Valuation of shares in unlisted Swiss holding companies

Jacqueline Saladin considers two valuation methods

Shares in unlisted Swiss holding companies are like other shares and assets subject to wealth taxation in Switzerland. Title holders resident in Switzerland have to report such shares in the annual tax report. As assets have to be reported with their market value for wealth tax purposes, this value has to be determined first. With regard to unlisted shares, for which official price quotations do not exist, or which are not or only rarely traded, the market value can be calculated by two methods.

Two valuation strategies

The first method takes only the company's equity (net asset value) into account. Based on the company's annual financial statements, its equity is usually determined by cumulating the paid-in share capital, the net earnings/net loss, the open reserves and the taxed hidden reserves. In those cases in which the tax authority has knowledge of untaxed hidden reserves, these will be taken into account as well.

The other method evaluates the company on the basis of consolidated financial statements. The value is calculated by taking into account the company's net asset value, as well as a capitalised earnings value. Even under the newly issued accounting regulations in Switzerland, financial statements issued in accordance with the Swiss *Code of Obligations* can be consolidated and used as the basis of calculation. Such consolidation may contain hidden reserves, in contradiction of other recognised accounting standards (e.g. Swiss GAAP FER) that demand the issuance of financial statements under the principle of true and fair view. The consolidation of financial statements issued in accordance with the *Code of Obligations* can therefore result in a more favourable evaluation.

The company's value results from the sum of the net asset value and the double-counted capitalised earnings value, divided by three. Depending on the model that the canton has implemented in its legislation, the earnings value in the formula is calculated differently. One model takes into account both the profit of the relevant year counted twice and the profit of the year before. The other takes the profit of the relevant year and the profits of the two years before into account. Both models divide the sum of profits by three and the result thereof is capitalised. The profit of a year can be modified by extraordinary income that reduces the amount of the annual profit, as it is deducted from it, or by extraordinary expenses that increase the amount of the annual profit, as they are added to it. This method of evaluation is interesting from a tax point of view, when the capitalised earnings value is smaller than the net asset value.

Choose wisely

A company can decide which method will apply by filing the tax return with either the annual financial statements or consolidated financial statements. In any case, they must have been be audited and approved by the shareholders' meeting. The evaluation of the company is thereafter handled automatically by the tax authority. It may be worth comparing the results of the two different calculation methods and filing those financial statements that will positively affect the title holder's wealth taxation. ■

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