

# Foundations – A good deal for society

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

July 2019

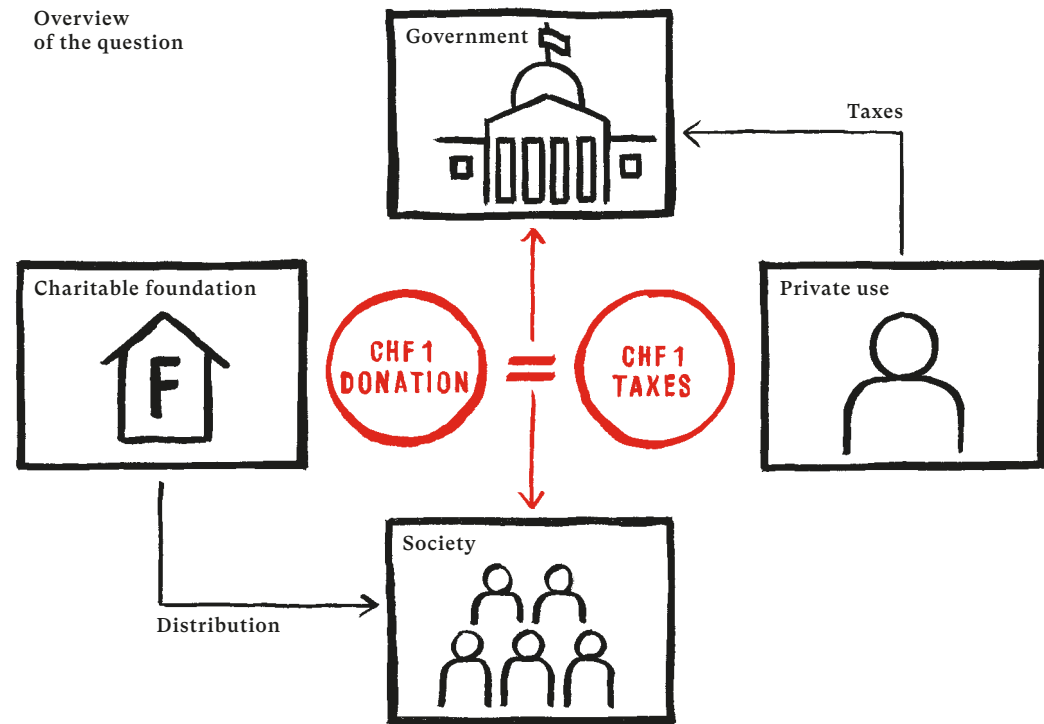
With over 13 000 charitable foundations and total assets of almost CHF 100 billion, Switzerland is one of the world's most important centres of philanthropy. The country has six times more foundations per capita than the USA or Germany.

Charitable foundations generate considerable value for society. They promote issues which government has not (yet) been able to address or has only considered in a limited capacity. Foundations are flexible, build bridges and drive innovation. They can tolerate higher levels of risk and foster new ideas that help shape our future. Foundations are also an expression of citizens' voluntary commitment to the common good. They are a pluralistic element in a society where individuals actively take responsibility, rather than waiting for government to intervene in pending matters.

In return, the state grants foundations and their donors certain tax privileges. These apply when a charitable foundation is established and also while it is operating. Until now, no one has considered whether this arrangement pays off at a fiscal policy level.

That is where this study, "Foundations – A good deal for society", compiled by SwissFoundations, the association of Swiss charitable grant-making foundations, in collaboration with PwC Switzerland, comes in. Two model cases – those of Mr Sigrist and Ms Dubois – are used to calculate the amount of tax revenue forgone by society when a foundation is set up. This loss is then measured against the gain reaped by society in the form of donations from charitable grant-making foundations.

Overview  
of the question



To provide a complete picture of the tax implications of foundations, establishing a charitable foundation is contrasted with two alternative investment options: investing assets on the capital market and transferring private funds to an investment company.

- The study "Foundations - A good deal for society", which includes cantonal tax comparisons, is available for free download in German and French. All information and contact persons can be found online: [www.swissfoundations.ch/taxstudy](http://www.swissfoundations.ch/taxstudy) and [www.pwc.ch/foundationsstudy](http://www.pwc.ch/foundationsstudy)



# Mr Sigrist from Zurich

Mr. Sigrist: 52, married, two children, Protestant, successful entrepreneur, living in the city of Zurich. He declares a net income of around CHF 2 million and assets of around CHF 100 million. In addition to his business activities in the IT sector, Mr. Sigrist would like to establish a foundation in Zurich with an endowment of CHF 20 million. He decides on a grant-making foundation dedicated to education and research. He aims for an annual payout of 3%, to be distributed annually at 100%.



