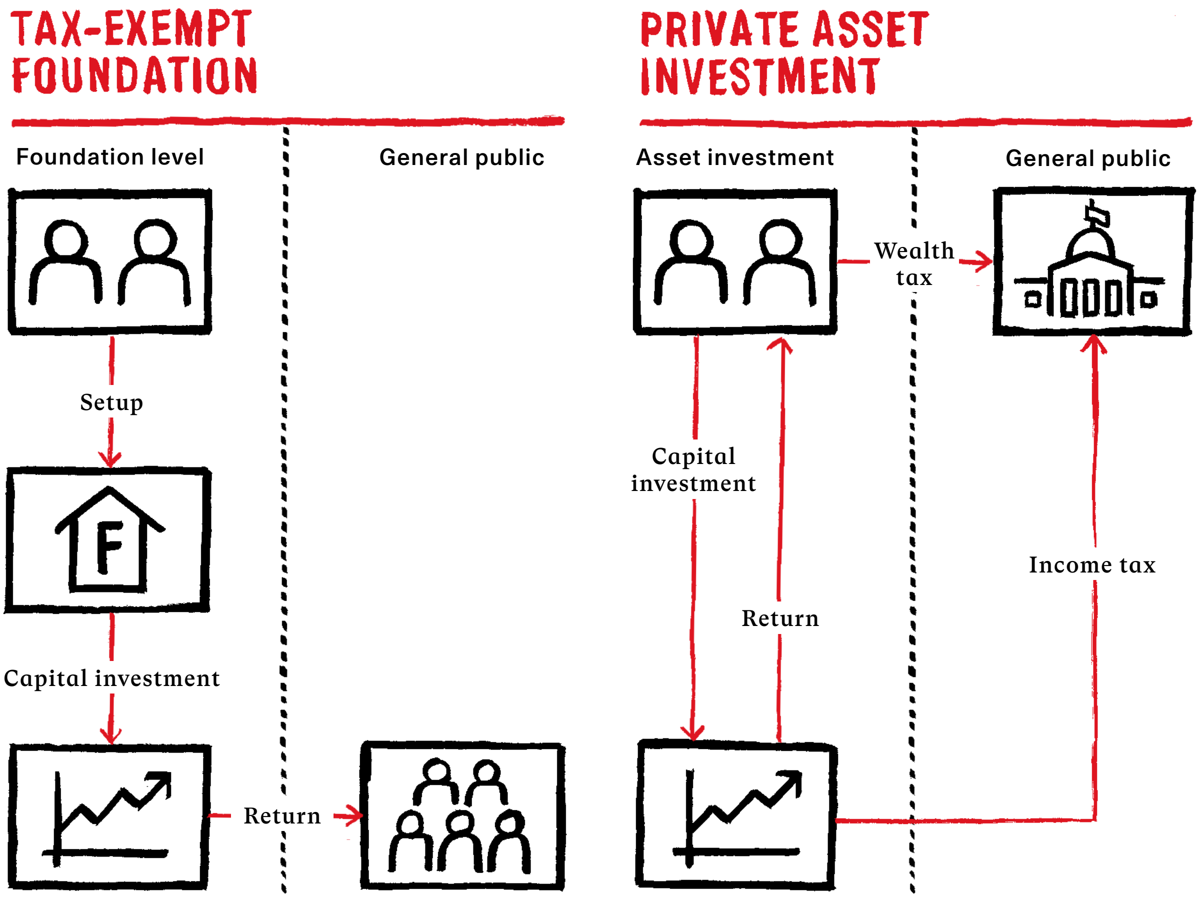


Figure 6: Comparison between endowed foundation and private asset investment

If the assets are used privately, the general public can expect the following tax revenue:

- → If Mr Sigrist invests the CHF 20 million privately, the capital generates an annual return that is liable to tax. Assuming that 50% of the returns are earned from tax-free private capital gains (purchase and sale of securities) and 50% from fully taxable dividends and interest, the effective rate of income tax on the return achieved will be around 20.5%.
- → In addition, the CHF 20 million is subject to wealth tax: Mr Sigrist would have to pay wealth tax of about 0.7% on assets of CHF 20 million.

→ Mr Sigrist invests the remaining returns after deduction of all applicable taxes on the capital market; over time this produces a compound interest effect which in turn further increases his annual income tax and wealth tax obligations.

→ As Mr Sigrist is married and has biological children, no inheritance tax would be payable, were he to die prematurely.

If we compare the hypothetical tax losses with the grants made by the foundation, the picture is clear:

Over a period of 25 years, funds totalling CHF 14.8 million (25x CHF 600,000) flow to society from the endowed foundation. Society misses out on CHF 158,000 in tax revenue when the foundation is set up (tax reduction on setup). In addition, in the 25 years that follow the general public does not receive revenue totalling CHF 8 million that would have been generated through the ongoing taxation of the founder's private returns and assets.
In total, additional funds of around CHF 6.8 million flow to society from the charitable foundation over a period of 25 years.

The break-even point in this comparison is achieved after 214 days (based on absolute figures).
From this point onwards, the grants made by the grant-making foundation permanently exceed the tax revenue lost.[10]

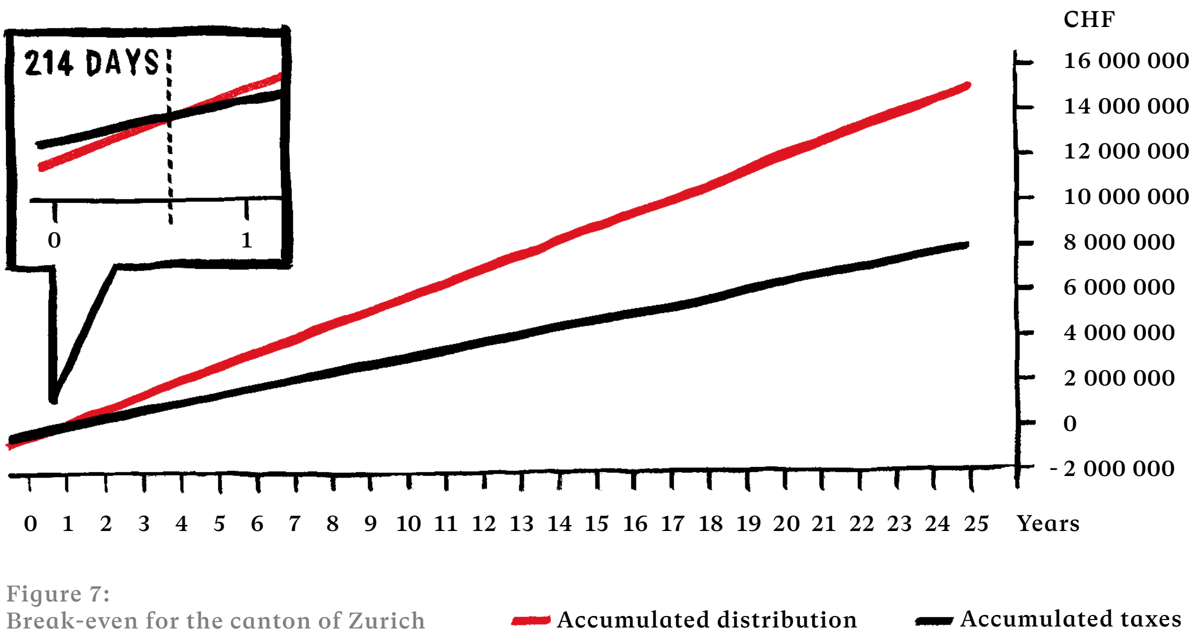


Figure 7:
Break-even for the canton of Zurich

10 If the net present value is calculated from the absolute inflows applying a discount rate of 3%, CHF 10.4 million flows to society, while the public misses out on tax revenue with a present day equivalent value of CHF 5.4 million Over a period of 25 years and applying the present value approach, this results in a surplus of CHF 5.0 million.

Ergo: Mr Sigrist gives away a substantial portion of his assets for the benefit of the community at large; society “recompenses” this offering in the form of tax relief. After the foundation has been established, its funds are permanently at society’s disposal through returns which flow to projects in the areas of education and research. If Mr Sigrist had kept the assets for himself, society would have earned tax revenue, but would have missed out on significantly higher inflows.

The relationship between the various figures is neatly illustrated using a cash flow analysis:

Duration	Cumulative disbursements	Cumulative taxes
One-time effect	CHF -158,304	CHF -
Year 1	CHF 441,696	CHF 259,342
Year 2	CHF 1,041,696	CHF 523,094
Year 3	CHF 1,641,696	CHF 791,342
Year 4	CHF 2,241,696	CHF 1,064,123
Year 5	CHF 2,841,696	CHF 1,341,559
Year 10	CHF 5,841,696	CHF 2,801,288
Year 15	CHF 8,841,696	CHF 4,389,683
Year 20	CHF 11,841,696	CHF 6,117,976
Year 25	CHF 14,841,696	CHF 7,998,614

It should be noted that Mr Sigrist has set up an endowed foundation for eternity. Once the foundation has reached break-even, it will continue to disburse CHF 600,000 annually; the bottom line keeps improving over time. Year after year, the foundation becomes an even better deal for society.

