



# PARTNERS' VIEW

March 2020

## IN LIGHT OF THE CURRENT SITUATION Commentary by CEO Markus Wintsch

Barely an hour goes by without new information from across the world on the coronavirus outbreak. Events are coming thick and fast and at the present time we all feel torn between pessimistic forecasts from the business world and optimism that the situation could settle down soon.

The rapid pace of globalisation that we have all experienced in recent years – with all the benefits and conveniences this brings with it – is now under close scrutiny as a result of the coronavirus crisis. Over the past 25 years at swisspartners I have experienced five critical periods. The conclusions I would draw from these experiences are as follows: the stock markets will settle down this time too, and panicking about further losses will, before long, give way to optimism and buying appetite.

All the measures taken across the world give us justified cause for hope that the spread of the virus can soon be contained. At the same time we are conscious of the fact that it will take considerably longer for this tense situation to be overcome completely.

We are confident that we will return to normality in the near future and be able to resume our everyday personal and professional lives.

But right now in this challenging period for the financial markets, we want to be there for our clients in person. More than ever before, we are a big family.

In this spirit, I sincerely hope you all stay healthy!

Best regards,  
Markus Wintsch



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## WEALTH MANAGEMENT

Fear cuts deeper than swords – George R.R. Martin, A Game of Thrones

### A random walk through Jurassic Park

While you will read many investment publications featuring glossy print and pretty pictures extolling the lessons about past crises from very credible sources, the highly unpalatable truth about the impact of the Coronavirus is that nobody knows.

Make no mistake: we are perhaps at the most serious juncture for risk assets and the global economy since 2011 (eurozone crisis) or 2008 (global financial crisis).

We are at a point of human emotion – the fight or flight response which is highly unpredictable. The randomness of the coronavirus plays upon our very worst fears as humans in a similar way to the scary sequences in a horror movie. It is a silent and infectious virus and we have no way of knowing – at least initially – who has it.

While we can read news stories about probabilities – in fact you are more likely to die of a heart attack reading this publication than to contract and die from coronavirus – this does not make you feel much better, and I can completely empathise with that.

Rather than looking at long-term charts about the Spanish flu epidemic in 1918, it is much more useful to look around you in daily life. The economic impact in Europe is being felt right now and will almost certainly eventually be felt in the USA too. My local Chinese restaurant has gone bankrupt, traffic into Zurich from certain areas has increased fourfold, and why was I one out of only two people at the Apple shop with 15 salespeople waiting to serve me? Why are there three salespeople waiting anxiously at the entrance to the high-end watch shops for any customer to walk in? I even hear of people stealing disinfectant and face masks from hospitals – in Switzerland!

Make no mistake, we are witnessing a very sudden jolt to economic growth and are having to deal with both a supply and a demand shock, which is something none of us have seen before.

The reaction from businesses in the very short term has also been somewhat irrational, with many ma-

nor companies cancelling events and all travel. I also remain somewhat concerned that the medicine governments may prescribe to us may make things worse in terms of throwing more spanners into the works of the global economy and therefore making it extremely difficult for it to gather speed again.

**I apologise for my rather brutal assessment, but forewarned is forearmed.**

### Short-term pain, long-term gain

My belief in the long-term secular bull market remains unchanged. Whilst at this point in time I may look somewhat foolish (it's not the first time and definitely won't be the last), **my unwavering belief is that we will make it through to the other side in better shape than before.**

We have too much to lose not to and we should not underestimate the vast resources at our disposal to counter this short-term crisis if the world works together. While the recent 0.5% interest rate reduction by the FOMC might seem like bringing a knife to a gun fight, I expect the Federal Reserve to do more. Other central banks will no doubt ease as well, probably in sequential order. While this is something of a placebo now, when demand returns – **and come back it will** – it will reemerge in supercharged form, also aided by fiscal stimulus from governments around the world.

Think of it as putting gasoline and hand grenades on a bonfire. Of course this will eventually lead to other problems, but they will be much further down the road.

While there has been fair criticism that the initial virus outbreak was covered up in China, the country's recent actions (which would seem draconian and unpalatable in the rest of the world) have bought us much needed time to prepare. From a purely selfish perspective, I have been somewhat disappointed in the way the world was becoming more isolationist and was thinking that we needed an external crisis to get us pulling in the same direction again.

There are some signs of hope, with virus infections and the death rate declining in China. It will probably be a case of first in, first out, with Asia recovering first followed by Europe and then the USA.

I believe it is safe to assume that the trade war is now officially dead, as is the war China was waging on shadow banking. In the medium term this is much more significant than the short-term impact from the coronavirus.

