

On Tax—Gabriela Schwarz of Novartis Group

Len Teti: Welcome to On Tax—A Cravath Podcast. I'm Len Teti, a partner in the Tax Department of Cravath, Swaine & Moore, a premier U.S. law firm based in New York City. On each episode of On Tax, I talk to professionals in the Cravath network about their life and work in the world of tax. We focus on the human side of tax law, highlighting the people, connections and stories that make the space such a fascinating and dynamic area of practice. I hope you enjoy this episode.

Today, we're joined by Gabriela Schwarz, who's the Head of M&A Tax at Novartis Group in Basel, Switzerland. Gabriela, welcome to the podcast, and thanks for joining us.

Gabriela Schwarz: Well, thank you very much for having me. I'm excited.

Len: We're excited to have you. It's always great to have an international guest, and I wondered if you'd tell us how you found your way to the tax law. How far back should we go to understand how you ended up doing what you're doing?

Gabriela: Well, actually, it was a coincidence that I ended up in tax, because when I went to high school, I wanted to study law, because I believed in justice. So I think this was the reason I started studying law, and then I worked as a secretary to finance my studies. Luckily, university is not as expensive in Switzerland as it is in the U.S. Typically, you work while you are studying, and you can finance your studies like that.

Len: OK.

Gabriela: So I worked at the law firm as a secretary, and I realized that studying law hasn't a lot to do with justice. It's probably more about being right in front of the court. So I was very naïve, and then I thought maybe that's not really what I want to do. And then one of the lawyers at the law firm said: "Well, why don't you consider tax? Because nobody understands the tax systems. So, if you study tax, you will be safe for a future job."

So then at university, you could decide what classes you wanted to join. I started tax classes, and I realized, "Actually, that's very interesting, because it's neutral kind of, and I really like that." The majority of my studies, then, was really just tax classes, and this is also where I had my main focus and graduated in. I have a master in law with specialization in tax.

Len: I want to make sure I understand the way the Swiss legal education system works. So you're saying that you took a fair number of tax law classes. Is that as an undergraduate in university? Or after undergraduate studies?

Gabriela: No, that's during the university. So studies typically take four to five years at university, and you're pretty free in choosing the classes that you want to have. Typically, you would become a lawyer after university, but given my experience from the law firm, I decided not to become a lawyer at the end of the studies, but started the tax expert education.

Len: And what does that entail? You graduate from what we would call college here—22 or 23 years old. You have already taken a lot of tax law classes, and so what comes next in terms of the tax expert certifications? More classes and expertise?

Gabriela: After university, you can do a Swiss tax expert class, which is another three years, and you do it at the same time you work. And you are only allowed to take the exam after four years of working experience, but the school is for three years, and you have to take exams every year, and typically about half of the people attending the classes at the end of the day fail. So it's a pretty tough education, and there used to be not that many people who did it. I think it changed a lot. There are now, also, new education systems in Switzerland where you can do LL.M.s and the like, but at the point in time when I did the education, there was only the Swiss tax expert exam.

Len: And do you have any lawyers in your family? Or any tax expertise in your family?

Gabriela: Not at all, no.

Len: New with you?

Gabriela: Totally new. I'm the black sheep probably.

Len: So that Swiss tax expert series of courses and exams feels analogous to what the U.S. folks would call law school and a legal education and accreditation certification. What do you remember about looking for your first job in the tax world? What sorts of things did you understand tax lawyers were doing? And how did you go about deciding where you wanted to work?

Gabriela: When I decided to become a tax expert, it was clear that I needed to start at an accounting firm at one of the Big Four, because this is what you would typically do. And they are also heavily supporting you in the education, which is helpful.

Len: Do you mean they're paying for education?

Gabriela: Yes, they do. Yes.

Len: Oh, I see.

Gabriela: They give you time to study, because, if I remember correctly, I think it was every Friday you had to go to school. So, they gave you the time that you could attend the school, and they paid for the lessons and the exams.

Len: So while you are in this accelerated course of tax expert study, you're actually working in tax, and your employer is helping you sort of make it through the program?

Gabriela: Yes. Exactly.