Comparison 2: Endowed foundation vs. private investment company

The second model case is much like the first example, but replaces the alternative “private asset investment” with setting up a private investment company, to which Mr Sigrist transfers his assets for consolidated management.

The assumed grants made by the foundation in favour of charitable projects are not affected by this modification and still amount to CHF 600,000 per year. Likewise, Mr Sigrist again saves approximately CHF 158,000 in income tax when he sets up the charitable foundation. The implications for ongoing taxation of the investment vehicle are considerably more complex, as illustrated by the figure below:

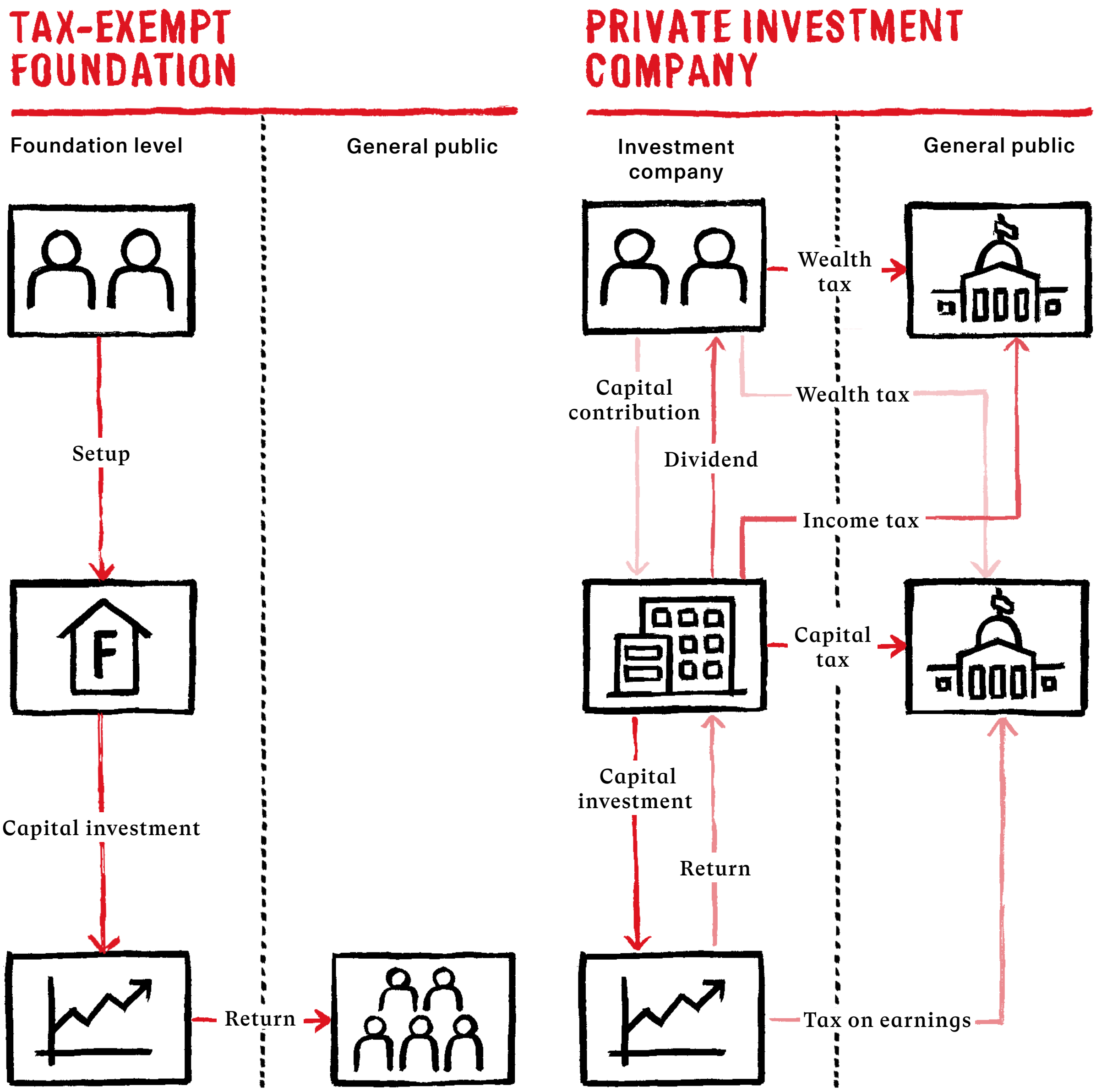


Figure 8: Comparison of endowed foundation and private investment company

If Mr Sigrist decides to put the CHF 20 million in a private investment company, the general public can expect the following tax revenue:

→ If Mr Sigrist decides on the private investment company option instead of a tax-exempt foundation, stamp duty of 1% is incurred when the company is set up or the capital is invested. The tax exemption threshold of CHF 1 million and issuing fees, which are not subject to stamp duty must be factored into the calculation. Issuing fees are estimated at CHF 5,000. Taking into account all of these factors, the resulting stamp duty on an investment volume of CHF 20 million is CHF 189,950. This sum must be paid by the private investment company.

→ A return of 3% (again, assumed) is achieved on the capital that remains after deduction of the stamp duty. These returns are subject to tax on earnings (direct federal: 8.5%; canton of Zurich and City of Zurich combined: 18.32%), translating into an effective tax-on-earnings liability of 21.15%.

→ In addition, capital tax must be paid on the capital at the end of each period. For the private investment company domiciled in Zurich, this amounts to around 0.17%.

→ The return achieved by the private investment company less the tax on earnings paid is paid out to Mr Sigrist in the form of dividends. This triggers an income tax liability for Mr Sigrist and is subject to partial taxation, meaning that only 60% of the income is taxed at the level of direct federal taxation, and only 50% of the income is taxed at the level of cantonal and municipal taxation. The applicable income tax rate here is about 21.5%. Unlike when Mr Sigrist invests the assets privately, the return is not reinvested on the capital market, but rather remains in his own bank account.

→ Furthermore, Mr Sigrist is liable for wealth tax of 0.7% on his assets or on the value of his stake in the private investment company. This tax is also due on the (cumulative) dividends, assuming that the funds are spent directly, but rather invested in items of value that do not generate a return (e.g., art) or held in cash.

In summary, under the assumption that the net income of the private investment company is distributed in full to Mr Sigrist, the analysis shows that money flows to society in the form of wealth tax, income tax, capital tax and tax on earnings, as well as in the form of stamp duty.

If we compare these hypothetical tax losses with the grants made by the foundation, once again the picture is clear:

> Over a timeframe of 25 years, total funds of CHF 15 million flow to society from the charitable endowed foundation – just like in the first comparison. Society misses out on one-time tax revenue of approximately CHF 158,000 when the foundation is set up. In addition, in the 25 years that follow, it misses out on the income from the taxes specified above totalling in the region of CHF 10.9 million.
> Thus, in total, society receives additional funds of around CHF 3.9 million from the grant-making foundation over a period of 25 years.
>
> In this case, considering the absolute figures, break-even is already achieved after one year and 165 days.[11]

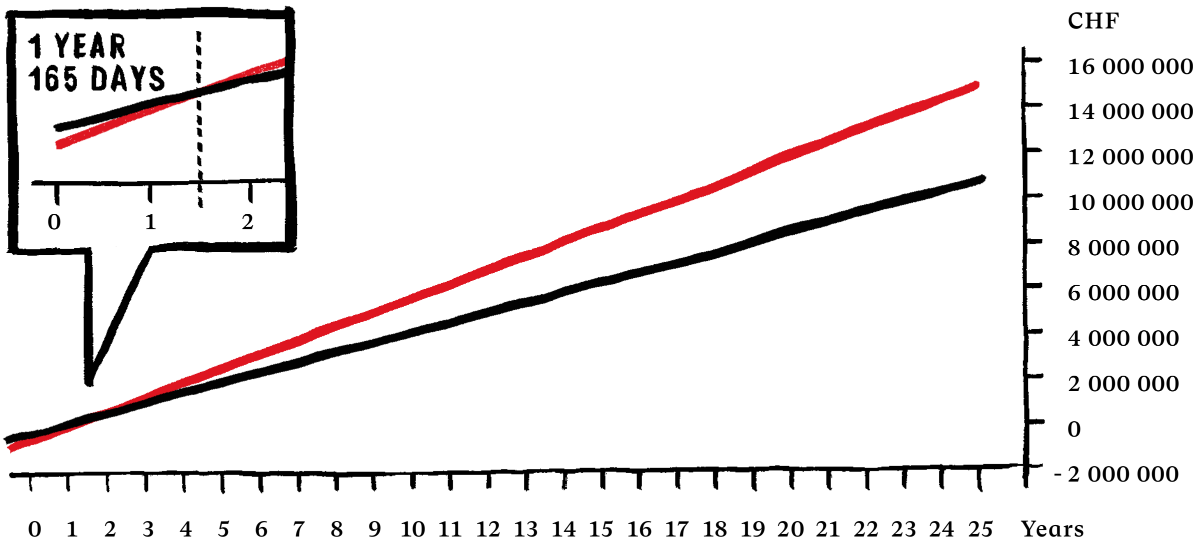


Figure 9:
Break-even for the canton of Zurich

Working on the premise that the value of one Swiss franc of tax revenue is the same as one Swiss franc received through a charitable contribution, from just shy of year two onwards, society already starts to receive more funds from Mr Sigrist's endowed foundation than it would from a private investment company.[12] This added value increases continuously as time goes on.

