



[www.economic-substance.com/risks.html](http://www.economic-substance.com/risks.html)

## **The risks of a lack of substance**

**To summarise, what happens when your international operations lack the necessary economic substance? Simply put, you run the risks to miss out on the tax reduction you had planned for while still having to bear the costs of the corporate structure.**

Furthermore you run an increased risk of the tax authorities challenging your structure due to which you will face the risks of severe (tax) penalties and lengthy and costly court cases.

## **Correct implementation and execution**

Once the right level of economic substance is determined, it needs to be established and executed correctly. What is also very important in this respect is correct implementation by the company and all other parties involved in Switzerland (e.g. a trust company). Not only at the start but especially in the subsequent years as well.

In many cases the parties (or some of them) involved (staff, trust company, bank, etc.), neglect their duties over time as they forget the importance of the correct set-up and its execution, or, because of changes in staff for example. Not correctly implementing and executing the tax advice is ultimately the main reason which enables tax authorities to challenge the substance of cross border structures.

## **Made to measure structuring**

In order to minimise the risks of a lack of substance, you need to properly research into the necessary level before you establish the structure. As a next step, you need to organise that this level of economic substance is actually established. As a final step you need to monitor that it is executed as it has been advised, also in future years.

In order to establish a correct structure in Switzerland (or elsewhere), made to measure solutions are necessary. There is not a 'one size fits all' solution. For one enterprise a small office in Switzerland with one employee might be enough, for another enterprise with other activities this could be considered clearly insufficient. The actual necessary level of substance is not something that can be copied from previous structures, but should be examined case by case. That's where we come in.