Len: I see. So what was that like? What do you remember about those days?

Gabriela: I remember that it was very stressful, because you started a new job. Everything was new. Of course, after university, I thought I'm the biggest and the greatest, but then when I started working, I realized that I don't have a clue at all. So it was first of all overwhelming to be in the tax world working environment. And then at the same point in time, we had to do the school, which was an additional pressure, and you wanted to perform well, because the company paid for it.

So I think it was very overwhelming at the beginning, but then the longer it took, the more confident you became. And the experience that you gained at work helped a lot for school. You learned a lot of theoretical things, which you could adapt in your working environment. But at the same point in time, you made a lot of experiences, which then helped to understand the tax law. So I think it was a very good combination.

Len: Tell me about the accounting firms where you worked. What were the business environments like? Were you working with senior accountants for given clients? Or were you working on particular projects that you remember?

Gabriela: I remember very well the first due diligence project which I had, because that was only three months or so after university. I was sent in a physical data room, and at that point in time I didn't even know what the data room was. I was just being sent somewhere—

Len: With boxes.

Gabriela: Yes, indeed. And then I was asked to make a copy of all their tax returns, tax assessment, tax files, and you wrote it down by hand. You were not allowed to bring a computer or anything. Clearly there were no mobile phones allowed to take pictures. You really took a handwritten copy. I wrote down everything which I could find, but I didn't really understand what I was looking for. But at least at the end of the day, I had a good file of documents with all the tax information.

Actually, one thing was funny because it was a huge group with numerous legal entities, and I didn't really know what to do with all of these entities. I started to draw the chart—a group chart—to figure out how they're all connected with each other. And, probably, I spent an entire day or two days, and I was very worried that my manager thinks I'm wasting my time.

And then I came up with this chart and said, "Well, this is the group." And everybody was so happy to see finally how the group looks. And I was happy too that I, apparently, didn't waste my time because it didn't seem to be very tax relevant.

Len: This is a really good lesson. Let's stop here. Because, as a junior person, you're saying you're feverishly copying stuff down. And you don't even know why you're doing it. You just know you're trying to capture as much information as you can. And you don't really have a good sense, at a junior level, of how it's going to be used. You're not even sure how you're going to use it.

Gabriela: Yes.

Len: But one of the things you can do, even as a very junior person on a team, is help the team organize and understand the information it has. And your example here is an excellent example. You took a day and a half or two days, you organized all this information into a one- or two-page structure chart and now you could bring the whole team together, show them this thing, and everyone can understand what they're dealing with in terms of this corporation and its structure. And it took a lot of work to produce that, but now everybody else can sort of stand on your shoulders and see the corporate structure the way that you see it, without having to put in that work. That's very valuable stuff.

Gabriela: I would agree, but at that point in time, I thought I'm just wasting my time and nobody's interested in that. But now, I think, this was the basis for everything else we did, because we knew how the structure looks. We could better estimate what tax risks were associated with the entire structure, so I was glad that I fulfilled my job, kind of.

Len: There are certainly tasks you might do early in your career that end up being a little bit of a waste of time. There's no way to avoid that. But oftentimes when you feel like you're wasting time, you're actually doing something that's going to be fairly productive. And I think the only advice we could give to people who are struggling through those days in their career are to try and figure out ways to have their work be useful to the team.

Sometimes you have to guess, sometimes you have to say, "Hey I pulled together a checklist based on what we've been talking about," or a to-do list or a structure chart. Other times you have to ask: "What can I do that would be useful right now? I can't tell. How can I help?" And over time, as you have a better understanding, a more experienced understanding about how the work is being done, how the knowledge and information is being used, then you can also anticipate better what particular things might support the group.

I think that's a very useful experience. So as you developed more seniority and more experience, how did you think about developing your career? I know you worked at a couple of different places. Will you tell us a little bit about how you made the decision to change employers and why?

Gabriela: The main reason was really I wanted to be as broad as possible at the beginning. First of all, I was not entirely clear which area of tax was going to be my main focus. But also I wanted to be broad in order to have a successful exam at the end of the four years, and I thought the more I see, the better it is going to be for my education.