11 Applying the present value approach, charitable contributions of CHF 10.4 million stand in contrast to hypothetical taxes of CHF 7.6 million. Additional funds with a present day equivalent value of CHF 2.8 million thus flow to society through the charitable foundation.
12 The detailed cash flow calculation for this and all other comparisons are provided in the annex.

→ Sidebar: Tax-optimised setup

Mr Sigrist can deduct the foundation value on a one-time basis in the year the foundation is set up, to an upper limit of 20% of taxable income.

This arrangement can be optimised from a tax perspective if Mr Sigrist deposits the assets in yearly tranches, which he can claim as tax deductions as he goes along. With an income of CHF 2 million, a maximum of CHF 400,000 (20%) can be deducted from his annual income taxes. Paying in CHF 400,000 per year over a period of 50 years is the ideal scenario.

It is much more likely that Mr Sigrist would split up the foundation value of CHF 20 million into ten tranches. This means that every year he could deduct CHF 400,000 from his income taxes and reduce his annual tax liability by CHF 158,000. Even in this scenario, the long-term advantage still lies with the charitable foundation, although the break-even point would not be reached until after eight years and 251 days.

Arrangements like these are not, however, common practice when it comes to foundations. Foundations are typically set up with starting capital that is paid in all at once in order to get the foundation up and running. A further contribution is then frequently bequeathed in the donor's will.

Spend-down foundations, in comparison

Whereas the two comparative calculations in the first scenario use a traditional endowed foundation as the benchmark, the second scenario is based on the setup of a spend-down foundation which, in addition to its returns, also employs its capital to pursue its charitable purpose. Again, the figures used for the calculations represent realistic values derived from real-life case studies, and are compared against the alternatives “private asset investment” and “private investment company”.

Ms Dubois, 63 years old, widowed, no children, Catholic, retired, resident of the city of Lausanne. Ms Dubois sold her successful company for CHF 75 million and generates annual income of CHF 2.25 million from the proceeds to subsidise her lifestyle. Born in the canton of Vaud, she loves nature and the outdoors and wants to set up a charitable spend-down foundation which intends to donate not only the targeted return of 3% but also the foundation assets of CHF 50 million to charitable causes over a period of 25 years. The area of focus of the grant-making foundation domiciled in Lausanne is environmental protection. The intention is to disburse 100% of the earnings.

On the credit side, the public can expect to receive considerable funds from the foundation set up by Ms Dubois, as, in addition to the returns, the paid-in capital is also earmarked for disbursement to society. The following points are pertinent to calculating the return to society:

- The grant-making foundation set up by Ms Dubois intends to employ the assets of CHF 50 million for charitable purposes over a period of 25 years. This results in an annual disbursement of CHF 2 million.

- Each year, the remaining capital is reinvested and the resulting returns are also disbursed. If we again assume an average return of 3% p.a., performing a sinking fund calculation produces an additional sum of CHF 19.5 million which the foundation disburses to charitable projects over its lifetime, on top of the starting capital that is consumed.

Thus, a sum of CHF 69.5 million flows to society over 25 years from the capital consumed and returns generated. Applying the present value approach, this sum has a present day equivalent value of CHF 50 million.

The money that flows back to society is again compared with the taxes the public would have received if Ms Dubois had not set up a foundation.

→ Like Mr Sigrist, Ms Dubois is able to reduce her tax liability when she sets up the charitable foundation. Ms Dubois can claim the foundation value against her income tax up to a maximum of 20% of her taxable income. Based on her income of CHF 2.25 million, she is therefore able to deduct CHF 450,000. Given the applicable marginal tax rate in Lausanne of 41.5%, she saves approximately CHF 187,000 in income tax by setting up the foundation.

As in the previous scenario, the two alternatives “private asset investment” and “private investment company” are used to calculate the ongoing taxes.

Comparison 3: Spend-down foundation vs. private asset investment

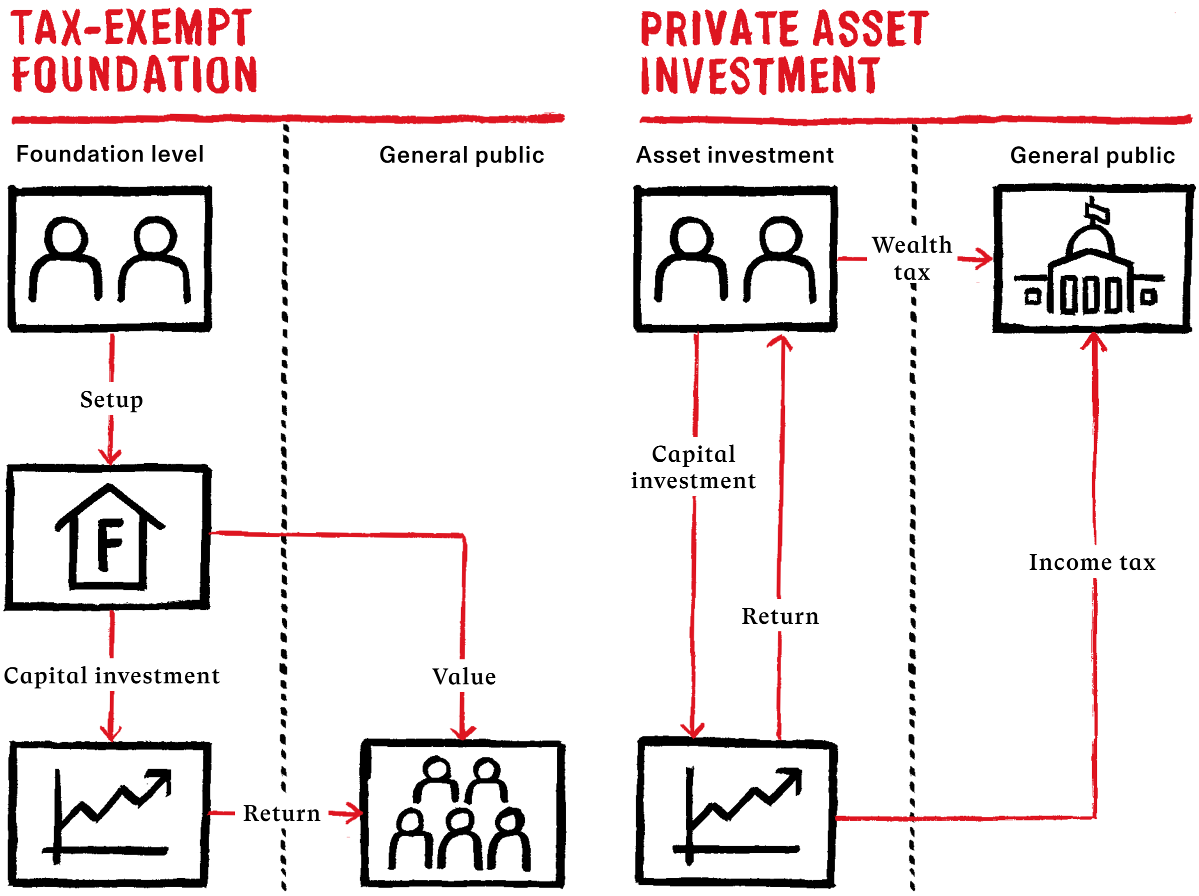


Figure 10:
Comparison between spend-down foundation and private asset investment

If Ms Dubois were to invest the CHF 50 million privately, the following taxes would be due:

→ If the assets are invested privately, the capital generates a return that is subject to tax. Assuming that 50% of the returns are earned from tax-free private capital gains (the purchase and sale of securities) and 50% from fully taxable dividends and interest, the effective rate of income tax on the return achieved is around 20.8%, which is due annually.

→ Moreover, Ms Dubois has to pay wealth tax of approximately 0.8%.

→ Ms Dubois invests the remaining returns less all applicable taxes on the capital market; over time this produces a compound interest effect which in turn further increases her annual income tax and wealth tax.

Over the entire 25-year grant-making period of the spend-down foundation, society misses out on tax revenue of CHF 187,000 when the foundation is set up, and on ongoing revenue of approximately CHF 21.4 million from income tax and wealth tax.
If we apply the present value approach to these sums as well, the equivalent value of the tax revenue hypothetically lost is CHF 14.6 million.

As a result of the foundation set up by Ms Dubois, the general public receives CHF 69.5 million in grants and misses out on tax revenue of CHF 21.6 million. Over a period of 25 years, this results in a positive difference of CHF 47.9 million in favour of the foundation solution.

