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# PARTNERS ' VIEW
## August 2020

## Who is … ?
## Monika Bieler

Property management is her speciality. Monika Bieler has been responsible for the Real Estate unit at swisspartners Fiduciary Services Switzerland since 1 July 2019. As a self-described homesick native of Graubünden in eastern Switzerland, she made her way to the "faraway big city" of Zurich at the age of 20 with a plan to stay for no more than six months. Even though things were not easy to begin with and she yearned for home, despite her best-laid plans Monika has now been in Zurich for 34 years.

Monika Bieler initially worked as a commercial member of staff in the issuance department at Volksbank, which was subsequently merged into Credit Suisse. This big organisation soon became too impersonal for her, and when she received a job offer from a small property management firm she decided to take a leap into the unknown. The move gave Monika the opportunity to learn about the property business from the ground up, working on the front line and gaining an insight into all aspects of real estate. When her boss retired, she moved to a Zurich-based property services provider. And when swisspartners Fiduciary Services Switzerland added real estate to its offering in 2019, it was time for another career move and a fresh challenge.

Monika is responsible for all aspects of rental properties within swisspartners' Real Estate Management unit. "We're the point of contact for anyone seeking a stress-free approach to managing their property," she explains. She rents out residential property, takes care of small-scale and major renovation work and acts as an intermediary between owners, tenants, tradespeople and public authorities. Monika is also involved in the process of selling real estate and residential property, while some clients entrust her with finding suitable properties or plots of land for development.

### So what does she like about swisspartners?

"The whole team here at swisspartners made me feel very welcome from the word go. I have plenty of freedom to organise my day-to-day work as I choose, and I get to work in one of the most beautiful locations in the heart of Zurich. It's a pleasure to come in to work every day." And if work does get a little stressful from time to time, Monika unwinds by "doing nothing" with a glass of fine wine at her home in the Limmat Valley or by doing sport. She enjoys mountain biking in summer and skiing in winter as well as keeping fit with step aerobics and aero dance.

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## WEALTH MANAGEMENT
### Fear not death for the hour of your doom is set and none may escape it – Volsunga Saga, c.5

**V** – The letter V is an interesting character in both the present day and mythology. Being something of a dreamer (which newsletter writer isn't?), I find ancient mythology fascinating with its tales of heroism, brave deeds and stout hearts.

In Viking times the letter V had great significance as the first letter in Valhalla, the resting place for Vikings who had died nobly in battle, led by Valkyries (female warriors) awaiting the final battle known as Ragnarok. In modern day terms, Valhalla could be paraphrased by the word "bliss".

But make no mistake – though it may feel like it now while we are in the eye of the storm, this is NOT our Ragnarok.

**V**iew – coming from a half English and half Indian background and living in the German speaking part of Switzerland does make me something of an outsider (in fact that is pretty much the case everywhere I go). However, it does give me a perspective that is somewhat different, that diverges from the consensus and takes a different outlook. In these uncertain and unprecedented times defined by the virus, the key to financial markets may well be having the ability to take a few steps back and view things from a different angle.

**V**acations involving travel to different countries are something that many of us can only dream of at the moment. Having had the privilege to travel to five different countries (all with low rates of Covid-19) and rack up 3,000 km in my vehicle, I can confirm that you see a lot when you travel this way. For example, I was served my meals in Austria by waiting staff wearing full plastic protective shields and it struck me that the hotel was fully booked, while the restaurant was busy every single night. Shops (though less so grocery stores) were also very busy with a mixture of domestic and foreign footfall.

I saw exactly the same scenario in Germany, Slovenia, Italy and Croatia. This was pent-up consumer demand in action, making up for the months lost during lockdown. It is human nature to want to make up for lost time and to make sure your experiences are more vivid when the opportunity arises.

You also notice a lot by observing traffic. Everywhere I went there was not just a huge amount of heavy goods traffic but also a ridiculous amount of normal car traffic. Filling up at any petrol station in any country involved a waiting time – not because of any restrictions but because of demand. In fact, the conclusion could be drawn that as a result of this crisis people will value their personal space more. After all, in this environment who in their right mind would want to travel on crowded public transport if you can go by car?

