

Switzerland

Switzerland considering notional interest deduction on equity



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As part of the Swiss Corporate Tax Reform III, which will lead to a replacement of the various special Swiss cantonal tax regimes by a whole host of measures in the 2018 – 2020 timeframe, Switzerland is considering introducing, among other measures, a notional interest deduction on equity.

Notional interest deduction on equity is an internationally accepted concept, which has been introduced in Belgium and Luxembourg, among other jurisdictions. The concept is based on the notion that the tax code should not influence the decision on whether to finance a company through debt or equity.

There are several ways to design such a Swiss notional interest deduction for tax purposes that would be granted in addition to the tax deductibility of arm's length interest on debt. While the notional interest deduction will be available to all Swiss companies, its intent is primarily to benefit financing activities.

To this end and to limit the broad loss of tax revenues that would be brought about by a notional interest deduction on the entire equity of a Swiss company, the notional interest deduction will likely only be granted on 'surplus equity'. Borrowing from the concept of Swiss thin capitalisation limitations, which require a certain equity underpinning per different class of assets, the required surplus equity could be defined in such a way as to mainly benefit financing activities.

While the introduction of a notional interest deduction is controversial in Switzerland mainly because of the feared loss in tax revenues if it were designed too generously, it is expected that it will be introduced in some form. It is the only practical measure to keep existing considerable financing activities of multinationals in Switzerland and to attract additional financing activity.

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