In this case, the break-even point in terms of absolute figures is achieved after just 78 days.[13]

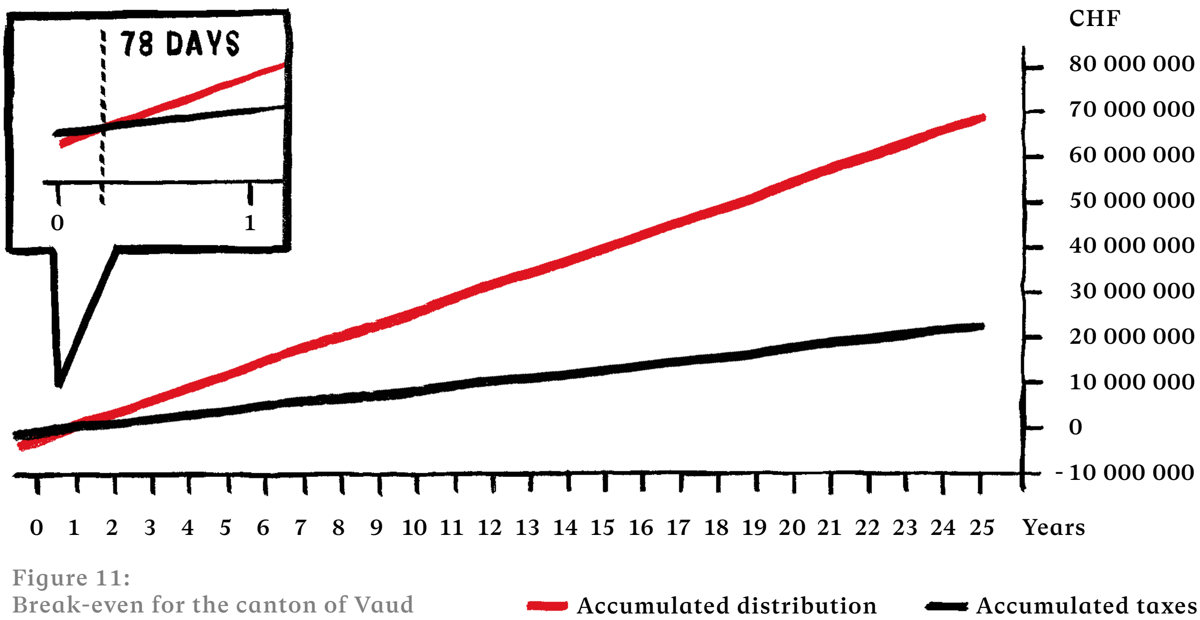


Figure 11:
Break-even for the canton of Vaud

13 Applying present day equivalent values, society receives CHF 50 million from the charitable foundation on an inflation-adjusted basis, and misses out on collecting taxes of CHF 14.6 million. The charitable foundation thus generates added value of CHF 35.4 million subject to the present value approach.

Comparison 4: Spend-down foundation vs. private investment company

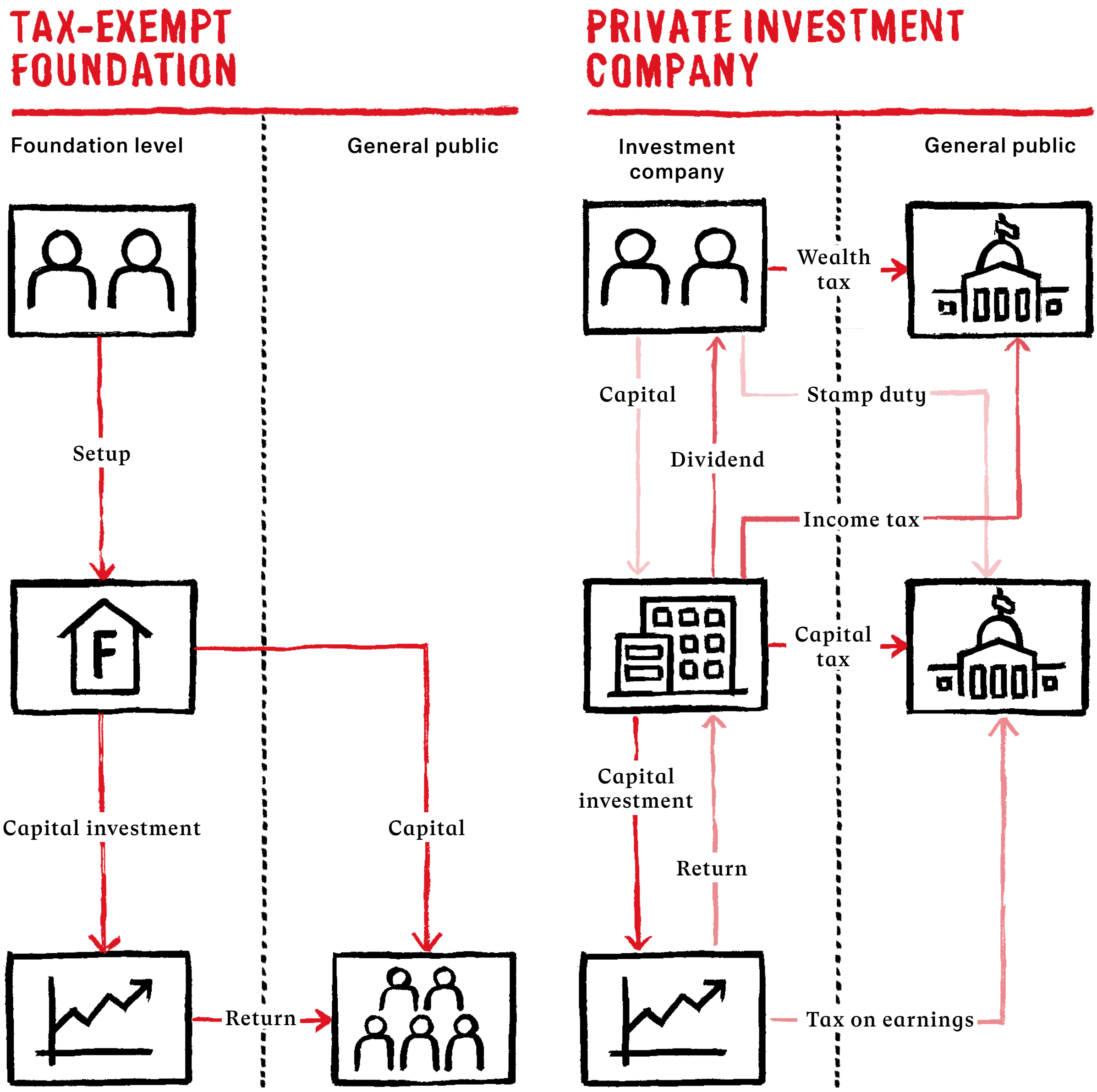


Figure 12:
Comparison between spend-down foundation and private investment company

If it is assumed that Ms Dubois uses the funds to set up a private investment company instead of a foundation, the following points need to be considered from a tax perspective:

→ When the capital is deposited in the investment vehicle, a stamp duty of 1% is levied. Factoring in the tax exemption threshold of CHF 1 million and the issuing fees of CHF 5,000 results in taxes of CHF 489,950.

→ A return of 3% is achieved on the remaining capital. The private investment company has to pay tax on earnings on this return (direct federal, canton of Vaud and city of Lausanne). at an effective rate or around 14.0%.

→ In addition, capital tax is due on the capital. Because tax on earnings can be offset against capital tax in the canton of Vaud, no capital taxes have to be paid.

→ The return achieved minus the tax on earnings is paid out to Ms Dubois, triggering an income tax liability which is subject to partial taxation, resulting in a tax rate of 31.6%.

→ Unlike when Ms Dubois invests the assets privately, the return is not reinvested on the capital market, but rather remains in her bank account.

→ She has to pay wealth tax of about 0.8% on the assets she has invested in the private investment company and also on the (cumulative) dividends, assuming that the returns are not spent directly, but rather invested in items of value that do not generate a return (e.g., art) or held in cash.

Over the entire 25-year grant-making period of the spend-down foundation, society misses out on tax revenue of CHF 187,000 when the foundation is set up, and also on ongoing tax revenue of approximately CHF 32.4 million. If we apply the present value approach to these sums as well, the equivalent value of the tax revenue that is hypothetically lost is CHF 22.1 million.

Thus, in total, additional funds of around CHF 69.5 million flow to society from the spend-down foundation. Offsetting this against the CHF 32.6 million society misses out on in tax revenue, the difference is CHF 36.9 million in favour of the foundation solution.

The break-even in terms of absolute figures is achieved after just 149 days. Thus, the grants made by the tax-exempt foundation exceed the taxes that would be paid by the private investment company within a very short space of time.[14]

14 Applying present day equivalent values, CHF 50 million flow to the general public from the charitable foundation on an inflation-adjusted basis, while society misses out on collecting taxes of CHF 22.1 million. The charitable foundation thus generates added value of CHF 27.9 million, subject to the present value approach.