You also glean a lot from engaging with people from different backgrounds – such as the US gentleman with whom I struck up a conversation in the car park of the Austrian hotel, who told me that he had been posted to Germany for over ten years working for the US military and that any troop reductions would take a minimum of nine months without any paperwork complications, though the process could drag on for 18 months.

And then there was the Slovenian fishing guide whose main business was in auto parts, where he is now starting to see some signs of life.

From a health perspective, the one common thread was the requirement to wear a mask in enclosed spaces. Perhaps this can explain the gradual return to normality in all the countries I visited.

**V**ast is an apt word to describe the monetary and fiscal stimulus in the system at the moment, which dwarfs the amount injected during the great financial crisis. In fact we expect these amounts to increase, with an eventual deal on the European recovery fund (EUR 750bn) and another round of fiscal stimulus from the US to tide people over. Any central bank or government that tries to withdraw this stimulus early will be punished viciously by the markets.

**V**-shaped is perhaps the best way to describe the economic and market recovery which we expect to continue confounding most investors. Why? Well, besides the aforementioned reasons the bottom of the V was so low that it could have hardly been anything else. If we think of the global economy as a set of cogs in a large machine, the first experiment was to grind everything to a halt. The cogs are now turning again – albeit more slowly than anyone wants – and are creaking, but if the machine is shut down again the cogs may never restart. Furthermore, we do not believe that mass lockdowns will be accepted or tolerated by populations – just look at the recent riots in Serbia.

We have to acknowledge that the V will be jagged at times when there are hotspots or flare-ups in Covid-19 cases. And we should not ignore positive binary outcomes such as vaccines or treatments. Financial markets, like human beings, have very short memories and are able to adapt quickly.

**V**alley is probably the best way to describe the situation we are in at the moment. Having got to the bottom of the valley we are climbing our way out again (the other side of the V) – the infamous wall of worry that financial markets always climb. Will there be a second wave? Please don't tell me this would come as a surprise! But if we look at this issue from a different angle it is worth considering whether a second wave could spur consumer spending as people rushed to the shops for fear of renewed closures.

We expect economic data and company earnings to show continued sequential improvement. Injecting a dose of realism into the mix, we acknowledge that economic and earnings data will not hit pre-Covid highs anytime soon. But this doesn't matter and our rather bullish scenario remains intact as markets will focus on the change in direction, which will continue to move the right way for an extended period of time.

To put it in simple terms, things will get sequentially better for an extended period of time while financial conditions will remain ultra-loose for years to come.

**V**alue/valuation – we know it's not popular to talk about value at the moment but it is our inherent belief that the price you pay for an asset is important, whether it is in terms of growth rates or in purely monetary terms. There has been a lot of talk about the overall valuation of markets and especially the S&P500, which is still cheaper on a current PE basis than it was in 2018, 2017, 2009, 2003 and a significant number of other years. Operational leverage is a concept that the vast majority of market participants are overlooking. Companies have cut costs drastically, laid off staff or have got governments to foot a good part of their employments costs. When the recovery comes – which it will – profits are going to be supercharged.

**V**olatility is likely to remain elevated for a little longer while the market continues to suffer from its paranoid schizophrenia of flipping between stay-at-home stocks and economically sensitive ones. However, I do wonder whether anyone will go home ever again once the all-clear is given.

**V**ision – our base case scenario is for markets to recover pretty much in the same order in which they entered this crisis (depending upon effective healthcare measures). Asia/China should recover first, then Europe (this is not dependent on the recovery fund, which would merely be the icing on the cake), followed by the US, where the recovery has been postponed somewhat but not cancelled. Countries which hit the virus hard and early have bounced back quickly. Domestic spending in New Zealand is now almost equal to pre-Covid levels, and the unemployment rate in Europe is lower than in the US.

**V**indication is what we hope to achieve by year-end and beyond. While we recognise that our view differs somewhat from the consensus – some may even say it's on the lunatic fringe – this always seems to be the way, and the same was true in, for example, 2009 or 2003, which were major market inflection points. In the meantime I have been for my third lockdown haircut and the barber is wearing a mask once again, though he forgot to cover his nose. My haircut has definitely improved.

Things are getting better.
See you in Valhalla (bliss)!

