

## The Canton of Zurich is strengthening its position as a hub for charitable foundations

**The Canton of Zurich is strengthening its position as a hub for charitable foundations. With over 2,200 charitable foundations and an estimated total wealth of over 18 billion Swiss francs, Zurich is the largest foundation location in Switzerland. However, in the past, Zurich's strict requirements for tax exemption compared to other cantons led to a decrease in its attractiveness as a foundation location. This is now changing.**

The cantonal government recognizes the significant social importance of the nonprofit foundation sector. Charitable foundations create economic and social value, playing an increasingly crucial role for Zurich as a financial center, as well as for innovation, research, and social development. In early 2023, the government decided to make Zurich more attractive for foundations once again. One key focus was improving the tax framework. Under the guidance of the Economic and Labor Affairs Office's location promotion team, a project coordination group, including representatives from the foundation sector, examined the implementation of recommended measures outlined in a preliminary study.

As of February 1, 2024, the Zurich Cantonal Tax Office has adjusted its practice regarding Circular No. 12 issued by the Federal Tax Administration concerning the tax exemption of legal entities pursuing public or charitable purposes, including cultural purposes. The updated practice is detailed in a corresponding [practice note](#).

### **Reasonable Compensation is possible**

The Canton of Zurich no longer opposes reasonable compensation for members of the foundation board and association executives seeking tax exemption due to charitable purposes. According to a new information sheet from the Zurich Cantonal Tax Office, the statutes must explicitly address the remuneration of foundation board members and association executives. The details

should be regulated in a compensation regulation, which must be submitted for inspection by the supervisory authority for foundations and by the tax office for associations.

In accordance with legal requirements, the Zurich Cantonal Tax Office assumes that the remuneration of foundation board members will be reviewed and deemed appropriate by the foundation supervisory authority. An independent review will only occur if the appropriateness of compensation provided appears doubtful. In such cases, the Zurich Cantonal Tax Office will primarily seek an opinion from the relevant foundation supervisory authority.

The supervisory authorities will develop guidelines regarding the appropriateness of compensation. Generally, compensation is considered appropriate when it is time- and performance-oriented and proportional to the managed assets of the foundation.

### **Activities Abroad**

The requirements for activities abroad are also being relaxed. Foreign activities will now be measured against the same standards for tax exemption as domestic activities. Foreign activities are now possible regardless of the type or location of the activity, provided they have a positive impact on Switzerland or are perceived as worthy of support within Switzerland. In such cases, the tax revenue loss associated with tax exemption is considered justified. A comprehensive documentation of financial flows up to the actual recipient abroad is mandatory.

### **Entrepreneurial Support Models**

Social Impact Bonds or Development Impact Bonds, equity participation, and convertible loans no longer hinder tax exemption, even if the loans are interest-bearing and amortized, or if returns from equity

participation or profit-sharing flow back to the nonprofit institution. However, certain conditions apply. These investments must be made in areas where profit-oriented entities would not typically invest, and the funds must demonstrably flow into sectors where a market does not (yet) exist. Additionally, the funds that are returned must be used once again for charitable purposes.

The Zurich Cantonal Tax Office's change in practice now lays a significant base for promoting Zurich as a hub for foundations. Blum&Grob, with its extensive experience in the nonprofit sector, welcomes this new approach. We are ready to support you in all aspects of your charitable endeavors.

If you have any questions, please do not hesitate to contact us.



**Dr. Natalie Peter**  
[n.peter@blumgrob.ch](mailto:n.peter@blumgrob.ch)



**Sandra Gulich-Merrad**  
[s.gulich@blumgrob.ch](mailto:s.gulich@blumgrob.ch)

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