It also seems likely that a major risk regarding the US elections has been taken off the table, with the election likely to be fought by Trump and Biden – both acceptable candidates from a market perspective.

My guess, for what it is worth, is that markets are in a bottoming process which will result in increased volatility driven by coronavirus headlines but that we are through the worst of the falls, with downside on the S&P 500 at around the 2850-2750 level – a nasty correction/crash but no bear market. If over 50% of the S&P500 were to post declines of 20% or more, we would find ourselves in a bear market, in which case I would expect a change in market leadership going forward, with perhaps one of the best money-making bets backing a rebound in economically cyclical sectors in the second half of the year.

I expect double-digit gains from major equity markets this year and next, but these won't be achieved without excitement.



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## FIDUCIARY SERVICES SWITZERLAND

### Rental of holiday homes

Many people in Switzerland own a holiday apartment or holiday home. The problem is that holiday homes are vacant for the majority of the time, but still have to be financed and maintained all year round. That's why it makes sense to rent out the property to cover the costs involved. Thanks to platforms such as AirBnB or Homeaway, it has become much easier to manage the rental process and property owners are becoming more amenable to the idea of renting out their holiday homes. That said, the rental of apartments and homes does harbour certain tax and VAT-related stumbling blocks, which we will outline below.

#### Tax implications for private asset management

The management of one's own assets, especially the rental of property, does not usually constitute a form of self-employment. While renting out a property inevitably entails work for the owners, the rental income is essentially classified as investment income, rather than income from self-employment. The tax implication is that tax is payable on the rental income received during the period in which the property has been rented out, but not on the imputed rental value for the same period. Mortgage rates and actual maintenance costs, while taking account of certain restrictions, can be deducted from the income; costs relating to the rental properties including any consumption costs not passed on to tenants, rental expenses and annual fees associated with the property are deductible. Alternatively, most cantons in Switzerland allow property owners to deduct a flat rate of 10-20% (depending on the age of the property) of the annual gross rental income or imputed rental value without providing documentation of the costs. Wealth tax is payable on the taxable value of the property minus any mortgage debt. If the property is sold from the owner's personal assets, any profit from the increase in value is only subject to the cantonal property gains tax. In terms of direct federal tax, the capital gain realised as a result of the sale is tax-free.

#### Tax implications for self-employment

It is often difficult to determine what the difference is between private asset management and (secondary) professional or commercial activity. The following criteria offer some guidance on what features are attributed to self-employment:

- deployment of capital and labour
- freely elected organisation
- activity performed on one's own account and at one's own risk
- activity performed with the intention of making a profit
- long-term viability
- regularity
- participation in commercial transactions (market presence)

Not all of these criteria have to be met, as evidence of just one of the above may be sufficient to qualify as self-employment depending on the circumstances. The economic relationship between a person's professional activity and the income they receive from renting their property may be used as an example. If you are an architect, trustee, builder or similar, the economic link between the property and your freelance activity may be viewed as evidence that the rental of the property constitutes a regular investment beyond the scope of private asset management and therefore qualifies as self-employment activity. The tax implication is that contributions to the old-age and survivor's pension system (AHV) are payable on the net profit from the rental income and the property is classified as part of the business assets. At the same time, the property can be depreciated and maintenance costs are fully deductible; in general, however, the flat rate deduction cannot be applied. If the property is sold, the difference between the sales proceeds and the book value is now subject to direct federal tax. In terms of cantonal tax, the profit is subject to either income tax or property gains tax (depending on the applicable system), or a combination of the two in the event of recovered depreciation. In addition, AHV contributions are payable on the profit from the sale.

### Possible VAT obligations

In accordance with article 21 paragraph 2 figure 21 letter a of the Swiss Federal Act on Value Added Tax, the renting of residential and sleeping accommodation for guests is generally considered a taxable service. The landlord is under obligation to pay value added tax if the activity qualifies as a «business activity». In line with the practice of the Swiss Federal Tax Administration, the definition of self-employment according to the social security and income tax law is used to assess whether the rental constitutes a business activity. If it does and the gross rental income (including additional costs and services) generates a turnover of at least CHF 100,000, the landlord will be liable to pay tax. As a result, the landlord will have to register for VAT and the

total rental income will be subject to a special VAT rate of 3.7% for accommodation services. At the same time, the input tax deduction for costs relating to the rental property/properties can be claimed if the effective method of calculation is used. The turnover achieved from selling the property is generally exempt from VAT. Thus, if the property is sold the tax implications are similar to those for self-employment as outlined in the paragraph above.

