



M&A transactions: Denial of interest deductibility in debt push-down structures

A recent decision of the Swiss Federal Supreme Court confirms a restrictive approach regarding the tax deductibility of interest expenses following a debt push-down in leveraged buyout structures.

A Swiss target company primarily holding real estate was acquired in a leveraged buyout. The acquisition was financed via external debt at the level of an acquisition vehicle. Following a downstream merger, the debt was pushed down to the target company.

The Swiss Federal Supreme Court denied the deduction of interest linked to the acquisition financing. According to the Swiss corporate income tax law, only expenses that are commercially justified are deductible.

The Swiss Federal Supreme Court concluded that there was no sufficient economic link between the acquisition-related

financing and the business activity of the target company, which was limited to real estate management. The financing primarily benefited the old shareholders rather than the target company itself. Thus, the denial was not primarily based on tax avoidance, but on the lack of commercial justification.

The key takeaways are as follows:

- Interest expenses must have a direct economic link to the company's activity
- Debt push-down structures are increasingly scrutinized
- Third-party financing does not automatically ensure deductibility

- The post-merger perspective of the target company is decisive
- Tax authorities may tighten their practice following this decision

Thus, careful structuring of acquisition financing and post-merger integration is essential. Debt push-down should not be assumed to result in tax-efficient interest deductions. Taxpayers should assess the functional link between financing and business activity and consider obtaining advance tax rulings to avoid adverse tax consequences.

This landmark decision confirms that Swiss tax law focuses on substance over form. Interest deductibility depends on whether financing serves the business purpose of the target company.

Grant Thornton Switzerland has extensive experience in advising on acquisition financing structures, including leveraged buyouts and debt push-down arrangements, and advises clients in designing robust and tax-efficient transaction and financing structures.



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