Switzerland

Contacts

Martin Krivinskas
Tax Partner
martinkrivinskas@deloitte.ch
+41 58 279 7768

Daniel Stutzmann
Tax Partner
dstutzmann@deloitte.ch
+41 58 279 6307

Veronique Parmentier
Tax Director
vparmentier@deloitte.ch
+41 58 279 7856

What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

As a result of a major tax reform, an R&D super deduction and a patent box were introduced at the cantonal level as from 1 January 2020. Existing tax holidays at the federal and cantonal/municipal levels are not affected by this legislation and new tax holidays will still be granted.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
Tax holiday	A tax holiday at the federal and/or cantonal level for up to 10 years is available for companies that create new jobs through a new venture or preserve existing jobs by a substantial realignment of existing business, and that are located in designated economic development areas	100% tax relief	N/A	• Applicable only in certain regions • Linked to job creation/ preservation
Patent box	The patent box regime provides tax relief for qualifying income from patents and patent equivalent rights of up to 90%	Up to 90% relief on qualifying income subject to an overall deduction of 70% of taxable profit	Qualifying income is income from patents and patent-equivalent rights (excluding software) reduced by the modified nexus ratio	The patent box is granted only at the cantonal level, and each canton may choose a lower tax relief rate (i.e., < 90%), as well as a lower overall deduction rate (i.e., < 70%)
R&D super deduction	The R&D super deduction allows an additional deduction for expenses related to R&D activities carried out in Switzerland	The additional deduction will be limited to a maximum of 50% for qualifying R&D expenses incurred in Switzerland (i.e., 150% super deduction), subject to an overall maximum deduction of 70% of taxable profit	Qualifying R&D expenses include 135% of personnel expenses for staff performing R&D and 80% of R&D expenses invoiced by third parties in Switzerland	The super deduction is available only at the cantonal level (adoption is at the discretion of the individual cantons). Each canton may choose a lower R&D deduction rate (i.e., < 150%), as well as a lower overall deduction rate (i.e., < 70%)

Industries most often affected by government incentives in country

	Technology, Media & Telecom	●	**Financial Services**
	Telecom, Media & Entertainment		Banking & Capital Markets
●	Technology		Insurance
	Consumer		Investment Management
●	Consumer Products		Real Estate
	Retail, Wholesale & Distribution	●	**Life Sciences & Health Care**
●	Automotive		Health Care
	Transportation, Hospitality & Services		Life Sciences
	Energy, Resources & Industrial		**Government & Public Services**
	Power & Utilities		Health & Social Care
	Mining & Metals		Defense, Security & Justice
	Oil, Gas, & Chemicals		Civil Government
●	Industrial Products & Construction		International Donor Organizations
			Transport

Switzerland

Contacts

Martin Krivinskas
Tax Partner
martinkrivinskas@deloitte.ch
+41 58 279 7768

Daniel Stutzmann
Tax Partner
dstutzmann@deloitte.ch
+41 58 279 6307

Veronique Parmentier
Tax Director
vparmentier@deloitte.ch
+41 58 279 7856

Type	National incentive?	State, provincial, regional or local incentives?[1]	Filing deadlines imposed?	Is the claim made in advance or arrears?[2]	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
R&D super-deduction	NO	PERMANENT INCENTIVE [3]	NOT APPLICABLE PERMANENT INCENTIVE	National: Not Applicable Local: Arrears	Eligible entities: Taxpaying entities incurring R&D expenditure in Switzerland, resident in a canton that offers an R&D super deduction 150% deduction for qualifying R&D expenditure, subject to an overall limitation of benefits enacted at the cantonal level Qualifying expenses: Expenses for qualifying R&D, including: • "Scientific" research, including basic research as well as applied sciences; and • "Knowledge-based" innovation, i.e., development of new products, procedures, and services Activities such as marketing, market analysis, and the like, on the other hand, do not qualify as R&D for purposes of the R&D super deduction Below are examples of qualifying R&D, which could be eligible for the R&D super deduction: • Drawings/designs • Preparation of models • Construction • Prototypes/trial phase items • Test/pilot plant	150% maximum deduction for qualifying R&D expenses incurred in Switzerland, subject to an overall maximum deduction of 70% of taxable profit	150% maximum deduction for qualifying R&D expenses incurred in Switzerland, subject to an overall maximum deduction of 70% of taxable profit
Patent box	NO	PERMANENT INCENTIVE [4]	NOT APPLICABLE PERMANENT INCENTIVE	National: Not Applicable Local: Arrears	Eligible entities: Taxpaying entities that hold Swiss or foreign patents, or patent-equivalent rights Up to a 90% deduction for qualifying patent income Qualifying IP includes: • Patents (Swiss & foreign) • Patent-equivalent rights (Swiss & foreign) Qualifying income is direct patent income, or embedded patent income (i.e., income attributable to a patent, by-product, or product family determined based on the residual approach), subject to the modified nexus ratio	Tax relief of up to 90% of patent income, subject to an overall maximum deduction of 70% of taxable profit	Tax relief of up to 90% of patent income, subject to an overall maximum deduction of 70% of taxable profit

