The ten-year tax loss carry forward period: a closer look at Switzerland's proposal

Switzerland is moving to modernize its tax framework, potentially. The Federal Council published its draft law and the corresponding dispatch on extending the tax loss carry forward period **from seven to ten years** at its meeting on 27 November 2024[1]. This change would allow businesses more time to offset prior losses against future profits, aligning better with the realities of long business cycles. For investors, this is highly relevant as it impacts corporate financial stability, deferred tax asset recognition, and long-term profitability.

This edition of Investor Monday explores the proposed extension, compares Switzerland's approach with other jurisdictions, and analyzes the broader implications for businesses and investors alike.

Extended tax loss carry forwards strengthen recovery potential

Currently, Swiss businesses can carry forward losses for up to seven years, but this limited period often fails to accommodate industries with long recovery horizons. The proposed ten-year extension would allow companies additional flexibility to utilize losses from downturns or early-stage investments.

Such a change would be especially significant in light of the economic disruptions as the one caused by COVID-19 as well as similar occurrences in the future, which leave many businesses with unprecedented losses and longer recovery periods. Industries like technology, biotech, pharma, and infrastructure, where profitability is often delayed due to significant upfront investment, would stand to benefit most from this flexibility.

By reducing the risk of expired losses, the proposed extension supports **better long-term planning** and stabilizes taxable income, helping businesses rebuild financial resilience after the pandemic.

Switzerland aligns closer to global tax norms

Tax loss carry forwards are a critical tool for businesses, but approaches vary significantly across jurisdictions. Some countries, such as Liechtenstein, Austria, and Germany, allow **indefinite tax loss carry forwards**, often coupled with **minimum taxation requirements** to ensure companies contribute a baseline tax amount even when carrying forward losses. Other countries, including Germany, France, and Singapore, have introduced **tax loss carry back mechanisms**, enabling businesses to offset current losses against prior profits to claim tax refunds.

Switzerland's proposed ten-year extension would bring it closer to international standards. However, several countries, such as Poland, Portugal, and Cyprus, still apply a maximum period of **five years** for tax loss carry forwards.

While Switzerland does not offer indefinite carry forwards or carry back options, the additional flexibility would make its tax framework more competitive compared to the current seven-year limit.

In addition, the rules of the **OECD global minimum tax** for multinational enterprise (MNE) groups with consolidated revenues of EUR 750 million or more, (commonly referred to as **Pillar Two or the GloBE Rules**) allow for unlimited offsetting of tax loss carry forwards

[1] Further information can be retrieved using this link: https://www.admin.ch/gov/de/start/dokumentation/medienmitteilungen.msg-id-103328.html#:~:text=Mit%20der%20Annahme%20der%20Motion,auf%20neu%20zehn%20Jahre%20auszudehnen.

Tax planning opportunities with a ten-year period

The proposed extension provides businesses with strategic tax planning advantages:

1. **Increased flexibility for long-cycle industries**: Companies in sectors with delayed profitability can better match losses with future profits, reducing taxable income over an extended period.
2. **Better alignment with cash flow needs**: A longer carry forward period stabilizes income, helping companies manage taxes during volatile cycles.
3. **Improved competitiveness**: While not as flexible as indefinite carry forwards, the extension makes Switzerland’s tax framework more attractive for international businesses.

For investors, this means companies could achieve more predictable tax outcomes, enhancing long-term financial stability.

Deferred tax assets benefit from extended carry forwards

Tax loss carry forwards impact the recognition and valuation of deferred tax assets (DTAs), which represent future tax savings.

1. **Higher DTA recognition**: A ten-year period increases the likelihood of utilizing losses, allowing more DTAs to appear on balance sheets. This improves equity ratios and supports better financing conditions.
2. **Reduced write-down risk**: With a longer horizon, the risk of DTA write-downs due to expired losses diminishes, providing more consistency in financial reporting.
3. **International implications**: Companies operating across borders must align Swiss DTAs with jurisdictions offering indefinite periods or carry back options, making tax coordination a critical task.

The proposed extension offers opportunities for businesses and investors

Extending Switzerland’s tax loss carry forward period to ten years would create new opportunities for businesses to optimize their tax strategies and enhance financial resilience. For investors, it signals a more competitive tax framework that allows companies to better align profits and losses, reduce volatility, and strengthen balance sheets through improved DTA recognition.

As this proposal progresses, businesses and investors should evaluate how these changes can influence corporate planning and long-term profitability. Staying ahead of such developments ensures that businesses and investors alike remain well-positioned in an evolving tax landscape.

Implementation timeline

The extension of the tax loss carry forward period must come into effect on **1 January 2028** to ensure its applicability to losses from the 2020 tax year, as required by the adopted motion. At the same time, the new rules should not apply to losses incurred before the 2020 tax period. This can be addressed through transitional provisions.