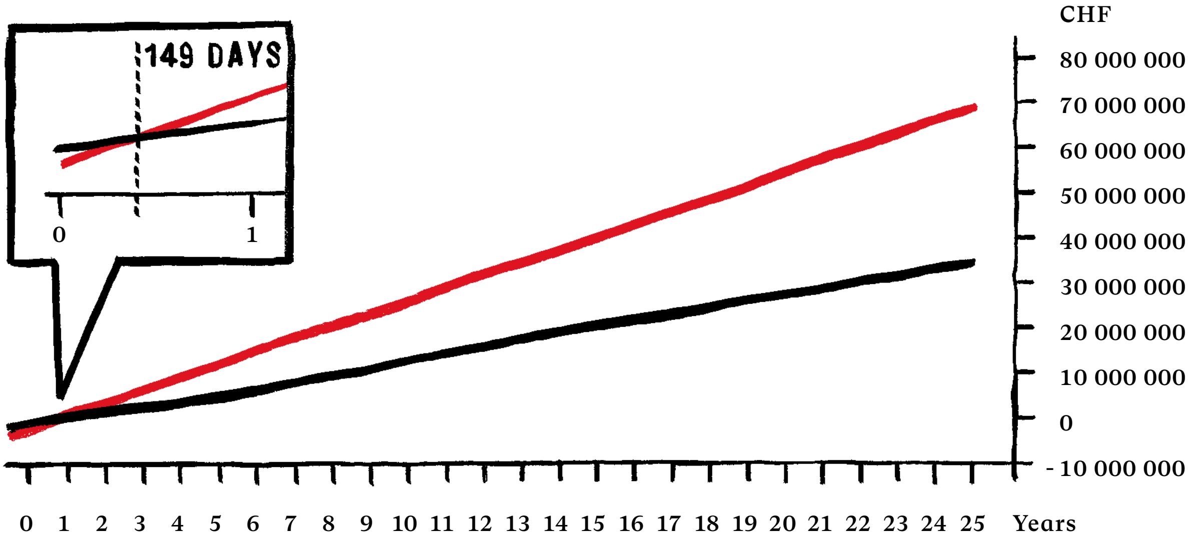


Figure 13:
Break-even for the canton of Vaud

Accumulated distribution Accumulated taxes

→ Sidebar: Including inheritance tax

In Switzerland, direct descendants are in principle exempted from inheritance tax. As a result, the vast majority of inheritances in Switzerland are not taxed. As Ms Dubois does not have any direct descendants and her assets would be bequeathed to third parties, inheritance tax would be due.

Inheritance taxes are based on the degree of relationship and can be optimised by selecting a more favourable place of residence. For these reasons, they have not been included in this calculation.

Were they to be included and assuming Ms Dubois' estate were to be inherited by her sister or brother, the break-even point would be achieved after five years and 20 days; if the inheritance were to go to an unrelated third party the timeframe would be nine years and 341 days.

V Last but not least: What motivates founders?

The previous calculations illustrate that setting up a tax-exempt charitable foundation is always a good deal for society and the associated tax incentives are put to good use. The question that now remains is whether founders also share this view, or to what extent donors are motivated by tax incentives. The foundation study conducted by the University of Freiburg in 2006 researched the reasons motivating founders and provided scientific evidence that it is above all altruistic reasons that provide the impetus for transferring private assets to a foundation.[15]

81% of the 148 founders surveyed say that a sense of social responsibility was their main motivation for setting up a foundation, while 72% say they wanted to combat a specific problem or make a difference. Empathy for people suffering was an important motivator for 53% of respondents, while for another 53% it was the desire to give something back to society. Even bearing in mind the impact of social desirability, it is clear that founders are generally committed to a clear and intrinsically charitable cause when they set up their foundations. Accordingly, 90% of those surveyed say they set up their foundation to address a specific issue about which they feel passionate. The founders themselves, however, often prefer to take a back seat, with only 39% of foundations bearing the names of their founders.

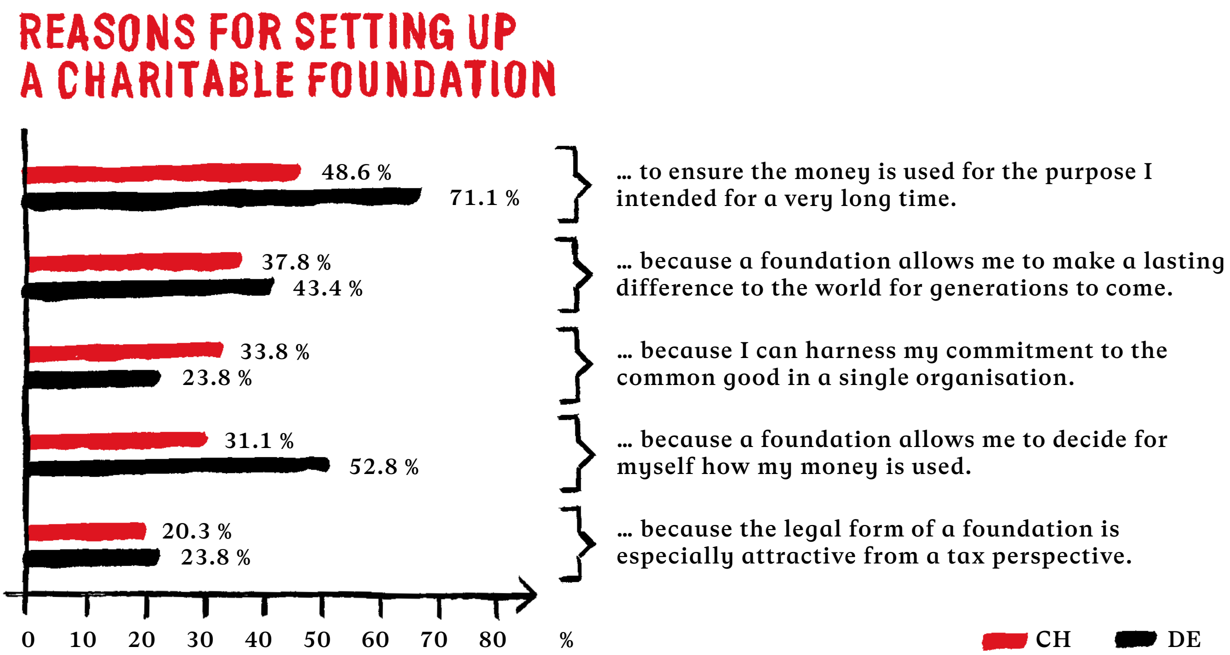


Figure 14:
Reasons for setting up a charitable foundation

15 Helmig, Bernd / Hunziker, Beat: Stifterstudie Schweiz (Foundation study Switzerland), in Egger, Philipp / Helmig, Bernd/ Purtschert, Robert (Hrsg.), Stiftung und Gesellschaft. Eine komparative Analyse des Stiftungsstandortes Schweiz, Deutschland, Liechtenstein, Österreich, USA (Foundations and society: a comparative analysis of Switzerland, Germany, Liechtenstein, Austria and the USA as locations for foundations), Basel 2006.

The responses to the question as to why founders opted for the legal form of a foundation over other available options for pursuing their charitable aspirations (e.g., through direct donations to existing associations and foundations) are especially interesting as they pertain to this study. The responses clearly show the unique appeal of foundations from the point of view of founders: Firstly, they give founders the security that causes that are close to their hearts will be supported over the long term; and secondly, they allow donors to consolidate their commitment and structure it in a way that is sustainable.

The results of the foundation study additionally show that tax considerations indeed play a role in setting up a foundation. For one in five founders, tax incentives facilitated the decision to part with their money. It is important to remember, however, that when a founder sets up a foundation he or she is giving away money permanently and can only claim a small portion of the endowment against his or her taxes.

The example of the canton of Basel-Land also supports the argument that potential tax savings are not a decisive motivator for setting up a foundation. Although the cantonal tax authorities permit a 100% tax deduction upon setup of a charitable foundation, the canton of Basel-Land is by no means a magnet for foundations. With a total of 312 charitable foundations and negative net growth as at the end of 2018 (five new foundations set up and nine wound down), the canton of Basel-Stadt is in the lower midfield among Swiss foundation locations.[16] The foundation study also offers insights into founders' social profiles:

- It comes as no surprise that many founders, averaging 60 years of age, tend to be older, have no children and be better educated than the national average.
- Around 45% of all foundations have been set up by women, and this figure is on the rise.
- 41% of those surveyed had assets totalling more than CHF 5 million at the time they set up their foundation.
- One half of founders in the random sample were self-employed entrepreneurs.
- The assets used to set up the foundations originate primarily from independent entrepreneurial activities (45%) or from an inheritance or gift (42%).

16 Eckhardt, Beate / Jakob, Dominique / von Schnurbein, Georg, Der Schweizer Stiftungsreport 2019 (Swiss foundation report 2019), Basel 2019, www.stiftungsreport.ch

VI Conclusion

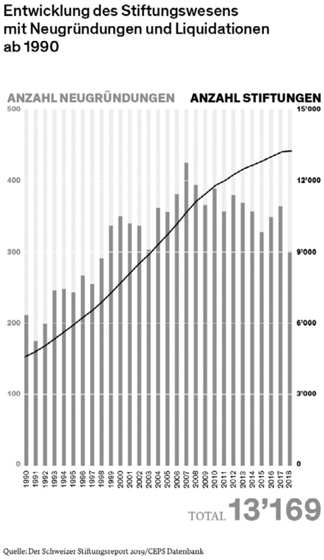
The aim of the study was to compare the tax revenue society misses out on due to charitable foundations with the funds that flow back to the general public through grants from these foundations. If we continue to work on the assumption that every Swiss franc of tax revenue and every Swiss franc of charitable contributions benefit the general public in equal measure, the picture is clear:

In all comparative models, society receives more funds through charitable grant-making foundations than it would have earned by collecting tax on these funds. In practice, foundations "yield a profit" within one month and up to a maximum of one and a half years after setup. If full advantage is taken of the opportunity to deduct staggered endowments from a founder's tax liability – something that rarely happens in practice – break-even is achieved a few years later. Even if all available tax breaks are exploited to the greatest extent possible, more funds flow to the general public when a charitable grant-making foundation is set up than are missed out on due to the same.

