

Additional R&D deduction and patent box

Opportunities created by TRAF for innovative companies

Is your company affected?

Does your company undertake research and development (R&D) in Switzerland and/or abroad? Does your company have production and R&D locations in various cantons? Does your company have patents or patentable software? If you can answer «yes» to any of these questions, you may **need to act** due to the TRAF. Our tax consultants are your point of contact, and will be pleased to discuss the opportunities and challenges created by the TRAF with regard to your tax and financial situation.

What changes will the TRAF bring?

Swiss voters approved the Federal Act on Tax Reform and AHV Financing (TRAF) on May 19, 2019. For **companies**, this means the abolition of privileges for holding, domiciliary, management, principal, and finance companies. Tax advantages will now be introduced for financial as well as research and development activities in Switzerland. Furthermore, the cantons will be able to grant discounts on tax on capital if equity capital is assigned to participations, patents, and intracompany loans. In addition, the cantons will cut their rates of corporate income tax.

Two instruments will be offered for providing tax relief to R&D companies: the additional R&D deduction and the patent box. In terms of the **additional R&D deduction**, the incentive applies at the innovation stage – i.e. on the cost side. Specifically, this means that for tax purposes an additional R&D deduction of up to 50% of the effective R&D expenses can be granted. The additional R&D deduction only applies at cantonal level, although the cantons are not obliged to grant it.

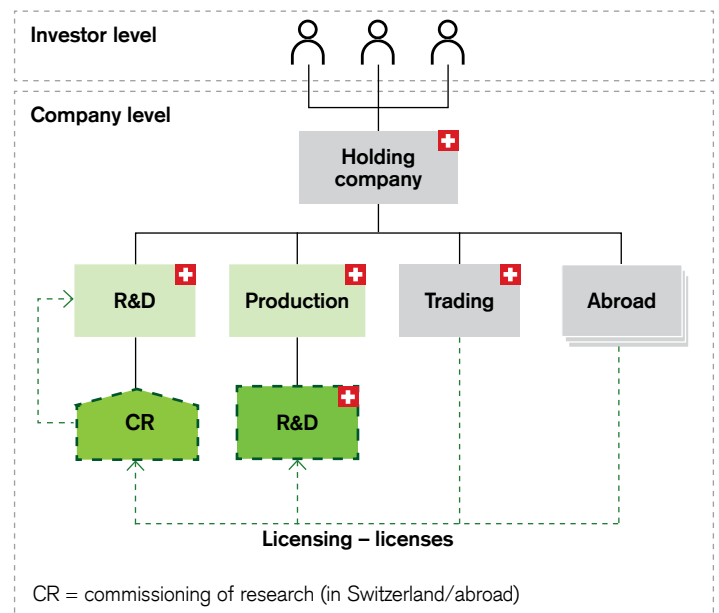
In terms of the **patent box**, the incentive only applies after patents have been registered, i.e. on the income side. Specifically, this means that profits generated by patents will be separated from other profits and taxed at a lower rate. The discount is a maximum of 90%, depending on the canton. Qualifying revenues include licensing income, patent revenues included in the product price, and profits from the sale of patents. The patent box is only granted at cantonal level, and provision by the cantons is mandatory.

Why the need to act now?

Given that the additional R&D deduction is not mandatory in the cantons and the level of relief provided by the patent box varies, it is essential to check right away how R&D activities within Switzerland should be structured in order to make optimum use of the tax opportunities available from **January 1, 2020**.

How can you benefit?

If you have an R&D-intensive or innovative company, the TRAF provides new opportunities for reducing your tax burden. With the patent box and/or additional R&D deduction, it may be worthwhile **bundling or restructuring R&D functions in Switzerland** in order to **reduce taxes in the long term**. This is illustrated by the following generic example:



R&D functions can be concentrated in the production entity, R&D company, or at a permanent establishment, for example, so as to benefit from the patent box and/or additional R&D deduction.

Potential benefits

- R&D functions can be located and/or bundled in Switzerland on a flexible (for tax purposes) basis.
- Use of R&D incentives reduces the tax burden and increases the return on capital.
- Credit ratings and financing conditions (for R&D activities) can be improved.
- Capital requirements abroad can be taken into account for tax purposes.

Influencing factors

- Tax burden abroad and in the cantons, as well as the amount of potential tax relief.
- The potential tax advantage increases in line with the proportion of R&D personnel expenses in Switzerland – more cost-effective commissioning of research abroad is possible, but reduces the tax benefits.
- Mobility of R&D functions in Switzerland and/or abroad and link to production function.
- Cost of selected measures for restructuring R&D (and production) functions.

Next steps

- Determine expected R&D (personnel) expenses in Switzerland and abroad.
- Identify patents, other similar rights, and any patentable software.
- Calculate tax benefit of the patent box (segment accounting) and/or the additional R&D deduction.

- Evaluate structuring options and conduct a cost-benefit analysis.
- Prepare an implementation plan and timetable.
- Meet with cantonal tax authorities and obtain any tax pre-assessments.

How can we help?

Our tax consultants will analyze whether your costs and tax burden can be reduced through a **restructuring of R&D (and production) functions**.

What next?

Let us know if you are interested in an initial analysis. We will be pleased to send you a **list of the information required**, and to meet with you to discuss **some initial solutions**.

Contact us

We will be happy to arrange a personal consultation. Please contact your advisor to schedule a personal consultation together with one of our tax consultants.

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