I've worked at a big company. I've worked at a smaller company, and I've advised all different kinds of clients. I mean, it was private equity. There were big companies on the stock market. There were privately held companies. It was a wide range of tax consulting work—not only transaction related, but really everything from compliance to consulting, writing memos, doing tax proration calculation, really just everything that you can imagine a company needs. But then I also realized that what really is the most fun for me is the transaction-related work. It became clear that this is the focus.

Len: I see.

- Gabriela:** Where I want to work in the future. And once I completed the Swiss tax expert exam, I joined another Big Four company, and I joined the Swiss M&A tax practice. And that was really the point in time when I got fully dedicated to M&A transactions.
- Len:** So this is interesting. You've gotten broad exposure to various different parts of tax advisory from the private side, advising a bunch of different clients on different tasks. And now you sort of centered on this thing that you really want to be, which is an M&A deal advisor. You were at Deloitte at this point, right?
- Gabriela:** Yes, correct.
- Len:** So when you got to Deloitte, what tasks did they have you doing right away? And did you feel like you were getting the kind of experience that you were looking for, when you were able to start that job?
- Gabriela:** Yes, absolutely. I had a great partner I was working for and he gave me a lot of trust to work on these projects pretty independently. The clients, again, were all different sorts of clients, but we had a lot of private equity houses, which were advising on acquisitions. It was not only due diligence, which was very important, but in particular, also the structuring of the deal—how are we going to finance the acquisition, and how they are going to raise money? So it was really, again, very broad and very interesting.
- Len:** And one of the things that struck me in working with you and hearing a little bit about the Swiss tax practice, especially in the M&A context, is the extent to which you are discussing matters with the tax authorities frequently. Not just the federal tax authorities, but the cantonal tax authorities. You're talking to them about your transactions almost in real time. That's a little bit different than the way we do transactions in the U.S. Can you talk about how the system is set up to facilitate those conversations and how it works in practice if you're doing an M&A deal in Switzerland?
- Gabriela:** Yes, sure. As you said, we do have a pretty close relationship with the tax authorities. We have the cantonal tax authorities, which are responsible for corporate income tax purposes, and we have federal tax authorities, which are more for withholding tax and stamp duty matters. And we entertain relationships with both of them. And what you would typically do is if you have a challenging situation, which is not entirely clear maybe by law, you would describe the fact pattern to the tax authorities and assess what the tax implications should be according to law and practice. And then you write it down in a formal tax ruling and the tax authorities will then sign off on it within, actually, four or five weeks—so pretty quickly. So you don't need to prepare for half a year or year, like we have to do in the U.S., for example. So it's a fast process, and it's more a dialogue with the tax authorities.
- Len:** The difference in the U.S. practice is pretty stark. I mean, there are some issues on which you can go to the IRS ahead of time and make a formal submission for them to opine on whether a certain transaction works in a certain way. That's a common part of our practice. However, it isn't common to talk to the tax authorities frequently before you do many types of transactions. And I think your practice seems to engage in kind of a continual dialogue, as opposed to an infrequent dialogue that arises when a given transaction or a given legal issue arises. Is that right?
- Gabriela:** That's correct. I think this is a really big advantage that you have in Switzerland. So you can really discuss every fact pattern, and you get very fast certainty around the tax treatment.
- Len:** The key difference, I think, being you have these discussions before you enter into certain transactions.
- Gabriela:** Well, you have to, otherwise the ruling is not valid. So you really need to describe all of the fact pattern in great detail, and you need to submit it in advance of the transaction. Because if it is after the transaction, they are not going to sign off on anything.
- Len:** And in the U.S., while we have private ruling practice in much the same way, more commonly you enter into a transaction and then you start engaging in dialogue with the taxing authorities after their return is filed. I think that's a notable difference. So tell me, now, after several years at Deloitte with these kinds of advisory experiences, you made a decision and had an opportunity to go in-house to the M&A tax function at Novartis. Do you remember how that opportunity arose and whether you were looking for such an opportunity at the time? Tell me about how you made this transition.