Key: = PERMANENT INCENTIVE = TEMPORARY INCENTIVE = NEGOTIABLE = NO = LIMITED APPLICABILITY = NOT APPLICABLE

Notes:
1. Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
2. If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.
3. Adoption is at the discretion of the individual cantons. If the company applies for the patent box on the income derived from patents resulting from that R&D, the R&D expenses and super deduction would be recaptured
4. Introduction of a patent box is mandatory at the cantonal level, but each canton may choose a lower tax relief rate (i.e., < 90%).

Switzerland

Contacts

Martin Krivinskas
Tax Partner
martinkrivinskas@deloitte.ch
+41 58 279 7768

Daniel Stutzmann
Tax Partner
dstutzmann@deloitte.ch
+41 58 279 6307

Veronique Parmentier
Tax Director
vparmentier@deloitte.ch
+41 58 279 7856

Type	National incentive?	State, provincial, regional or local incentives?[1]	Filing deadlines imposed?	Is the claim made in advance or arrears?[2]	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation (continued)							
Innosuisse Innovation Programs	Permanent incentive	No	Permanent incentive[5] Not applicable	National: Varies[5] Local: Not Applicable	The Swiss Innovation Agency is the federal agency responsible for funding and promoting science-based innovation in the interests of industry and society. It supports innovative projects, provides training and coaching for start-ups, and facilitates the transfer of knowledge and technology Types of programs available include: • Innovation projects with implementation parterns • European projects in the field of electronics (ECSEL) • Cross-border innovation projects (EUREKA)	Mostly available to SMEs	Depends on specific project but can include cash grants, training, and advice
Investment							
Tax holiday	Temporary incentive	Temporary incentive	Not applicable Not applicable	National: Advance Local: Advance	A cantonal tax holiday is granted to new or existing companies with new business of economic interest to the community. It is granted at the discretion of the individual canton A federal tax holiday may be granted if the company is located in a designated economic development area, creates at least 10 new jobs through a new venture or preserves existing jobs through a substantial realignment of its existing business, and its business is of particular significance to the regional economy	Cantonal level: Varies, up to 100% cantonal and communal tax exemption for up to 10 years Federal level: Federal corporate income tax relief for up to 10 years, limited to the lower of CHF 95,000 per year for each created or preserved job or the cantonal tax holiday incentive value	Cantonal level: Varies, up to 100% cantonal and communal tax exemption for up to 10 years Federal level: Federal corporate income tax relief for up to 10 years, limited to the lower of CHF 95,000 per year for each created or preserved job or the cantonal tax holiday incentive value
Environmental sustainability							
Sustainability	No	Temporary incentive	Not applicable Permanent incentive	National: Not Applicable Local: Advance	Individual cantons offer support contributions for investments targeted at energy savings. The support contributions differ from canton to canton and claims are reviewed on a case-by-case basis	Depends on canton	Depends on canton

Key: ● = PERMANENT INCENTIVE ● = TEMPORARY INCENTIVE ● = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

Notes:
5. Depends on specific Innosuisse program

Switzerland

Contacts

Martin Krivinskas
Tax Partner
martinkrivinskas@deloitte.ch
+41 58 279 7768

Daniel Stutzmann
Tax Partner
dstutzmann@deloitte.ch
+41 58 279 6307

Veronique Parmentier
Tax Director
vparmentier@deloitte.ch
+41 58 279 7856

Country background

On 19 May 2019, Swiss voters voted in favor of the Tax Reform and AHV Financing Bill, paving the way for the cantons to enact new rules effective from 1 January 2020.

Under the reform, all special Swiss corporate tax regimes, i.e., the mixed company, holding company, domiciliary company, principal company, and finance branch/finance company regimes sunset on 1 January 2020. New measures were introduced, including the following:

- Introduction of a cantonal level patent box based on the OECD's modified nexus approach, with tax relief for qualifying income of up to 90%. The patent box allows for flexibility with regard to outsourced functions within Switzerland and covers both Swiss and foreign patents, as well as patent-equivalent rights; and
- Introduction of a cantonal level R&D super deduction up to 150% of qualifying expenses. A wide range of R&D activities may qualify for this benefit, including basic research, scientific application, and knowledge-based R&D.

