Tax information regarding convertibles – Switzerland

The interest income from the convertible should be treated as employment income. Social security contribution should thus be paid by You at 5.15% of your total salary with no ceiling. This should be withheld monthly by your employer.

In addition contributions below the assessment base of CHF 126,000 will be subject to 1.1% unemployment insurance fund. Contribution between the maximum assessment bases of CHF 126,000 up to CHF 315,000 will be subject to 0.5% unemployment insurance fund. This should be withheld monthly by your employer.

At the day of conversion the convertible should be subject to individual income tax. The taxable income corresponds in the difference of the fair market value less the pre-defined strike price at date of conversion. You will therefore be taxed on the difference at the highest marginal rate of approx. 45%. Your employer is obliged to prepare an annex to the salary certificate provided to You and to the tax authority. No further action will be required by You.

When the shares are sold the capital gain should be treated as tax free capital gain of shares and no action will be required from You.

For the convertible there might be a chance to distinguish between the bond and option component of the total gain. It is however our understanding that the component should be perceived as employment related, i.e. in close connection with the gainful activity, therefor there is a risk that both components are seen as employment income. There is uncertainty regarding the treatment of the component and it is therefore recommended that this is confirmed with the tax authority.

With reference to the above there will be no additional action is required by You from a tax perspective.

Please note that the above is based on advice provided to ÅF Pöyry AB by Ernst & Young (EY). Your particular tax situation has not been assessed and you take part on the advice above on a non-reliance basis. We recommend that you consult your personal tax advisor.