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# FIDUCIARY SERVICES SWITZERLAND
## Tax deduction of maintenance costs for privately-owned property

For those planning to refurbish a property, it is worth considering the tax deductibility of maintenance costs in addition to the refurbishment costs themselves. Not all refurbishment costs can be claimed as an allowance on personal tax returns and, in some cases, are only deductible in part. The questions to consider are: what maintenance costs are accepted by the tax authority? What new tax deductions are available to home owners as of 1 January 2020? Is tax planning potentially worthwhile?

### Deductible costs and how to declare them

Property owners can claim allowances for actual property maintenance costs on their tax returns on an annual basis. The costs relating to the maintenance of newly acquired properties, insurance premiums and replacing equipment (such as a washing machine) are tax-deductible. Investments in energy efficiency and environmental protection are also allowable as maintenance costs that can be deducted on an income tax return.

The costs are initially classified as value-conserving or value-enhancing. All value-conserving costs that relate to the maintenance of the property without altering its layout are allowable deductions on the tax return. Expenses relating to structural changes such as installing a chimney or building a conservatory are treated as value-enhancing investments from a tax perspective and are therefore not allowable as an income tax deduction.

Mixed costs are those that are both value-conserving and value-enhancing. If existing facilities or structures are replaced to enhance comfort or efficiency, not all costs are allowable as income tax deductions. The value-enhancing costs are not taken into account until the property is sold, in which case they are apportioned as investment costs when declaring property gains tax. The classification index, which is available online for each canton, is helpful for establishing approximately how the mixed costs should be allocated.

Owners of privately-held properties can choose each year whether to claim a flat rate allowance or to deduct the actual maintenance costs of the property. Obviously, it only makes sense to deduct the actual costs if they exceed the flat rate allowance. The flat rate allowance also varies from canton to canton and is to some extent dependent on the age of the property.

Another aspect to be considered when declaring expenses is the timing of the deduction. Most cantons allow the costs to be deducted according to either the date they are due (payment date) or the date they become contractual (invoice date). Once you have selected your preferred option, it is important to use this consistently in your tax return.

### Are garden maintenance costs also deductible on tax returns?

Gardening expenses are generally tax-deductible. Maintenance costs must always relate to a relevant taxable return (imputed rental value) as allowable expenses. Landscaping or garden maintenance are value-conserving costs and therefore deductible on tax returns. Costs that are not deductible are living expenses such as those involved in creating a vegetable garden (which is usually classified as a hobby), purchases of garden furniture or expenses in excess of usual garden maintenance costs.

### What are the new features of the property costs ordinance as of 1 January 2020?

As of 2020, the reinstatement costs of a property are now tax-deductible. Demolition costs – relating to a situation in which an old property is demolished and replaced by a new building – are fully deductible from your income. This is only permissible if the new property is built on the same piece of land within a reasonable period of time, is used for a similar purpose as the old property and has been erected by the same taxpayer who carried out the reinstatement process. These costs can be carried over to the subsequent two

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tax periods.

Costs relating to the remediation of contaminated land, site realignment, clearance, levelling or excavation work for the replacement building are not deductible.

Another new aspect is that the costs of investing in energy efficiency and environmental protection can be carried over to the subsequent two tax periods. As previously, other maintenance costs are only tax-deductible in the year in which they were incurred.

Appropriate tax planning is vital in order to take advantage of these tax savings. Thanks to the new rules on replacement buildings, deductions for property maintenance and energy-saving investments can be made for new buildings in the year they are constructed and in the subsequent two years.

## Conclusion – what we have learned

Many property owners invest in their property on an annual basis. It is worth avoiding claims for minor refurbishments that cost less than the flat rate tax allowance until major renovation work is being undertaken. Anyone planning to offset the actual costs on their tax return should be aware that the deductible expenses will be offset in full against the taxable income for the same year. It would be unfortunate if the owner failed to benefit from the allowance because the deductible costs exceeded the taxable income, which is why tax calculation and planning are worthwhile. If possible, the costs of major refurbishment work should be spread across several tax periods as the progressive tax scale means that the tax savings are often greater if the costs can be deducted over several years, rather than reducing the taxable income to "zero" by applying the deductions in a single year.

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# TRUST & CORPORATE SERVICES
## Uses and advantages of private trust companies (PTCs)

Most people are aware of the advantages of establishing a trust, which include asset protection, asset preservation, estate planning and the professional administration of family assets, to name just a few.