Existing tax holidays at the federal and cantonal/municipal levels are not affected by this legislation and new tax holidays are still granted.

Innovation Incentives

Research & Development

R&D super deduction

An R&D super deduction at the cantonal level applies as from 1 January 2020 at the discretion of the individual cantons. The incentive is compliant with OECD standards.

The super deduction is not limited to particular industries. The incentive benefits taxpaying entities incurring R&D expenditure in Switzerland, resident in a canton that offers an R&D super deduction.

The R&D super deduction allows for a 150% deduction (instead of 100%) of qualifying R&D expenses incurred in Switzerland. Qualifying R&D expenses for these purposes include salary expenses, i.e., personnel expenses directly linked to the activity of research in Switzerland, marked up by 35%, or 80% of the expenses for R&D outsourced to third parties in Switzerland.

For the purposes of super deduction R&D activities, qualifying R&D includes "scientific" research (basic research and applied sciences), as well as "knowledge-based" innovation (development of new products, procedures, and services).

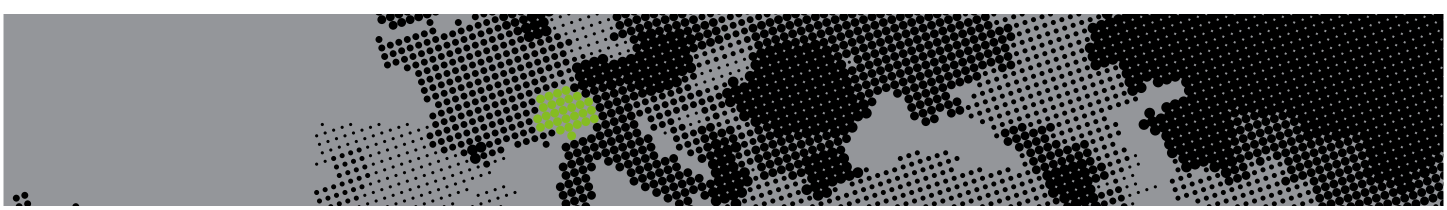
The new incentive allows up to a 150% deduction from taxable income at the cantonal level, subject to an overall maximum deduction of 70% of taxable profit. Based on federal regulations, at least 30% of the net earnings (taxable profit before the deduction of tax loss carryforwards and excluding net participation income from qualified participations) must be subject to taxation at the cantonal level.

The cantons are free to choose a lower R&D deduction rate (i.e., less than 150%), as well as a lower overall deduction rate (i.e., less than 70%).

Patent box

The cantonal level patent box is based on the OECD's modified nexus approach, with tax relief granted for qualifying income of up to 90%. The modified nexus ratio is calculated as the ratio of Swiss R&D expenses and R&D expenses contracted to third parties multiplied by 130% (30% uplift), divided by the overall global R&D expenses, including the costs of acquiring the IP. The qualifying income (direct patent income or embedded patent income, i.e., income attributable to a patent, by-product, or product family determined based on the residual approach), multiplied by the modified nexus ratio, results in the income qualifying for tax relief of up to 90%. The relief is subject to an overall maximum deduction of 70% of taxable profit. Based on federal regulations, at least 30% of the net earnings (taxable profit before the deduction of tax loss carryforwards and excluding net participation income from qualified participations) has to be subject to taxation at the cantonal level.

Introduction of a patent box is mandatory at the cantonal level, but each canton may choose a lower tax relief rate (i.e., < 90%).



Switzerland

Contacts

Martin Krivinskas
Tax Partner
martinkrivinskas@deloitte.ch
+41 58 279 7768

Daniel Stutzmann
Tax Partner
dstutzmann@deloitte.ch
+41 58 279 6307

Veronique Parmentier
Tax Director
vparmentier@deloitte.ch
+41 58 279 7856

The patent box regime is applicable to taxpaying entities with qualifying IP assets in Switzerland, including patents and patent-equivalent rights (e.g., supplementary patent protection certificates, protected topographies, and plant varieties under the relevant legislation) excluding software.

Public Research Support and Funding—*Innosuisse*

The Swiss Innovation Agency is the federal agency responsible for funding and promoting science-based innovation in the interests of industry and society. It supports innovative projects, provides training and coaching for start-ups, and facilitates the transfer of knowledge and technology.

Below is a selection of programs available.

1. Innovation projects with implementation partners

Innosuisse supports science-based innovation projects carried out by companies, particularly SMEs, working with public sector research partners. *Innosuisse* covers the research partner's salary and, under certain conditions, material costs, as well as a contribution to overhead calculated as a percentage of personnel expenses. The company provides at least 10% of *Innosuisse's* funding for the research partner's costs and the company bears its own project costs.