If the landlord is already liable to pay VAT due to his or her main profession as a sole trader, according to the practice of the Swiss Federal Tax Administration the rental of the holiday home will constitute part of the individual's business if the gross rental income exceeds CHF 40,000.



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## TRUST & CORPORATE SERVICES Cyprus – A gateway to Europe



swisspartners Marcuard Heritage Ltd, the international trust and corporate service company of swisspartners Group, took a strategic decision to broaden its horizons by offering its services from a European location. After careful evaluation we decided that the optimal solution was to join up with our close associates Executive Business Consultants Ltd, a long established corporate and accounting service provider based in the Republic of Cyprus, and established a regulated joint venture company called SPMH (Cyprus) Limited «Company».

The collaboration brings together more than 70 professionals from various cultures and educational backgrounds with a wealth of experience ranging from chartered accountants, lawyers, STEP members, bankers etc. with the aim of servicing high net worth individuals/organizations with added value and high-quality comprehensive services tailor made to their needs.

The Company was incorporated on the 17th of December 2018 and is fully licensed to offer administrative and accounting services from the Republic of Cyprus. The Company is managed by Andreas Hadjimichael and Anastis Nikolaou who both have many years of experience in the industry.

Cyprus is well placed as the gateway between Europe and the rest of the world. The island geographically lays at the eastern-most point of Europe, bordering three continents, Europe, Africa and Asia. In addition, Cyprus has a stable and flexible tax system (over 60

double tax treaties) and a business environment that makes the country an ideal link for investments in Central and Eastern Europe, Russia, India, China and other emerging markets.

From our Larnaca office, we offer the formation and administration of Cyprus companies, accounting and bookkeeping services, banking services, liquidation services, company law advisory matters, taxation and VAT advisory services, as well local substance and immigration services. In addition to these services, we pride ourselves in specializing in the establishment and management of Cyprus International Trusts (CIT).

The International Trusts Law of Cyprus, builds on the well-established English principles of equity and trusts and Cyprus has created one of the most attractive trust legal frameworks in the world. The lack of formal requirements for the creation and operation of trusts, and the flexibility of trust instruments, make them uniquely useful for asset protection, succession planning and many other reasons.

### Summary of key points and most important benefits of CITs

- Asset protection – The assets settled into the CIT are sheltered against potential claims unless it can be proven that the CIT was set up with intention of the settlor to defraud his creditors. There is a 2-year time limit from the date of transfer of property/assets in the CIT to file such an action with the Cyprus Courts. Careful consideration should be placed when deciding reserving powers to a settlor to avoid possible hindering of the effectiveness of the protection offered by a Trust.
- Wide investment capabilities – The trustee is able to invest trust funds in any kind of investment. The income is accumulated for the whole perpetuity period with no forced distributions.
- Confidentiality – in the absence of a court order, the trustee, the Protector or any other person cannot disclose to any person any documents or information,

related to the trustees or to the Beneficiaries referring to the exercise of the powers of the trustees or related to the CIT.

- Exclusive jurisdiction of the Cyprus courts – a foreign judgement dealing with any issues of a CIT is not enforceable in Cyprus.
- Tax advantages if properly set up.

For further details please [CONTACT US](#)

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## Who is... ? Beat Bertschinger

Beat Bertschinger has been a wealth management partner at swisspartners AG in Zurich since December 2016. His role mainly involves looking after the affairs of Swiss clients. He began his career at Schweizerische Kreditanstalt (SKA), the forerunner to Credit Suisse, where he worked for a total of 17 years including his apprenticeship, with five years in private banking. Beat subsequently spent another 17 years, also in private banking, at Bank Julius Baer. Having spent more than 22 years as a relationship manager for private clients, Beat was convinced that the advisory service offered by swisspartners, which is independent of any individual bank, was a compelling reason to switch employers. While banks are certainly key partners for wealth managers, for example in their role as custodian banks, advice should be independent and provided in the interests of existing or prospective clients rather than serving the needs of the bank itself.

«At swisspartners, I have found a strong partner and a working environment that suits me. I can swap notes with colleagues and, thanks to our good working relationships with banks, I have access to all the information I need without being under any pressure to push particular products. The associated business is another benefit. swisspartners Group offers expertise in additional services such as fiduciary advice, tax consultancy, life insurance and pensions, as well as inheritance law solutions, which I can also offer to my clients if required.»

And what about Beat's work/life balance? Together with his partner, who runs a practice in traditional Chinese medicine (TCM), Beat winds down by enjoying a glass of fine wine from their own wine cellar. Away from work, Beat also relaxes by going skiing, playing golf or on long hikes in the countryside.



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