How much Mr Sigrist’s endowed foundation costs society:

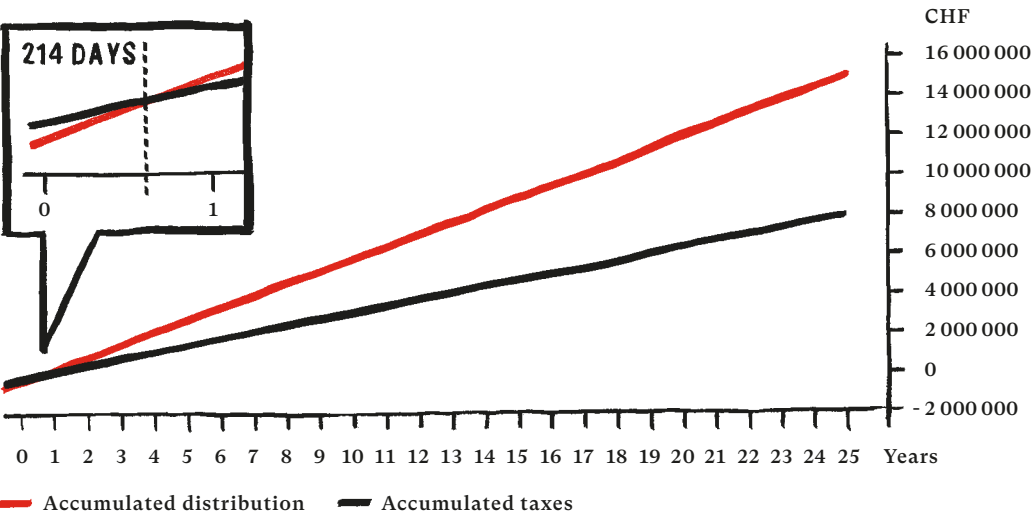
- **Mr Sigrist saves around CHF 158 000 in income tax when he establishes the foundation.**
- **Were Mr Sigrist to invest his assets privately on the capital market instead of depositing them in a foundation, a total of CHF 8 million in taxable capital gains, property taxes and income taxes would flow to society over a period of 25 years.**

How much Mr Sigrist’s endowed foundation contributes to society:

- **The foundation assets of CHF 20 million endowed by Mr Sigrist generate annual distributions of CHF 600 000, assuming an average annual payout of 3%.**
- **Over a period of 25 years, CHF 14.8 million therefore flow to society for education and research projects.**

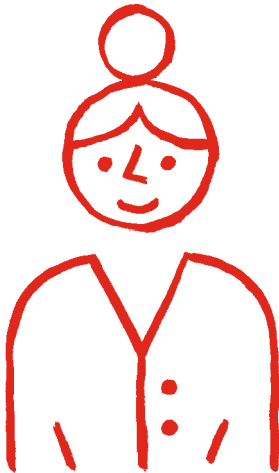
Thus, in total, additional funds of around CHF 6.8 million flow to society from the charitable foundation over a period of 25 years. Based on absolute figures, the break-even point is reached after 214 days. From this point forward, the grants provided by the foundation permanently exceed the tax losses.

Break-even of an endowed foundation in the canton of Zurich



# Ms Dubois from Lausanne

Ms Dubois: 63, widowed and childless, Catholic, retired, living in the city of Lausanne. Ms Dubois sold her successful company for CHF 75 million and generates annual income of CHF 2.25 million from its proceeds. The nature-loving woman from the canton of Vaud would like to set up a spend-down foundation which, in addition to the targeted payout of 3%, would also distribute the foundation’s assets of CHF 50 million over a 25-year period to charitable purposes. The Lausanne-based foundation is to be active in the field of environmental protection.



How much Ms Dubois’ spend-down foundation costs society:

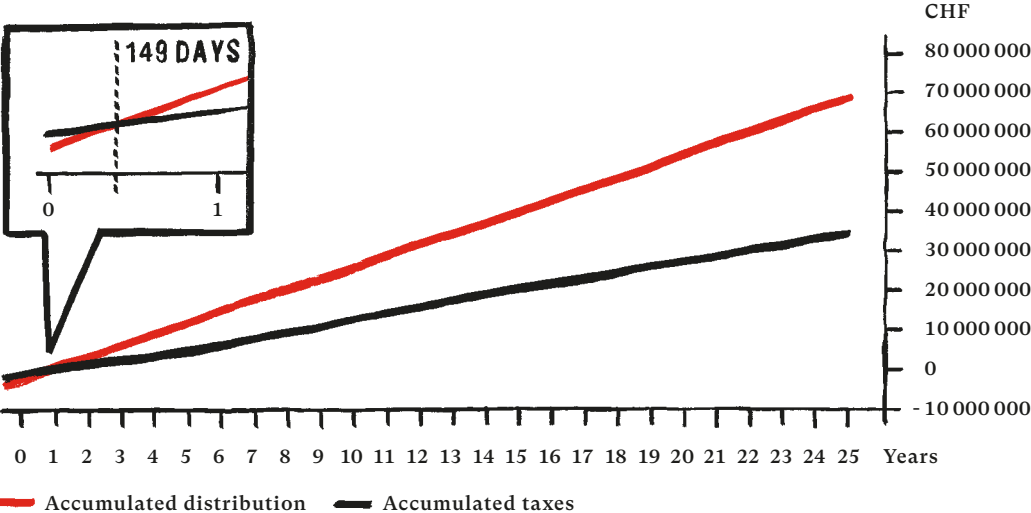
- **Ms Dubois saves around CHF 187 000 in income tax when she establishes the foundation.**
- **Were Ms Dubois to place her assets with a private investment company that invests her money on the capital market instead of placing the funds in a foundation, a wide range of taxes such as stamp duty, tax on earnings, capital tax, property tax and income taxes totalling CHF 32.6 million would flow to society over a period of 25 years.**

