CORPORATE TAX - SWITZERLAND

Abolition of issuance stamp duty to further boost Swiss economy

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AUTHORS

Fabienne Limacher



Maurus Winzap



Introduction

In Switzerland, 1% issuance stamp duty is levied on capital contributions from shareholders to Swiss companies, comprising the initial creation and subsequent increases of share capital as well as contributions without any issuance of shares. This stamp duty is curbing capital injections as these costs induce shareholders to finance Swiss companies through shareholder loans. Such a financing strategy turns out to be especially harmful in an economic crisis.

Against this backdrop, and in order to eliminate a competitive disadvantage compared with rival centres which do not have comparable taxes, on 2 June 2021 the Council of States of Parliament followed the decision taken by the National Council in 2013 and approved the long-overdue abolition of issuance stamp duty on equity. This fundamental change to the Swiss stamp duty regime is expected to come into force on 1 January 2022 at the earliest and will favour the creation of new equity and facilitate financing structures. However, the left-wing political committee has already announced that it will collect the 50,000 signatures necessary to hold a national referendum and clear the way for a nationwide vote on the subject.

Background

The National Council of Parliament approved the abolition of issuance stamp duty on equity back in 2013, but the bill was suspended by the Council of States. However, the current economic crisis has highlighted the importance of equity cushions. Due to the official measures taken to combat the spread of COVID-19, a significant portion of Swiss companies will report losses and while the emergency measures adopted by the Federal Council and Parliament and the related granting of loans can bridge liquidity bottlenecks, they cannot help to absorb losses. Accordingly, companies are dependent on equity injections to survive and regain a healthy equity base, but issuance stamp duty makes it more expensive to raise equity capital and is an unnecessary additional burden on companies during times of recession.

More than seven years later, as a result of these recent developments, the Council of States has lifted the suspension of the bill and followed the decision taken by the National Council. Subject to the final vote on 18 June 2021, the abolition has thus been decided. However, the left-wing political committee will likely call a referendum, which allows any bill approved by the Federal Assembly to be put to a nationwide vote.

Under the current legal framework, there are various ways in which the 1% issuance stamp tax on equity capital can be lowered or even avoided. One way typically chosen is to fund Swiss companies through shareholders' interest-bearing or interest-free loans, which do not attract issuance stamp duty. However, interest payments increase complexity on account of the thin cap and maximum interest rules and the respective transfer pricing issues.

Due to the formal nature of Swiss stamp duty, it is levied only in the event of a contribution by a direct shareholder. As a result, issuance stamp duty may be avoided if the contribution is made by an affiliated company that is not the direct shareholder. In practice, Swiss companies are often equity financed by indirect contributions (so-called 'grandparent contributions'). However, depending on the current group structure, this may lead to higher compliance costs and inefficiencies when extracting funds out of Switzerland by way of dividends subject to Swiss withholding tax.

Comment

Particularly given the current economic crisis, the abolition of issuance stamp duty is a welcome measure that will allow Switzerland to significantly strengthen its position as an international finance and business centre. The reform will strengthen the decision-making neutrality of the tax system and favours the creation of new equity capital when doing business and investing in Switzerland. This will facilitate and simplify major investments by foreign investors in Switzerland, boost the Swiss economy and heighten Switzerland's overall business attractiveness.

For further information on this topic please contact Maurus Winzap or Fabienne Limacher at Walder Wyss by telephone (+41 58 658 58 58) or email (maurus.winzap@walderwyss.com or fabienne.limacher@walderwyss.com). The Walder Wyss website can be accessed at www.walderwyss.com.

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