This rebuts the common misconception among the general public that foundations are a means of avoiding taxes to the detriment of society. Founders cannot save money when they set up a foundation (the foundation assets are endowed in their entirety and the founder only recoups a small portion of the endowment through tax relief), nor are the tax privileges granted taken out of the pockets of the people. In fact, quite the opposite is true: As the study has been able to show, grant-making foundations pay off within a short space of time since the disbursements made rapidly exceed the tax revenue lost.

VII Annexes

Annex 1. Swiss foundation landscape



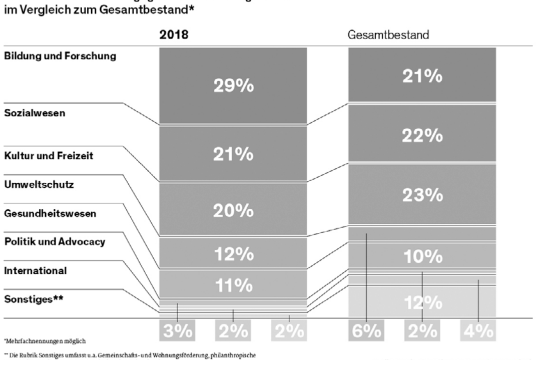
Foundations have a long tradition in Switzerland. It was way back in the 14th century that Anna Seiler bequeathed the Inselspital Berne in her will in response to an outbreak of the plague. Almost 700 years later, at the end of 2018, Switzerland had more than 13,000 charitable foundations.[17] Two opposing trends are noticeable in this regard: The high number of new foundations being set up – which is underpinning the growth in the number of foundations – and the large number of old foundations being wound down. Indeed, last year Switzerland saw 301 new foundation setups and 194 foundation liquidations, which translates into a net increase of 106 foundations.

In spite of the long tradition of foundations in Switzerland, one half of the foundations that are currently active were established in just the last 20 years. This is testament to the relevance and increasing dynamism of the foundation sector in Switzerland.

The 13,169 charitable foundations dispose of assets totalling CHF 100 billion. The estimated volume of grants disbursed is estimated at CHF 2-2.5 billion. It should be noted here, however, that only around one half of all charitable foundations are grant-making foundations. The remaining foundations are mostly charitable organisations such as care homes, hospitals and museums. These are considered to be operating foundations and do not disburse any funds in the strict sense of the word. Unfortunately, due to the nature of the data currently available in Switzerland, it is not possible to allocate the assets to the various foundation types.

In terms of regional distribution, most foundations are found in the canton of Zurich, followed by the cantons of Berne, Vaud and Geneva. The canton of Geneva recorded the greatest number of new foundations for the first time in 2018, with 54 new foundations set up. Geneva also leads the cantons in terms of net growth, followed by Vaud and Zug.

The highest foundation density can be found in the canton of Basel with 45.31 foundations per 10,000 inhabitants, while the canton of Aargau has the lowest with seven foundations per 10,000 inhabitants. The average density of foundations across Switzerland is 15.6 foundations per 10,000 inhabitants, which puts Switzerland in first place in international comparison. Expressed another way, there are six times as many charitable foundations per capita in Switzerland than in the US or Germany.



Statistically speaking, most foundations in Switzerland support the causes of research and education. Social and cultural foundations account for one fifth of foundations each.

17 For up-to-date figures, see Eckhardt, Beate / Jakob, Dominique / von Schnurbein, Georg, Der Schweizer Stiftungsreport 2019 (Swiss foundation report 2019), Basel 2019, www.stiftungsreport.ch

Annex 2: Tax calculations, compared by canton

The tables below show the time to break-even per cantonal capital for the comparative scenario in question. The 2019 tax rates as at the beginning of May 2019 were used as the basis for the calculations. Any reductions to the tax rate within the scope of the Federal Act on Tax Reform and AHV Financing (STAF) have only been taken into account insofar as they had already taken effect for 2019 effective as per the start of May 2019 (e.g., canton of Basel-Stadt). Any reductions to the tax rate planned for subsequent years but not yet effective would shift the break-even even further in favour of charitable foundations, in some cases to quite a considerable degree (e.g., canton of Geneva).

Comparison 1: Comparison by canton of endowed foundation vs. private asset investment (CHF 20 million)

Break-even				
Canton	Place	Break-even in days	Break-even in years	Rank
OW	Sarnen	78	0.21	1
NW	Stans	78	0.21	2
ZG	Zug	93	0.25	3
UR	Altdorf	93	0.25	4
AI	Appenzell	94	0.26	5
SZ	Schwyz	103	0.28	6
LU	Lucerne	118	0.32	7
SO	Solothurn	122	0.33	8
TG	Frauenfeld	126	0.35	9
GL	Glarus	137	0.38	10
GR	Chur	137	0.38	11
AR	Herisau	141	0.39	12
BE	Berne	147	0.40	13
SH	Schaffhausen	155	0.42	14
AG	Aarau	160	0.44	15
SG	St. Gallen	162	0.44	16
VS	Sion	190	0.52	17
FR	Fribourg	192	0.53	18
TI	Bellinzona	195	0.53	19
JU	Delémont	204	0.56	20
ZH	Zurich	214	0.59	21
NE	Neuchâtel	217	0.59	22
BS	Basel	227	0.62	23
VD	Lausanne	237	0.65	24
BL	Liestal	243	0.67	25
GE	Geneva	301	0.82	26

Comparison 2:
Comparison by canton of endowed foundation vs. private investment company (CHF 20 million)

Break-even				
Canton	Place	Break-even in days	Break-even in years	Rank
NW	Stans	251	0.69	1
AI	Appenzell	269	0.74	2
UR	Altdorf	271	0.74	3
OW	Sarnen	272	0.75	4
ZG	Zug	277	0.76	5
SZ	Schwyz	285	0.78	6
LU	Lucerne	318	0.87	7
TG	Frauenfeld	321	0.88	8
AR	Herisau	332	0.91	9
SO	Solothurn	334	0.92	10
GL	Glarus	345	0.95	11
AG	Aarau	346	0.95	12
SG	St. Gallen	357	0.98	13
BE	Berne	359	0.98	14
SH	Schaffhausen	367	1.01	15
GR	Chur	397	1.09	16
BS	Basel	469	1.28	17
FR	Fribourg	502	1.38	18
ZH	Zurich	530	1.45	19
TI	Bellinzona	535	1.47	20
NE	Neuchâtel	542	1.48	21
VD	Lausanne	562	1.54	22
VS	Sion	568	1.56	23
JU	Delémont	577	1.58	24
BL	Liestal	658	1.80	25
GE	Geneva	1546	4.23	26

Comparison by canton of endowed foundation vs. private asset investment – CHF 20 million including income tax savings during foundation's asset accumulation over 10 years (10 tranches)

Break-even				
Canton	Place	Break-even in days	Break-even in years	Rank
ZG	Zug	1084	2.97	1
OW	Sarnen	1114	3.05	2
NW	Stans	1143	3.13	3
AI	Appenzell	1157	3.17	4
UR	Altdorf	1186	3.25	5
SZ	Schwyz	1270	3.48	6
LU	Lucerne	1422	3.90	7
TG	Frauenfeld	1473	4.04	8
AR	Herisau	1496	4.10	9
GL	Glarus	1509	4.13	10
SO	Solothurn	1539	4.22	11
GR	Chur	1556	4.26	12
SH	Schaffhausen	1585	4.34	13
AG	Aarau	1660	4.55	14
SG	St. Gallen	1683	4.61	15
BE	Berne	1810	4.96	16
VS	Sion	1849	5.07	17
FR	Fribourg	1893	5.19	18
TI	Bellinzona	1983	5.43	19
JU	Delémont	2072	5.68	20
ZH	Zurich	2105	5.77	21
NE	Neuchâtel	2121	5.81	22
BS	Basel	2165	5.93	23
VD	Lausanne	2330	6.38	24
BL	Liestal	2391	6.55	25
GE	Geneva	3125	8.56	26

Comparison by canton of endowed foundation vs. private investment company – CHF 20 million including income tax saving during foundation's asset accumulation over 10 years (10 tranches)