Innosuisse supports innovation projects without an implementation partner up to a maximum of 18 months by contributing to a company's salary, materials, and overhead costs.

2. Credits for preliminary studies: Innovation cheque

The innovation cheque is used to fund preliminary studies, such as concept developments, preparatory work for innovation projects, or analyses of technology transfer potential. The innovation cheque provides access to up to CHF 15,000 worth of R&D services from a public research partner. SMEs or start-ups based in Switzerland with fewer than 250 full-time employees may apply for innovation cheques.

3. Eurostars 2: Support for SMEs

Under the Eurostars 2 program, SMEs can further develop their products or services together with partner firms or research teams at the international level. A Eurostars project must be led by an R&D-performing SME within a consortium involving partners from at least two Eurostars participating countries. The project life cycle must be short (up to three years) and the results of the research must be ready for introduction on the market no more than two years after the project is completed.

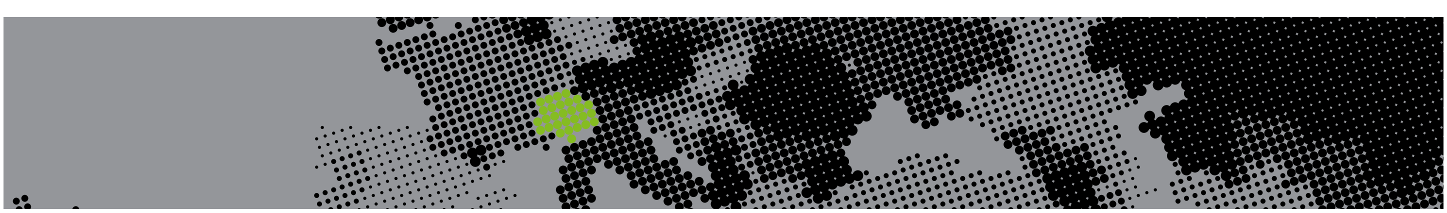
4. Cross-border innovation projects (EUREKA)

EUREKA is an independent initiative of the European Commission's framework programs for cross-border cooperation projects in market-oriented industrial R&D. EUREKA clusters are directed and co-funded by large companies. Their aim is to build platforms for future key technologies with a view to bolstering European competitiveness. EUREKA clusters usually publish a theme-based call for project proposals once a year. Consortia comprising Swiss universities of applied sciences, companies, and at least one partner from a EUREKA country can apply to *Innosuisse* for funding.

5. European projects in the field of electronics (ECSEL)

The ECSEL initiative supports cooperative R&D in the nanoelectronics and computer systems segment between (i) the industry and academic partners in European industry (including SMEs) and (ii) applied sciences universities. The annual calls for project proposals are aimed at SMEs, large companies, applied sciences universities, and research institutions. Projects should be submitted via the ECSEL program's central website.

The deadline for 2020 proposals has passed. No calls for 2021 proposals have been confirmed or announced yet.



Switzerland

Contacts

Martin Krivinskas
Tax Partner
martinkrivinskas@deloitte.ch
+41 58 279 7768

Daniel Stutzmann
Tax Partner
dstutzmann@deloitte.ch
+41 58 279 6307

Veronique Parmentier
Tax Director
vparmentier@deloitte.ch
+41 58 279 7856

Investment Incentives

Tax holiday

A cantonal tax holiday is granted to new or existing companies with new business of economic interest to the community, at the discretion of the individual cantons. The economic interest to the canton will depend on the following factors:

- Matches with cantonal economic development strategy;
- Job creation;
- Planned investments (assets);
- Purchase of services in the region;
- Collaboration with public R&D and educational institutions;
- Planned educational possibilities;
- New solution or improvement of product, processes, etc.; and
- Target market outreach to the local region.

The cantonal tax holiday may amount to up to 100% relief from cantonal and communal taxes over a maximum period of 10 years.

In addition to the cantonal tax holiday, a federal tax holiday may be granted if the company is located in a designated economic development area, creates at least 10 new jobs through a new venture or preserves existing jobs through a substantial realignment of its existing business, and its business is of particular significance to the regional economy. The federal tax holiday provides federal corporate income tax relief for up to 10 years, limited to the lower of CHF 95,000 per year for each newly created or preserved job or the incentive value of the cantonal tax holiday.

Environmental sustainability incentives

Energy saving investments

Individual cantons offer support contributions for investments targeted at energy savings. The support contributions differ from canton to canton and claims are reviewed on a case-by-case basis.