Gabriela: Actually this is a very funny story, because I loved to work for Deloitte. Really. I had a great team. I had a great partner I was working for. I really loved it. But then there was a colleague of mine who decided to leave Deloitte to become a head of tax in a smaller company, and my partner at Deloitte at that time said, “Well, I don’t understand why he’s leaving to this company, and why he didn’t take the job offered at Novartis.” And I said, “Well, what job is open at Novartis?” And he said, “Well, they are looking for a Head of M&A Tax.” I said, “Oh, really?”

So this is actually how I found out about this open position. And then I checked the job, and I thought, “That sounds very interesting.” So I applied, I luckily got the interviews and then I got the job, so it was really a coincidence. I didn’t plan to leave Deloitte, not at all. But I thought it was a once-in-a-lifetime opportunity to join Novartis in such an important and interesting role. So this actually was the reason why I decided to leave Deloitte.

Len: Right after you started at Novartis was, I think, when I started doing significant amount of work for Novartis at Cravath. So we sort of learned the ropes together, I think, a little bit about the various constituencies inside the organization. And in my various trips to Basel over the years, I’ve observed Novartis is a huge institution in the town and in the country. And the role that you’re playing in the organization is a really important one, particularly on the types of transactions that we’ve worked on together. So I can see the appeal of that kind of in-house move. And it is serendipitous. This is a theme in our podcast that this opportunity arose merely because your partner at Deloitte was talking about why somebody else hadn’t even looked at the job. It’s really funny.

So what do you remember about your first days at Novartis, the work that you were doing, and the perspective that you now have working inside a large corporate organization and being the consumer of a lot of external tax advice? That’s one perspective that I think would be interesting to hear about. And also your constituencies, your clients, are now internal people who are not tax professionals, who need to kind of consume your work and your advice. How did you deal with those realities?

Gabriela: So, frankly speaking, it was at the beginning very, very difficult. Because, as you said, this is a huge organization. And nobody was really waiting for me, right? I mean, I came, and I had to find my way around this big organization and understand with whom you need to talk, who are the important people. And I think that coming from just accounting or advisory, that was for me extremely difficult.

And I must confess, I struggled at the beginning in particular, also because I really liked my job before. So I was a little bit overwhelmed with what was being expected from me within Novartis. But then the longer I stayed, the more I started to enjoy it. Because, as you mentioned, now my clients are my colleagues within the same organization.

And you build up relationships over time and you get to understand the business better and better, which also helps for my daily work. Because if you know how they approach things or how they think about things, it helps me a lot when I do an acquisition. As you said, when I joined, we were already in the middle of a huge transaction, which was extremely exciting to be part of and not only advising on it.

But also it was a huge challenge because when you just advise, you give your guidance to the client, but then the client needs to figure out itself how he can implement and how he can do it. But now I was the client and I had to figure out, “Well with whom do I need to talk now to make it happen?” Or, “What other elements do I need to consider?” So it was totally different.

Len: Yes. And during our various in-person meetings in Basel, when we were working on that transaction, so many of our meetings were with non-tax people explaining to them some of the U.S. or Swiss tax considerations that we were dealing with, but also hearing from them about their operational issues or the way the business worked, or the way these things were manufactured, et cetera, to make sure that we could structure a transaction that not just complied with certain tax requirements, but that was going to be workable from a commercial or financial or other point of view. So it was a really important give and take—a lot of folks and constituencies to mobilize.

Gabriela: I think the really challenging thing if you talk to non-tax professionals is to make them understand why something is so important for tax purposes without being too technical, right? Because if you start to explain tax technical details, you lose all of them because it's a different world. It's the same when a scientist talks to me about all these scientific details; I also can't really follow.

Len: Right. That's a theme that's come up a lot on the podcast, right? Communicating complicated tax stuff in a way that non-tax professionals can not just understand, but deal with, act on and use in their own work product.

So Gabriela, since you've been in-house for five or six years now, what views have you formed about what you value most in outside advisors whom you hire and work with? What are the sorts of things that really help you do your job well? And what are the sorts of things that frustrate you?