Break-even				
Canton	Place	Break-even in days	Break-even in years	Rank
ZG	Zug	1050	2.88	1
NW	Stans	1054	2.89	2
AI	Appenzell	1091	2.99	3
OW	Sarnen	1100	3.01	4
UR	Altdorf	1129	3.09	5
SZ	Schwyz	1257	3.44	6
LU	Lucerne	1550	4.25	7
TG	Frauenfeld	1596	4.37	8
AR	Herisau	1640	4.49	9
GL	Glarus	1712	4.69	10
SO	Solothurn	1757	4.81	11
AG	Aarau	1794	4.92	12
SG	St. Gallen	1915	5.25	13
SH	Schaffhausen	1927	5.28	14
BE	Berne	2084	5.71	15
GR	Chur	2145	5.88	16
BS	Basel	2770	7.59	17
FR	Fribourg	2869	7.86	18
ZH	Zurich	3171	8.69	19
TI	Bellinzona	3273	8.97	20
VS	Sion	3285	9.00	21
NE	Neuchâtel	3311	9.07	22
JU	Delémont	3553	9.73	23
VD	Lausanne	3773	10.34	24
BL	Liestal	4256	11.66	25
GE	Geneva	4562	12.50	26

Comparison 3: Comparison by canton of spend-down foundation vs. private asset investment (CHF 50 million)

Break-even				
Canton	Place	Break-even in days	Break-even in years	Rank
OW	Sarnen	29	0.08	1
NW	Stans	29	0.08	2
UR	Altdorf	33	0.09	3
ZG	Zug	34	0.09	4
AI	Appenzell	35	0.10	5
SZ	Schwyz	37	0.10	6
LU	Lucerne	41	0.11	7
SO	Solothurn	42	0.12	8
TG	Frauenfeld	44	0.12	9
GR	Chur	46	0.13	10
BE	Berne	48	0.13	11
GL	Glarus	48	0.13	11
AR	Herisau	49	0.13	13
SH	Schaffhausen	54	0.15	14
AG	Aarau	56	0.15	15
SG	St. Gallen	56	0.15	16
VS	Sion	65	0.18	17
TI	Bellinzona	65	0.18	18
FR	Fribourg	67	0.18	19
JU	Delémont	67	0.18	20
ZH	Zurich	71	0.19	21
NE	Neuchâtel	72	0.20	22
BS	Basel	76	0.21	23
VD	Lausanne	78	0.21	24
BL	Liestal	79	0.22	25
GE	Geneva	96	0.26	26

Comparison 4: Comparison by canton of spend-down foundation vs. private investment company (CHF 50 million)

Break-even				
Canton	Place	Break-even in days	Break-even in years	Rank
NW	Stans	94	0.26	1
UR	Altdorf	100	0.27	2
AI	Appenzell	100	0.27	2
OW	Sarnen	103	0.28	4
SZ	Schwyz	104	0.28	5
ZG	Zug	106	0.29	6
TG	Frauenfeld	113	0.31	7
LU	Lucerne	114	0.31	8
SO	Solothurn	117	0.32	9
AR	Herisau	118	0.32	10
BE	Berne	119	0.33	11
AG	Aarau	122	0.33	12
GL	Glarus	123	0.34	13
SG	St. Gallen	124	0.34	14
SH	Schaffhausen	130	0.36	15
GR	Chur	136	0.37	16
BS	Basel	142	0.39	17
VD	Lausanne	149	0.41	18
ZH	Zurich	150	0.41	19
TI	Bellinzona	150	0.41	19
FR	Fribourg	151	0.41	21
NE	Neuchâtel	151	0.41	21
JU	Delémont	155	0.42	23
BL	Liestal	161	0.44	24
VS	Sion	161	0.44	24
GE	Geneva	186	0.51	26

Comparison by canton of spend-down foundation vs. private asset investment – CHF 50 million including inheritance taxes for inheritances to third parties

Break-even				
Canton	Place	Break-even in days	Break-even in years	Rank
OW	Sarnen	29	0.08	1
SZ	Schwyz	37	0.10	2
NW	Stans	1239	3.39	3
ZG	Zug	1550	4.25	4
AI	Appenzell	1556	4.26	5
UR	Altdorf	1794	4.92	6
VS	Sion	2028	5.56	7
TG	Frauenfeld	2108	5.78	8
GL	Glarus	2177	5.96	9
GR	Chur	2248	6.16	10
SO	Solothurn	2308	6.32	11
SG	St. Gallen	2315	6.34	12
AR	Herisau	2408	6.60	13
AG	Aarau	2446	6.70	14
BL	Liestal	2490	6.82	15
JU	Delémont	2759	7.56	16
ZH	Zurich	2877	7.88	17
LU	Lucerne	2886	7.91	18
BE	Berne	2938	8.05	19
FR	Fribourg	2938	8.05	20
SH	Schaffhausen	3008	8.24	21
TI	Bellinzona	3193	8.75	22
NE	Neuchâtel	3596	9.85	23
BS	Basel	4029	11.04	24
VD	Lausanne	4096	11.22	25
GE	Geneva	4880	13.37	26

Comparison by canton of spend-down foundation vs. private investment company – CHF 50 million including inheritance taxes for inheritances to third parties

Break-even				
Canton	Place	Break-even in days	Break-even in years	Rank
OW	Sarnen	103	0.28	1
SZ	Schwyz	104	0.28	2
NW	Stans	963	2.64	3
AI	Appenzell	1290	3.53	4
ZG	Zug	1304	3.57	5
UR	Altdorf	1537	4.21	6
TG	Frauenfeld	1867	5.12	7
VS	Sion	1924	5.27	8
GL	Glarus	1962	5.38	9
SG	St. Gallen	2055	5.63	10
SO	Solothurn	2106	5.77	11
GR	Chur	2130	5.84	12
AR	Herisau	2150	5.89	13
AG	Aarau	2167	5.94	14
BL	Liestal	2293	6.28	15
JU	Delémont	2622	7.18	16
ZH	Zurich	2653	7.27	17
LU	Lucerne	2658	7.28	18
BE	Berne	2699	7.39	19
FR	Fribourg	2763	7.57	20
SH	Schaffhausen	2778	7.61	21
TI	Bellinzona	3027	8.29	22
NE	Neuchâtel	3303	9.05	23
BS	Basel	3515	9.63	24
VD	Lausanne	3626	9.93	25
GE	Geneva	4429	12.13	26

Annex 3: Explanation of calculations

Example calculation for endowed foundation vs. private investment company

For illustration purposes, please find below a simulation of the (simplified) calculation for Comparison 2 featuring Mr Sigrist (endowed foundation with foundation capital of CHF 20 million compared with private investment company). Please note that the differing due dates of cantonal and municipal taxes versus direct federal taxes have not been considered in the calculations. The option of deferring the distribution of dividends by one year has also been excluded. For purposes of simplification it has been assumed that dividends and their associated taxes fall due in the financial year in question. The calculation also excludes turnover tax, as the effect would be marginal. It has furthermore been assumed for purposes of simplification that any withholding taxes and foreign taxes at source are refunded immediately and in full.

In the comparative scenario where assets are invested privately, it has been assumed that the annual return after taxes is reinvested on the capital market, which in turn results in an annual (almost linear) increase in income tax and wealth tax. In the comparative scenario featuring a private investment company, however, it has been assumed that the return is distributed annually without reinvestment at the level of the natural person.

Year 1 **Endowed foundation**				
Foundation value	CHF 20,000,000			
Income tax saved		CHF	-158,304	Marginal tax rate of 39.576% for income of CHF 2 million
Foundation assets	CHF 20,000,000			
Return		CHF	600,000	Return of 3% on foundation assets
Return distributed after income tax saved		**CHF**	**441,696**	
Private investment company *Corporate taxes*				
Capital investment in private investment company	CHF 20,000,000			
Stamp duty		CHF	189,950	Stamp duty of 1% on capital investment, less tax allowance of CHF 1 million and issuing fees of CHF 5,000
Company's capital after stamp duty	CHF 19,810,050			
Gross return	CHF 594,302			
Tax on earnings		CHF	125,682	Tax on earnings of 21.2% on gross return
Capital taxes		CHF	34,566	Capital tax of 0.17% on capital after gross return and tax on earnings
Net return	CHF 434,054			
Capital after net return	CHF 20,244,104			
Total corporate taxes after Year 1		**CHF**	**350,198**	
Taxes of natural person				
Distribution		CHF	244,104	Distribution of net return after withholding of stamp duty
Income tax on distribution of net return (after stamp duty)		CHF	52,388	Income tax of 21.45% (partial taxation) on distribution of net return
Wealth taxes		CHF	139,030	Wealth tax of 0.7% on company value after Year 1 (mean value method)
Total taxes of natural person after Year 1		**CHF**	**191,418**	
Total taxes after Year 1		**CHF**	**541,616**	**The taxes exceed the distribution amount, meaning break-even has not yet been reached**

Year 2 **Endowed foundation**	CHF 20,000,000			
Foundation assets after Year 1		CHF	600,000	Return of 3% on foundation assets
Return		CHF	441,696	
Return distributed in previous year		**CHF**	**1,041,696**	
Return distributed incl. previous year after Year 2				
Private investment company **Corporate taxes**				
Company's capital after Year 1				
Gross return				
Tax on earnings				
Capital taxes				
Net return	CHF 438,213			
Capital after net return	CHF 20,438,213			
Total corporate taxes Year 2		**CHF**	**161,787**	
Corporate taxes in previous year		CHF	350,198	
Total corporate taxes incl. previous year after Year 2		**CHF**	**511,985**	
Taxes of natural person				
Distribution		CHF	438,213	Distribution of net return
Income tax on distribution of net return		CHF	94, 007	Income tax of 21.45% (partial taxation) on distribution of net return
Wealth taxes		CHF	142,038	Wealth tax of 0.7% on company value after Year 1 (mean value method)
Total taxes of natural person Year 2		CHF	236,045	
Taxes of natural person in previous year		CHF	191,418	
Total taxes of natural person incl. previous year after Year 2		**CHF**	**427,463**	
Total taxes after Year 2		**CHF**	**939,448**	**The cumulative disbursements of the charitable foundation exceed the cumulative taxes, meaning break-even was reached in Year 2**

Example calculation for spend-down foundation vs. private asset investment

For illustration purposes, please find below a simulation of the (simplified) calculation for Comparison 3 featuring Ms Dubois (spend-down foundation with foundation capital of CHF 50 million compared with private asset investment.

