

# Tax incentives to promote innovation in Switzerland

## Additional deduction for R&D and patent box as tax opportunity



New tax incentives were introduced to promote research and development (R&D) as of 1 January 2020 in order to further enhance the innovation-friendly climate in Switzerland.



Does your company engage in R&D in Switzerland with own staff or through third parties?



Does your company hold patents or similar rights in Switzerland or abroad?

If you were able to answer at least one of the above questions with a "yes", then your company may also be entitled to attractive tax incentives. In the long term, the tax burden may be lessened with the help of such tax incentives. However, actually implementing and drawing the fiscal advantages offered for innovation requires some preparation. This is why we recommend becoming familiar with this topic early on.

Innovative companies are now rewarded with tax relief in the form of two instruments: an additional deduction for R&D and the patent box.

### R&D deduction:

- Is meant to encourage innovation expenses (promotes input)
- Takes place at the level of cantonal and municipal taxes
- Allows for an additional deduction for up to 50% of actual R&D costs
- Is only relevant for R&D costs if these were caused by the taxpayer itself or indirectly, by others, in Switzerland
- Is based on personnel expenses plus an additional lift up of 35% (to cover other R&D costs) if costs are generated by the company itself
- Is based on 80% of invoiced costs for indirect R&D (contract research)
- Is applicable to R&D activities meant to find new insights, that are creative, uncertain and systematic and whose results are transferable and reproducible
- Is optional for the cantons. This means that the additional deductions range between 0%-50%

### Patent box:

- Promotes innovation when generating income (promotes output)
- Takes place at the level of cantonal and municipal taxes
- Taxes income arising from patents and similar rights held in Switzerland and abroad at reduced level – provided there is a relevant connection (nexus) to Switzerland
- Sees a connection if patents and similar rights are related to qualifying R&D costs
- Takes into consideration licensing income, profits generated from patent income embedded in product price and profits arising from the sale of patents and similar rights
- Lowers taxation by a maximum of 90%
- May generate costs when exercised the first time (entry into the box)
- Is mandatory for all cantons (degree of exemption varies)

## Why should my company become active about this in 2020?

- The mentioned tax incentives may bring a long-term reduction of your tax burden, which may first become relevant in 2020.
- It may be advisable to adjust your accounting processes accordingly in order to make it easier to apply for these reductions.
- The tax incentives could have a significant impact on your tax positions in your 2020 closing accounts.
- It has been our experience that the analysis, the necessary decisions and the documentation can take several months of preparation, which is why we recommend evaluating your tax advantages early on.

## How can I benefit from these tax incentives and what should I consider?

- Because the cantons are not forced to offer the additional deduction for R&D and because the level of tax relief differs from canton to canton when it comes to the patent box, it is important to check how your company can best benefit from these fiscal aspects as of the 2020 tax period.
- The tax incentives for R&D costs and patent income are not granted automatically but have to be requested from your tax authorities.
- This means that your company has to come equipped with the full and correct documentation in order to be able to argue for such an incentive.
- Please check on [KPMG Switzerland's website](#) for the relevant tax incentives in your canton.

## How can KPMG help?

Our tax experts can specifically advise on the following topics in order to reduce your tax burden in the long term:

### R&D deduction:

- Identification of qualified R&D activities and expenses
- Simulation of expected tax effect
- Support with adjusting the R&D accounting in order to make it easier to apply for the additional deduction

### Patent box:

- Review of patent and product portfolio and identification of qualified rights and R&D activities
- Analysis of patents and products as well as the respective key numbers
- Simulation of the expected effect to determine the most favourable entry into the patent box (entry costs/benefit analyses)
- Support with the definition of the boxes and adjustment of the accounting in order to facilitate the application of the patent box

- Analysis of the best way to combine the additional R&D deduction and the patent box in light of the cantonal maximum relief possible
- In-depth review of your value chain with regard to R&D activities and compensation for intangible rights based on the performance of functions essential for intangible assets
- Analysis whether costs and the tax burden may be reduced by restructuring the R&D function, as well as evaluation of further restructuring possibilities in light of important influence factors for your company
- Preparation of an implementation and time plan and support in the implementation
- Meet-up with tax authorities in order to claim the tax incentives; preparation and submission of tax rulings
- Support in the preparation of the necessary documentation and the tax returns

## Your benefits of exploiting these tax incentives and making use of these advantages by addressing this topic in good time

-  Long-term reduction of your tax burden and increase in profitability
-  You will be well-prepared for the tax positions in the 2020 annual financial statements and documented accordingly for the year-end audit
-  You can address substance requirements and other fiscal aspects in Switzerland and abroad early on, thus allowing you to react in good time
-  Availability of the necessary documentation in order to claim the tax incentives and to defend yourself in case of a tax audit

## Next steps



### Tax Incentives Workshop

In order to familiarize yourself with the topic, we offer a two-hour workshop with two KPMG specialists at a fixed price of CHF 3,000 in order to explore whether these two instruments harbor any potential in your particular case. In order to provide some initial solutions already in the workshop, we would let you know which information we would need beforehand.

## Contacts



**Peter Uebelhart**

Partner  
Corporate Tax

+41 58 249 42 24  
puebelhart@kpmg.com



**Olivier Eichenberger**

Director  
Corporate Tax

+41 58 249 41 67  
oeichenberger@kpmg.com



**Benjamin Bellwald**

Senior Manager  
Corporate Tax

+41 58 249 77 67  
bbellwald@kpmg.com

**kpmg.ch**

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