

SETUP FOR STARTUPS

Zurich's Digital Ambitions

BY HOLGER ALICH

Swiss business capital Zurich is trying to make itself a leading European hub for tech entrepreneurs, but unfavorable tax and recruitment conditions could hinder its efforts.



There are a lot of reasons why startups might be attracted to Zurich. But there are also some significant hurdles. Source: Getty Images

The list of members of Digital Zurich 2025 reads like a who's who of Swiss business: UBS, Credit Suisse, Swisscom, Swiss Post. The list also includes retail giants Migros and Coop, not to mention Google.

The cross-industry association aims to make the Swiss business capital a leading hub for digital entrepreneurs.

“There's room for Zurich alongside London and Berlin,” said the

WHY IT MATTERS

German entrepreneurs could use the Digital Zurich 2025 initiative to help boost their Internet startups.

FACTS

Sponsors of the initiative include UBS, Credit Suisse, Swisscom, Swiss Post, Migros, Coop and Google.

The city's advantages including a liberal labor market, proximity to investors and banks, and a big pool of qualified workers.

The downsides? A burdensome wealth tax and questions about

initiative's president Marc Walder, who is also the CEO of media firm Ringier. "We have our work cut out for us."

“Recent changes to the Swiss wealth tax means that startup founders and shareholders may have to pay taxes on shares they haven't yet earned a cent on.”

Zurich has advantages that include a liberal labor market, proximity to investors and banks, and plenty of qualified workers in the region.

It's also home to ETH Zurich, one of the leading universities for science, technology and engineering, whose graduates who often end up founding startups.

These factors are part of what lured U.S. Internet giant Google to the city. It has about 1,500 employees in Zurich, one of its largest locations outside the United States.

But Zurich also has two major problems: a burdensome wealth tax and challenges recruiting sufficient talent from abroad.

Still, homegrown entrepreneurs think the Digital Zurich 2025 initiative is a step in the right direction.

Take Johannes Reck, for example. Six years ago after graduating from ETH, the German native and his partners founded Getyourguide, an online travel experience booking platform.

"I believe in Zurich as a location," Mr. Reck said, adding that, "the technology transfer with ETH works, there's a good community of business angels, and Zurich isn't any more expensive when it comes to wages for highly-specialized workers than other locations."

The Digital Zurich 2025 initiative's plans include hosting a trial stay in Zurich for 40 young entrepreneurs. The founders will be given an office free of charge in the Kickstart accelerator for three months, in addition to receiving funding at around \$25,000 per company. At the end, they will present their projects to investors and members of the initiative.

"An important goal of the project is to network the startups during their time in Zurich with the local scene, such as with our member companies," said Sunnie Groeneveld, managing director of the Digital Zurich 2025 association. A couple of hundred applications have been received already.

attracting recruits from abroad.

NO. 437

Friday
May 27, 2016

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The initiative also wants to lead small and medium-sized Swiss companies into the digital realm by offering a platform with a

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ALRIGHT

“The mood at the startups on the wealth tax is tense. No, let’s be honest, it’s miserable.”

MARC WALDER
FOUNDER, DIGITAL ZURICH 2025

According to Ms. Groeneveld, the website is meant to become “a kind of TripAdvisor” for educational opportunities, whereby

users evaluate the usefulness of the training. Google’s Swiss operation is also involved in the project.

The wealth tax is likely to present a big hurdle to ongoing success, though.

Some time ago, the tax authorities changed the way this tax was calculated: Instead of a company’s net asset value - that is, cash and tangible assets - authorities base a company’s value on the market value of its stocks. The tax office makes this calculation on the company’s most recent round of financing.

This means that if a startup collects 10 million Swiss francs for a 10-percent share, the company is valued at 100 million francs. The founders and majority shareholders must then pay taxes on their block of shares based on this assessment, even if they haven’t yet earned a cent on it.

That is a huge disadvantage compared to alternative locations like Germany, which has no wealth tax.

After a storm of protest, the Zurich Cantonal Tax Office now wants to accommodate young entrepreneurs by waiving the assessment based on the market value, but only for the first three years. For medtech companies, the transition period is supposed to be five years.

“That is much too short,” said Getyourguide’s Mr. Reck, who thinks a company should be hit with the tax only when it turns a profit or can trade its shares.

“If the tax issue isn’t defused, the location won’t develop,” he said, adding that startups in particular, would avoid Zurich due to the tax.

Digital Zurich 2025 founder Mr. Walder is aware of the problem.

“The mood at the startups concerning the wealth tax is, in fact, tense,” he said. “No, let’s be honest, it’s miserable. I can appreciate that. We’re working on it,” he said.

Getyourguide’s 250 workers include 150 in Berlin, where the company operates its international marketing and service center. But the firm is keeping its development department and its 15 software engineers in Zurich.

“We want to further expand Zurich, above all for highly-qualified jobs,” Mr. Reck said.

But startups will find this area challenging too. Recruitment could be more difficult after Switzerland passed a constitutional amendment aiming to let the country control E.U. immigration again. Quotas already exist for non-E.U. foreigners.

The path toward becoming a leading digital hub could be a long one for the city.

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