Gabriela: It's exactly what you've just mentioned before. For me, a great tax advisor is if he can explain something to me in simple terms. Because, as I said, I'm a Swiss tax expert. I do have a lot of international experience, but I'm clearly not a U.S. tax expert. If we do a U.S. deal with Cravath, for example, I need to have an advisor who can explain the issue in very simple terms. I don't need to know what sections and what regulations apply.

I just need to understand the problem, and then I can find a solution to it. This is for me what a really good advisor is all about. Explain a problem in simple terms, which allows me to find a solution to it. And then the other thing is having an advisor who dares to ask questions. Because this is something I remember when I was a consultant, I was always afraid to ask the client specific questions about their business, because I thought the client assumes I already know it, and I was embarrassed to ask.

But now when I talk with an advisor, there are so many insights an advisor cannot know without having asked. So this is something I really appreciate, if an advisor asks a lot of questions and wants to understand how we function, how we operate, because this gives me a better feeling that I get the right advice.

Len: That's a great insight, and it's something that we try and teach our lawyers to do: to understand certainly the business rationale for a given transaction, that's for sure. But if there are accounting constraints or operational constraints, or in a transaction like the transactions you tend to bring to us, international tax constraints—I'm a smart tax person, but I don't understand tax in every jurisdiction and so sometimes I will need you, or we will need your advisor in some other country, to explain to us what the issue is so that we can work on it properly. It's really important to make sure that specialists don't stay isolated and siloed within their specialty.

It's important that everything within their silo be done correctly and properly, for sure, and they're going to be solely responsible for that, but in order to make that work right, you've got to have a better understanding about the broader transaction and what's going on.

Gabriela, one of the things we like to talk to all our guests about, besides their tax practice and professional development, is what they like to do in their spare time. What are your hobbies? What do you like to do when you're not working?

Gabriela: I very much like to be outside, so I like all kinds of outdoor activities. In summer, I go hiking, and I'm a very dedicated cyclist. And in wintertime, I love skiing. I mean, being kind of close to the mountains in Switzerland, you have to go skiing whenever there is sunshine. So actually, I'm a very spoiled skier. I only go if there's sun, good snow and no people on the slopes.

Len: So Tuesday mornings after a snowfall, like at 11 o'clock.

Gabriela: No, but you get spoiled, right? Because the ski areas are so close and as a child, we have been skiing so often. It's not only about skiing, but it's also about socializing, enjoying the sun, having a drink on the terrace. It's just being outside and enjoying the beauty of the nature.

Len: You're also quite a concierge for Swiss vacations. When I came over to Basel late in 2021, I had a couple of days before our meetings and I spent them visiting my daughter who's in Switzerland. You gave me some great recommendations about things to do and places to visit, and I have to say I was blown away by some of the mountains and some of the hikes and ski opportunities that were there. It's only two hours or so from where you are. It was pretty remarkable.

Gabriela: Yes, as for Switzerland, it's really nice if you like to be outdoors. A lot of opportunities. I must confess I got a little lazy over the pandemic, but I'm trying to get back into old routines and do more outside as far as activities.

Len: I also note that you often ride your bike to work. That's pretty common in Basel, isn't it?

Gabriela: Yes, totally. I mean, I have the privilege to live pretty close so it's an easy ride, but even people who live a little bit farther away come by bike. It's totally different compared to the U.S. You can easily ride your bike on the street.

Len: I see. Well, Gabriela Schwarz, the Head of M&A Tax at Novartis in Basel, Switzerland, it's been a pleasure to have you on the podcast. Haven't seen you in the U.S. for a couple of years. I hope you'll come visit when it's safe, and we'll look forward to seeing you in New York.

Gabriela: I'm looking forward to visiting again.

Len: That's all for this episode of On Tax—A Cravath Podcast. You can find us online at cravath.com/podcast, and don't forget to subscribe on Apple Podcasts, Google Podcasts or Spotify. If you enjoy the show, please consider rating or reviewing us wherever you listen. We'd also love to hear from you directly. You can tell us what you'd like to hear on the show by emailing podcast@cravath.com.

I'm your host, Len Teti—thanks for listening.

