Gantey

Why should you relocate your business to Switzerland?

5 octobre 2021

Introduction

Why Switzerland

Switzerland is a safe country, it is one of the most stable democracies in the world, it ranks regularly in the top five of countries in terms of quality of life and for the human development index. Switzerland has a central location in Europe and it is possible to reach most of the important cities in Europe by a two-hour flight departing from Swiss airports.

In addition, Switzerland has an advantageous tax system, in particular for corporate entities. We have summarized its main features below.

Competition between cantons

Switzerland is divided in cantons. Federal laws apply to all of Switzerland but cantons retain a significant legislative autonomy. For taxation purposes, this means that every canton has its own specificities and that this creates a healthy competition between cantons which is very advantageous to taxpayers. Moreover, as cantonal authorities are responsible for corporate income tax, it is often possible to secure any potential tax consequences by meeting with them or by filing ruling requests.

Legal stability

Furthermore, the legislative and constitutional process allows citizens to request a referendum and most laws are the result of compromise and lengthy discussions between political parties. This leads to a significant legal stability compared to other countries. From a tax perspective, this allows business leaders to plan for the future and avoid negative surprises.

Recent Swiss Corporate tax reform

An important corporate tax reform was accepted by referendum and entered into effect in 2020. The main goal of this reform was for Switzerland to adapt its legislation to international tax requirements. This reform introduced various new measures and abolished privileged tax regimes. In parallel, most cantons reduced their corporate tax rates.

Attractive corporate tax rates

Depending on the canton, Switzerland has a variety of effective corporate income tax rates with a lowest rate of approx. 12% (canton of Zug) up to the highest rate of approx. 21% (canton of Bern). Most cantons fall within a range of 12-14%.

These effective tax rates may be further reduced through the various measures described below.

Immigration step-up

If a company migrating to Switzerland has goodwill or assets with a higher market value than their book value, it will be possible to request an immigration step-up on the tax balance sheet upon arrival in Switzerland in the first tax return.

The stepped-up amount will not be subject to income taxation and can be amortized over a period of 10 years reducing taxable income.

In our experience, most cantonal tax authorities accept to value the business using the DCF method (discounted cash flow) based on projections.

Tax holiday

When a new company is incorporated or when an existing company starts a new business, it is possible in certain cases to request a tax holiday at cantonal level.

The main conditions examined by the cantonal tax authorities before granting a tax holiday are

- whether a sufficient number of jobs are created (at least 10 in general);
- whether the new activities will lead to important investments in the canton;
- whether the business has a particular significance for the cantonal economy.

Tax holidays are temporary (between 5 and 10 years) and can be in some cases partial.

These measures are in general linked to a claw-back clause meaning that the company will have to remain in Switzerland and satisfy certain conditions during a period following the end of the tax holiday.

Cantonal tax holidays can lead in practice to a single digit taxation during a 10 year period (only federal tax of approx. 8% due).

In some regions, it is also possible to request a federal tax holiday. For some companies this can lead to no income and capital taxes paid for the first 10 years of existence.

Patent box

Net income from patents and similar rights may benefit from a reduced taxation at cantonal and communal level (up to 90% but limited to an overall deduction of 70% of the taxable profit).

The Swiss patent box follows the OECD nexus approach. The net income from patents is multiplied by the nexus ratio (see below) to determine the income benefiting from the reduced patent box taxation.

Nexus ratio =

□Swiss R&D expenses of the taxpayer and group companies □ third party R&D expenses□ x □□□□

R&D expenses of the taxpayer and group companies □ third party R&D expenses □ IP ac□uisition costs

When a company enters into the patent box, the tax-deductible R&D expenses related to the last 10 fiscal years will be recaptured. In practice, there are three methods used by cantonal tax authorities for this recapture:

- an entry tax on the recaptured amount using the ordinary tax rate;
- an entry tax on the recaptured amount with a lower tax rate (e.g. canton of Basel-Stadt);
- the recaptured amount will reduce the benefits from the patent box during five years (e.g. canton of Vaud).

For companies that were not taxed in Switzerland, there is no entry taxation as these expenses were not deducted from Swiss taxes.

The patent box is subject to the limitation of benefits (which includes also other tax reform measures) and may reduce cantonal and communal taxable profit to a maximum of 70% (cantons are free to use a lower percentage in their tax law).

Additional R&D deduction

Companies can claim an additional deduction for R&D expenses at cantonal level.

R&D expenses are defined based on the Swiss innovation law and the OECD Frascati and Oslo Manuals. In practice, it can be quite complicated to determine exactly what is related to R&D but certain cantonal tax authorities are open to discussions.

The relevant R&D expenses are calculated based on the following amounts:

- Expenses related to R&D employees with a 35% uplift (135% in total);
- Third-party R&D expenses based on 80% of invoiced costs.

Then, an additional 50% is applied on this amount, reducing taxation at cantonal and communal level. Cantons are free to introduce a lower percentage of additional R&D deduction in their tax law).

This R&D deduction is subject to the limitation of benefits (which includes also other tax reform measures) and may reduce cantonal and communal taxable profit to a maximum of 70% (cantons are free to use a lower percentage in their tax law).

Why Gantey?

We are a team of experienced tax specialists working closely with business lawyers. We have an extensive knowledge in the areas of corporate taxation and in tax advice to high-net-worth individuals. Our goal is to find tailor made tax solutions for our clients and to provide high quality advisory services.

Yury Kudryavtsev and Pawel Golebiowski

Contact

Yury Kudryavtsev

Expert fiscal diplômé

+41 22 707 00 85

kudryavtsev@gantey.ch