Grant Thornton

Tax breaks for R&D

The Federal Act on Tax Reform and AHV Financing (TRAF; Bundesgesetz über die Steuerreform und die AHV-Finanzierung – STAF) was approved with the popular vote of 19 May 2019. This gave cantons the option of granting tax breaks for research and development, provided certain conditions are met. The patent box and the increased deductions for research and development are the two most important tax-planning instruments in this regard.

Instruments for tax breaks for research and developmentg

The new tax advantages for research and development are effective as of the 2020 fiscal year. One reform that has been introduced is the patent box, which allows Swiss cantons to exempt up to 90% of their net profits from patents and comparable rights from taxes. The other significant reform is that cantons can now offer so-called "super deductions" for research and development expenses, which means that companies can apply for additional deductions of more than 100% of their research and development ment expenses, regardless of whether or not the companies apply for patents at a later date. This can also be relevant for

companies whose main purpose is not research and development because the requirements for the super deduction are less strict than for the patent box.

Patent box

The aim of patent box regimes is to reduce the tax burden on corporate earnings from patents and comparable rights in order to provide tax incentives for companies to pursue research and development.

The following sources of income qualify for the patent box:
• Swiss patents and patents in accordance with the European Patent Convention
• Equivalent foreign patents

• Registered utility models
• Comparable rights

The patent box cannot be used for income from the following sources:
• Trademark rights, design rights and copyrights
• Software, if it is not part of a patented invention
• Patents or utility models that have not yet been approved

Net profit from patents and comparable rights are determined and taxed separately from a company's other income. If a product involves a patent or comparable right, the patent box can also be used for this product. If an increased deduction for research and

development expenses is claimed before the application of the patent box, this will be corrected fiscally in the first year of the patent box.

Each canton decides on the amount of tax incentives they will offer. No tax breaks are granted on the federal level.

Increased deductions for research and development

The increased deductions for research and development work allow companies to deduct a certain additional percentage of their domestic research and development expenses from their taxable results. As a result, in St. Gallen, for example, 140% of research and development expenses can be deducted.

To qualify for this increased deduction, the research and development activities must take place in Switzerland and comprise:
- Fundamental scientific research
- Application-oriented research
- The development of new products, methods, processes and services for the economy and society through research and the utilisation of the results (knowledge-based innovation)

Most cantons have included an increased deduction for research and development in their tax laws. Increased expenditures cannot be claimed at the federal level, however.

Under what conditions are the tax incentives granted?

Taxpayers must apply for both tax incentives. Furthermore, the taxpayer must demonstrate which gains and expenses are to be attributed to which intellectual property by means of comprehensive, thorough documentation. This information must be submitted together with the taxpayer's tax returns. This documentation is required for the patent box in particular.

What tax breaks are available in the cantons of Eastern Switzerland?

The following table shows the patent box reductions as well as the additional possibilities for deductions in select cantons in Eastern Switzerland as of 1 January 2020:

Canton	Patent box reduction	Additional deduction for R&D
Schaffhausen	90%	25% (from year 6)
St. Gallen	50%	40%
Graubünden	90%	50%
Appenzell Ausserrhoden	50%	50%
Thurgau	40%	30%

Please note that all tax advantages are subject to relief limits. The combined tax relief for cantonal profit tax from these and additional elements (such as step-up from an earlier tax privilege) may not exceed a certain percentage of the taxable profit (this limit varies from canton to canton, however it cannot exceed 70%).
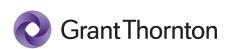
Conclusion

With the patent box and the increased deductions for research and development work, TRAF is offering research-intensive companies two attractive instruments to compensate for the elimination of status companies.

When deciding to use one or both instruments, it is important to start early with the preparation of the documentation required from the tax authorities and the associated adjustments in terms of accounting required as a logical conclusion of this change. This will ensure that you have the most precise and transparent basis of calculation possible for your tax returns.

We will be happy to advise you on the patent box and increased tax deductions for research and development work. We look forward to hearing from you!

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