How much Ms Dubois’ spend-down foundation contributes to society:

- **The foundation, which is endowed with CHF 50 million by Ms Dubois, is set up as a spend-down foundation and envisages an annual capital distribution of CHF 2 million.**
- **The remaining capital is invested and generates an additional CHF 19.5 million over the lifetime of the foundation, assuming an average payout of 3%.**
- **CHF 69.5 million therefore flows to society from returns and depletion of the capital.**

In total, additional funds of around CHF 69.5 million flow to society from the grant-making foundation. Offsetting this against the CHF 32.6 million in lost tax revenue, the resulting net added value is CHF 36.9 million. Using the absolute figures, the break-even point is already reached after 149 days.

Break-even of a spend-down foundation in the canton of Vaud



# Foundations – A good deal for society

The aim of the study was to compare the tax revenue forgone by society due to charitable foundations with the funds that flow back to the general public through grants from these foundations.

The two comparison models of Mr Sigrist from Zurich and Ms Dubois from Lausanne illustrate in no uncertain terms that these foundations disburse significantly more funds than the government would be able to collect by taxing the corresponding assets, were they to be invested privately. The same is true for all cantonal comparisons as well as in the case of foundations set up to maximise tax optimisation.

- **In practice, the foundation model reaches its break-even within one month and at the latest, after up to one and a half years. From this point forward, the foundation is nothing but a good deal for society.**

[www.swissfoundations.ch/taxstudy](http://www.swissfoundations.ch/taxstudy)



# Tax exemption for charitable foundations in Switzerland

In Switzerland, foundations which pursue a charitable purpose are exempt from all tax liability. This is verified by the tax authorities. Foundations are additionally subject to supervision by the Federal Supervisory Authority for Foundations. The prerequisites for tax exemption are as follows:

- **The purpose of the foundation must be charitable, i.e., it promotes the common good.**
- **The funds must be used exclusively for the prescribed purposes.**
- **There is no question of the assets or endowments flowing back to the founder.**

Founders can deduct up to 20% of their taxable income from direct federal taxes as well as from cantonal and municipal taxes when they set up a foundation. The same applies to donations to charitable associations and relief organisations. In contrast to other countries such as Germany, this amount can be claimed only once, in the year the donation is made. In addition, 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%.

# Ten facts about charitable foundations in Switzerland

- 1** There are more than 13 000 charitable foundations in Switzerland with assets totalling almost CHF 100 billion. One half of all Swiss charitable foundations were set up in the past 20 years. 301 new foundations were added in 2018 alone.\*
- 2** With 15.5 foundations per 10 000 inhabitants, there are six times more charitable foundations per capita in Switzerland than in the USA or Germany.
- 3** A foundation is legally defined as an estate that is earmarked for a specific purpose and managed in a fiduciary capacity by a board of trustees. A foundation is therefore an independent entity: It has no owners or members and can only be dissolved by the supervisory authorities.
- 4** Tax-exempt foundations, as the only not-for-profit organisational form, are controlled by two government authorities: the supervisory authority and the tax authority. They are additionally subject to a legal audit requirement.
- 5** Anyone can set up a foundation. Legal entities and public authorities can also serve as founders. Most supervisory authorities require a foundation capital of at least CHF 50 000.
- 6** When someone sets up a foundation, he or she relinquishes all claim to the assets used for this purpose. These must never flow back to the founders. A charitable foundation is therefore not a tax-savings scheme.
- 7** The founder of a tax-exempt foundation benefits from the same tax relief as donors and can, as a rule, deduct up to 20% of his/her taxable income.
- 8** A grant-making foundation is a charitable foundation that does not rely on donations or fundraising to finance its activities. A spend-down foundation is one that finances its funding activities not only from income generated by its assets, but also from the assets themselves.
- 9** A foundation may be set up for a wide range of purposes, from management of a company to an ecclesiastic or charitable focus. The founders are free to define the purpose of the foundation as they see fit. However, only foundations with charitable purposes are eligible for tax exemption.
- 10** Foundations, like donations or volunteer work, are an expression of a commitment to society. They complement the work done by the state, but can in no way replace it (not least of all on a purely quantitative basis). Foundations support a wide range of projects, initiatives and organisations and mirror the plurality of our society in their diversity.

\* See Swiss Foundation Report 2019, [www.stiftungsreport.ch](http://www.stiftungsreport.ch)