



# Notional interest deduction on equity – Tax opportunities

As of January 1, 2020, a notional income tax deduction for highly equity financed corporations was introduced. Cantons with an effective profit tax burden of at least 18% are entitled to grant such notional interest deductions for cantonal taxes on certain qualifying equity. No deduction applies for direct federal tax. The reduction via application of the notional interest expense on equity is not granted on the entire equity, but on the security equity capital to be defined. The imputed interest rate is based on the yield for ten-year federal bonds, although a considerably higher third-party interest rate may also be applied for intra-group financing activities of the company.

The deduction is granted on the amount of equity which exceeds minimum equity as required under Swiss tax law. Therefore, equity is split into the two components, core equity and security equity:

- Core equity is the equity that a company requires for its business activities in the long term. Core equity is calculated based on the average values of the various assets at tax values, in accordance with the usual criteria

for determining the minimum equity required for tax purposes. No interest deductions can be claimed on the core equity.

- The portion of equity which exceeds the amount of core equity is deemed to be security equity. An imputed, notional interest deduction for income tax purposes is granted on such security equity. The goal is to partially equal out equity and debt financing of a corporation. The additional

deduction is not recognized in the commercial income statement but only for tax books, as such a deviation from the principle of materiality for tax purposes applies.

Up to and including 2022, the interest rate set by the Federal Tax Administration was 0% and as such the general measures had no effect. For 2023, the imputed interest rate is 1.565%, with the consequence that the general provisions can take effect for the first time. In addition, with the general increase in financing costs, intra-group financing companies, which have already been able to apply the notional interest deductions on security equity since 2020, should likely be in a position to further increase the notional interest deductions in accordance with a third-party comparison with the effect to further reduce the tax base.

In the case of high equity-financed corporations without intra-group financing activities, opportunities arise on notional interest deductions as from fiscal year 2023. Grant Thornton Switzerland/Liechtenstein will be pleased to support you in questions regarding the possibilities of notional interest tax deductions.



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