

SFTA Circular - Interest Rates 2020



Corporate Tax

The Swiss Federal Tax Administration (SFTA) has published the annually renewed circular letter concerning loans to and from shareholders and related parties with effect from 1 January 2020. The interest rates mentioned below have to be seen as guidelines for interest rates on such loans. In case the applied interest rates are in line with the below mentioned rates, it is presumed that these rates are at arm's length so no further proof should be required. In case the applied interest rates are not in line with the guidelines, the taxpayer may be requested to demonstrate that the applied interest rates are market interest rates, i.e. a third party would have granted the loan under the same interest and loan conditions (i.e. loan securities etc.).

1. Loans to related parties (in Swiss francs)

The interest rate charged in respect of loan receivables of a Swiss company depends on the source of the funds used.

	from 1.1.2019	from 1.1.2020
If the loan is financed with equity:	0.25%	0.25%
In case of re-financing with debt, an interest margin of 0.25% (in excess of CHF 10 million) or 0.50% (below this amount) must generally be realized. The following minimum rates must be applied:	0.25%	0.25%

In general, the Swiss lender must receive **at least** these interest rates.

2. Loans from related parties (in Swiss francs)

If Swiss companies receive loans from related parties (loan payables), a distinction is made according to the purpose of use.

2.1. For loans to finance real estate:

- up to the amount of the 1st mortgage (i.e. 2/3 of the market value of the property)
- for the remainder (lending limits of 70% for land, dwellings, privately-owned flats, holiday homes and factory property or 80% of the market value for other properties)

Housing & Agriculture

Industry & Commerce

	from 1.1.2019	from 1.1.2020	from 1.1.2019	from 1.1.2020
a)	1.00%	1.00%	1.50%	1.50%
b)	1.75%	1.75%	2.25%	2.25%

2.2. For loans to finance business:

Loans up to CHF 1 million

- of trading and production companies: 3%
- of holding and asset management companies: 2.5%

Loans from CHF 1 million and above (applicable interest rate on the part of the loan exceeding CHF 1 million)

- of trading and production companies: 1%
- of holding and asset management companies: 0.75%

In general, Swiss borrowers **may not** pay **more** than the interest rates indicated. For the calculation of the limits, the loans from related parties must be added.

In general, if the minimum rates for loan receivables and the maximum rates for loan payables are adhered to (or if it can be demonstrated that the applied interest rates are nevertheless at arm's length), no deemed dividend distribution should generally arise. Otherwise, income and withholding tax consequences for the Swiss company may be triggered. With regard to loan payables, sufficient equity

(in line with the calculation of hidden equity) is required as well. With regard to loan receivables, the usual degree of care should be applied when granting and monitoring loans (the credit worthiness of the debtor in particular).

The interest rates are based on the yields of long-term investments, such as industrial bonds, and apply in particular to the charging of interest upon advances to related parties ("loan payables"), financed with equity.

Concerning loans to related parties, for which the interest rate in a foreign currency is below the respective interest rate for loans in Swiss francs, the minimum interest rate for loans in Swiss francs has to be considered. If such loans are re-financed with debt, an interest margin of 0.50% must be realized and the applied interest rate may not be below the respective minimum interest rate published by the SFTA (see table below).

For loans from related parties to finance business, the following spread can be added to the listed minimum rates:

	up to an equivalent of CHF 1 million	equivalent of CHF 1 million and above
trading and production companies	2.75%	0.75%
holding and asset management companies	2.25%	0.50%

Do you have any questions regarding these regulations, equity requirements or the documentation of these loans? Our advisors will be pleased to provide you with their support and look forward to hearing from you.

Guidelines of the Swiss Federal Tax Administration with regard to interest rates for foreign currencies

(with effect as of 1.1.2020)

In line with the bulletin "Interest rates for the calculation of monetary payments", the SFTA published the following guidelines for the interest calculation for foreign currencies. The (minimum) interest rates below are applicable to loans to related parties. For loans from related parties the same spread as for loans in CHF (see table above) can be added to such minimum rates. However, please note that the SFTA verifies whether a loan in foreign currency (compared to a loan in CHF) is economically justified.

Country / Union	Currency	2018	2019	2020
European Union	EUR	0.75%	0.75%	0.50%
USA	USD	3.00%	3.00%	2.25%
China	CNY	3.50%	4.25%	3.75%
Denmark	DKK	0.75%	1.00%	0.75%
Great Britain	GBP	1.75%	1.75%	1.50%
Japan	JPY	0.50%	0.50%	0.50%
Norway	NOK	1.75%	2.50%	2.50%
Russia	RUB	8.25%	9.75%	8.00%
South Africa	ZAR	7.50%	8.50%	7.75%
Sweden	SEK	0.75%	1.00%	0.75%

Contacts

KPMG AG
Räffelstrasse 28
PO Box
8045 Zurich

kpmg.ch

Reiner Denner
Partner
Zurich

+41 58 249 42 40
rdenner@kpmg.com

Olivier Eichenberger
Director
Zurich

+41 58 249 41 67
oeichenberger@kpmg.com

M. Gökhan Sarican
Senior Manager
Zurich

+41 58 249 41 03
msarican@kpmg.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received, or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. The scope of any potential collaboration with audit clients is defined by regulatory requirements governing auditor independence. If you would like to know more about how KPMG AG processes personal data, please read our Privacy Policy, which you can find on our homepage at www.kpmg.ch.

© 2020 KPMG AG is a subsidiary of KPMG Holding AG, which is a member of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss legal entity. All rights reserved.