However, there can sometimes be disadvantages to using a third-party trustee company – if, for example, the trustees do not discharge their fiduciary duties. Furthermore, there might be several changes of trustees during the lifetime of the trust, which may lead to lost and missing documents, with trustees continuing to increase their fees.

One of the solutions to this problem could be to hire a professional protector for the trust. Unfortunately, protectors may also create difficulties for all parties and generate additional fees.

Private trust companies may offer a simpler – and in many cases more economical – solution.

Private trust companies (PTCs) are companies created with the sole purpose of acting as a trustee of a trust, or group of related trusts, for the same family. These entities can be established in several jurisdictions with the assistance of professional advisors.

There are several situations in which a family might benefit from the use of a PTC, for example:

- if the principal wants to retain a high degree of control over the investment activity and decisions
- if the principal is actively involved in trading stocks and bonds in international markets requiring real-time responses
- if the principal wishes to appoint one or more members of his/her family as directors of the PTC board in order to oversee the actions of the trustee
- if the principal wants to have a proper succession plan in place to ensure minimal disruption in case the trustee needs to be replaced
- if the principal wants to have a more complete overview of the trustee's costs and expenses

The advantages of a PTC over a third-party trustee company include the following:

- The principal can retain a higher level of control and supervision without running the risk of the trust being considered a sham due to undue influence
- The principal can decide who the directors of the PTC should be and include different parties such as, for example, his/her lawyer, asset manager or private wealth advisor as board members of the PTC
- The principal can prevent a trustee from committing a breach of trust as a dual signature mechanism can easily be implemented
- Changes can be made to the composition of the PTC's board without having to amend trust documents, bank accounts, etc.

Although PTCs may entail many advantages for a principal, the nature of the principal's control over the PTC requires detailed and tailor-made advice to ensure that the structure is set up properly.

PTCs have been set up in several traditional jurisdictions such as the British Virgin Islands, Cayman Islands, Cook Islands and Jersey. However, onshore jurisdictions such as Singapore, Cyprus and Switzerland are now often used as well.

### Use of PTCs in Singapore:

- A Singapore PTC must have at least one Singapore-resident director and can also have non-resident directors. However, for management and control purposes it is recommended that the majority of directors are based in Singapore. In this way, the board of directors can include family members together with Singapore-based professional advisors.
- Singapore is a very popular onshore jurisdiction of choice for wealthy Asian families, who may be more reluctant to deal with trustees in traditional offshore trust jurisdictions.


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- The city state's political stability and strong rule of law as well as favourable exemptions for certain activities makes Singapore a favoured jurisdiction for wealthy families to set up a family office.

### Use of PTCs in Cyprus:

- A PTC is effectively a special purpose company registered in Cyprus. As there is no specific PTC regulation, the PTC can be used to act as a trustee of more than one trust for the same family.
- Compared to other jurisdictions, the set-up and running costs in Cyprus can be very competitive. In addition, Cyprus-based providers are primarily UK-educated and demonstrate extensive knowledge and experience.
- In order to enjoy favourable tax treatment in Cyprus and for the Cyprus PTC to be used in a Cyprus international trust structure, the majority of the directors need to be based in Cyprus and control must be exercised in the jurisdiction by regulated trustees. However, additional directors may be added to the board in order to oversee the directors' activities.
- As Cyprus is part of the European Union, using a Cyprus PTC can, if structured correctly, have many advantages when dealing with businesses and investments within the region, utilising Cyprus's extensive double taxation agreements.

### Use of PTCs in Switzerland:

- Swiss PTC companies are deployed in cases in which clients prefer to be associated with onshore centres.
- As many clients often have assets in Switzerland, dealing with a Swiss-based trustee can simplify administration and reduce time-related costs.
- Switzerland is also a centre for financial and investment opportunities. Dealing with a Swiss company can therefore simplify due diligence processes.
- Switzerland has a strong tradition of excelling in providing a wide range of services to wealthy families from around the world.

swisspartners Marcuard Heritage AG has the knowledge and expertise to help set up a family PTC. Irrespective of whether your preferred jurisdiction is Singapore, Cyprus or Switzerland, we have experienced professionals who can support the whole process, explain the characteristics of each jurisdiction and subsequently provide ongoing assistance with the day-to-day business.

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