Year 1 **Spend-down foundation**				
Foundation value	CHF 50,000,000			
Income tax saved		CHF	-186,650	Marginal tax rate of 41.478% for income of CHF 2.25 million
Foundation assets	CHF 50,000,000			
Return		CHF	1,500,000	Return of 3% on foundation assets
Capital distribution		CHF	2,000,000	Disbursement of 1/25 of foundation capital
Distributed return and capital incl. income tax saved		**CHF**	**3,313,350**	
Private asset investment				
Invested capital	CHF 50,000,000			
Return	CHF 1,500,000			Return of 3% on invested capital
Income tax on return		CHF	311,212	Income tax of 41.5% on return (assumption: 50% of return is tax-exempt private capital gains)
Net return	CHF 1,188,788			
Invested capital after net return	CHF 51,188,788			
Wealth tax		CHF	393,312	Wealth tax of 0.8% on invested capital plus net return
Sum of taxes Year 1		**CHF**	**704,524**	**The disbursement amount of the charitable foundation exceeds the taxes, meaning the break-even was reached in Year 1**

Annex 4: Cash flow calculations

Cash flow development for Comparison 1:
Endowed foundation vs. private asset investment (CHF 20 million)

Duration	Cumulative disbursements	Cumulative taxes
One-time effect	CHF -158,304	CHF -
Year 1	CHF 441,696	CHF 259,342
Year 2	CHF 1,041,696	CHF 523,094
Year 3	CHF 1,641,696	CHF 791,342
Year 4	CHF 2,241,696	CHF 1,064,123
Year 5	CHF 2,841,696	CHF 1,341,559
Year 6	CHF 3,441,696	CHF 1,623,732
Year 7	CHF 4,041,696	CHF 1,910,690
Year 8	CHF 1,641,696	CHF 2,202,550
Year 9	CHF 5,241,696	CHF 2,499,400
Year 10	CHF 5,841,696	CHF 2,801,288
Year 11	CHF 6,441,696	CHF 3,108,339
Year 12	CHF 7,041,696	CHF 3,420,599
Year 13	CHF 7,641,696	CHF 3,738,198
Year 14	CHF 8,241,696	CHF 4,061,185
Year 15	CHF 8,841,696	CHF 4,389,683
Year 16	CHF 9,441,696	CHF 4,723,787
Year 17	CHF 10,041,696	CHF 5,063,546
Year 18	CHF 10,641,696	CHF 5,409,097
Year 19	CHF 11,241,696	CHF 5,760,528
Year 20	CHF 11,841,696	CHF 6,117,976
Year 21	CHF 12,441,696	CHF 6,481,497
Year 22	CHF 13,041,696	CHF 6,851,226
Year 23	CHF 13,641,696	CHF 7,227,254
Year 24	CHF 14,241,696	CHF 7,609,682
Year 25	CHF 14,841,696	CHF 7,998,614

Cash flow development for Comparison 2:
Endowed foundation vs. private investment company (CHF 20 million)

Duration	Cumulative disbursements	Cumulative taxes
One-time effect	CHF -158,304	CHF 189,950
Year 1	CHF 441,696	CHF 541,617
Year 2	CHF 1,041,696	CHF 939,449
Year 3	CHF 1,641,696	CHF 1,340,289
Year 4	CHF 2,241,696	CHF 1,744,137
Year 5	CHF 2,841,696	CHF 2,150,993
Year 6	CHF 3,441,696	CHF 2,560,865
Year 7	CHF 4,041,696	CHF 2,973,744
Year 8	CHF 4,641,696	CHF 3,389,631
Year 9	CHF 5,241,696	CHF 3,808,527
Year 10	CHF 5,841,696	CHF 4,230,437
Year 11	CHF 6,441,696	CHF 4,655,356
Year 12	CHF 7,041,696	CHF 5,083,282
Year 13	CHF 7,641,696	CHF 5,514,216
Year 14	CHF 8,241,696	CHF 5,948,159
Year 15	CHF 8,841,696	CHF 6,385,116
Year 16	CHF 9,441,696	CHF 6,825,082
Year 17	CHF 10,041,696	CHF 7,268,056
Year 18	CHF 10,641,696	CHF 7,714,037
Year 19	CHF 11,241,696	CHF 8,163,027
Year 20	CHF 11,841,696	CHF 8,615,031
Year 21	CHF 12,441,696	CHF 9,070,044
Year 22	CHF 13,041,696	CHF 9,528,065
Year 23	CHF 13,641,696	CHF 9,989,094
Year 24	CHF 14,241,696	CHF 10,453,137
Year 25	CHF 14,841,696	CHF 10,920,189

Cash flow development
for Comparison 3:
Spend-down foundation vs. private
asset investment (CHF 50 million)

Duration	Cumulative dis-bursements	Cumulative taxes
One-time effect	CHF -186,650	CHF -
Year 1	CHF 3,313,350	CHF 704,524
Year 2	CHF 6,753,350	CHF 1,420,258
Year 3	CHF 10,133,350	CHF 2,147,375
Year 4	CHF 13,453,350	CHF 2,886,059
Year 5	CHF 16,713,350	CHF 3,636,496
Year 6	CHF 19,913,350	CHF 4,398,870
Year 7	CHF 23,053,350	CHF 5,173,381
Year 8	CHF 26,133,350	CHF 5,960,211
Year 9	CHF 29,153,350	CHF 6,759,557
Year 10	CHF 32,113,350	CHF 7,571,617
Year 11	CHF 35,013,350	CHF 8,396,600
Year 12	CHF 37,853,350	CHF 9,234,714
Year 13	CHF 40,633,350	CHF 10,086,160
Year 14	CHF 43,353,350	CHF 10,951,154
Year 15	CHF 46,013,350	CHF 11,829,900
Year 16	CHF 48,613,350	CHF 12,722,628
Year 17	CHF 51,153,350	CHF 13,629,559
Year 18	CHF 53,633,350	CHF 14,550,927
Year 19	CHF 56,053,350	CHF 15,486,946
Year 20	CHF 58,413,350	CHF 16,437,857
Year 21	CHF 60,713,350	CHF 17,403,907
Year 22	CHF 62,953,350	CHF 18,385,320
Year 23	CHF 65,133,350	CHF 19,382,343
Year 24	CHF 67,253,350	CHF 20,395,232
Year 25	CHF 69,313,350	CHF 21,424,237

Cash flow development
for Comparison 4:
Spend-down foundation vs. private
investment company (CHF 50 million)

Duration	Cumulative disbursements	Cumulative taxes
One-time effect	CHF -186,650	CHF 489,950
Year 1	CHF 3,313,350	CHF 1,348,933
Year 2	CHF 6,753,350	CHF 2,386,312
Year 3	CHF 10,133,350	CHF 3,446,112
Year 4	CHF 13,453,350	CHF 4,528,331
Year 5	CHF 16,713,350	CHF 5,632,967
Year 6	CHF 19,913,350	CHF 6,760,019
Year 7	CHF 23,053,350	CHF 7,909,489
Year 8	CHF 26,133,350	CHF 9,081,364
Year 9	CHF 29,153,350	CHF 10,275,650
Year 10	CHF 32,113,350	CHF 11,492,347
Year 11	CHF 35,013,350	CHF 12,731,444
Year 12	CHF 37,853,350	CHF 13,992,952
Year 13	CHF 40,633,350	CHF 15,276,866
Year 14	CHF 43,353,350	CHF 16,583,185
Year 15	CHF 46,013,350	CHF 17,911,907
Year 16	CHF 48,613,350	CHF 19,263,030
Year 17	CHF 51,153,350	CHF 20,636,557
Year 18	CHF 53,633,350	CHF 22,032,471
Year 19	CHF 56,053,350	CHF 23,450,782
Year 20	CHF 58,413,350	CHF 24,891,489
Year 21	CHF 60,713,350	CHF 26,354,589
Year 22	CHF 62,953,350	CHF 27,840,085
Year 23	CHF 65,133,350	CHF 29,347,973
Year 24	CHF 67,253,350	CHF 30,878,249
Year 25	CHF 69,313,350	CHF 32,430,913