Leaflet of the Cantonal Tax Office on the taxation of banks and securities houses1

(from 30 September 2021)

A. Basis for taxation

The individual financial statements approved by the General Meeting of Shareholders with a reliable presentation or in accordance with the true and fair view based on the provisions of the Swiss Code of Obligations-2 and supervisory law3 form the basis for the calculation of the taxable net profit and the taxable equity.

The banks must submit the report to the Swiss Financial Market Supervisory Authority (FINMA) upon request.

B. Reviews

I. Allowances for default risks on loans and advances to customers

In accordance with the FINMA Ordinance on Accounting for Banks (RelV- FINMA), value adjustments for non-impaired receivables are justified on business grounds after taking into account the individual value adjustments required under commercial law4. The basis for the breakdown of receivables is generally the breakdown in the notes to the annual financial statements.

Tax-allowable valuation allowances for non-impaired receivables, provided they are recognized in accordance with commercial law:

Banks in categories 1 and 2 in accordance with Annex 3 of the Ordinance on Banks and Savings Banks (BankV):

- For expected losses (expected loss approach) in accordance with FINMA

requirements Banks in categories 3, 4 and 5 in accordance with Annex 3 of the

Banking Ordinance5:

- 0% on loans and advances to banks and public-sector entities
- 3% on secured domestic customer receivables
- 5% on secured foreign customer receivables
- 10% on other domestic and foreign customer receivables

[1] Authorised banks and investment firms according to FINMA
[2] 32nd title of the Code of Obligations: Commercial accounting and financial reporting
[3] FINMA-Circular 2020/1 'Financial reporting - banks
[4] Art. 25 RelV-FINMA
[5] Banks in categories 3, 4 and 5 have the option to apply the expected loss approach. If a Category 3, 4 or 5 bank voluntarily adopts the expected loss approach, it will be treated in the same way as a regular bank. Category 1 or 2 bank.

Banks in categories 3, 4 and 5 that prepare separate financial statements approved by the general meeting in accordance with the true and fair view cannot claim these general value adjustments in a tax balance sheet.

For Zurich permanent establishments of banks whose tax domicile is in another canton, the valuation rates of the canton of domicile are applied, provided that these are within the recommendations of the Swiss Tax Conference (SSK) for banks and securities houses.

II. Value adjustments on trading portfolios in securities and precious metals

No general allowances are permitted on assets carried at fair value or cost.

III. Financial assets

No lump-sum write-downs are permitted on assets carried at the lower of cost or market.

IV. Shareholdings

In the individual financial statements approved by the General Meeting of Shareholders with reliable presentation as well as in the individual financial statements according to true and fair view, the maximum value is the acquisition cost less any value adjustments required under commercial law as well as depreciation.

Value adjustments and write-downs on the cost price of participations (share of at least 10%) are only permissible for tax purposes up to the market value. A tax recovery of these value adjustments or write-downs within the meaning of Art. 62 para. 4 DBG or § 64 para. 5 StG is only made up to the pro rata book equity of the subsidiary concerned, subject to a realisation event. Realisation for tax purposes is deemed to be a sale for consideration, a realisation for tax purposes and a revaluation of the book value of the participation in question.

V. Property, plant and equipment

1. Real Estate

Depreciation is permissible in accordance with FTA Leaflet A 1995:

- 3% of book value on buildings and land combined
- 4% of the book value on buildings alone.

The depreciation limit is the fair value of the land value at the time of depreciation.

2. Furniture and IT

Depreciation is permissible in accordance with FTA Leaflet A 1995. Alternatively, immediate depreciation up to a residual value of 20% can be made in the year of acquisition. Once selected, the type of depreciation must be retained in principle thereafter.

3. Leasehold improvements, provided they are accounted for separately

Depreciation is permissible in accordance with FTA Leaflet A 1995.

VI. Foreign currency risks

No lump-sum provisions are permitted.

VII. Off-balance sheet transactions

Provisions of up to 2% of the balance of contingent liabilities as at the balance sheet date (excluding fiduciary investments) are permissible, provided they are recorded in accordance with commercial law.

Banks that prepare individual financial statements approved by the general meeting in accordance with the true and fair view cannot claim these lump-sum provisions in a tax balance sheet.

VIII. Reserves for general banking risks

If value adjustments for default risks (B I) and provisions for off-balance-sheet transactions (B VII) do not reach the upper limits permitted for tax purposes, the reserves for general banking risks recognised in accordance with commercial law may be used to reduce profit tax to the extent that they are not exhausted. The reserves for general banking risks booked in addition to this are part of the taxable equity capital and are to be added to the taxable net profit and capital at the time of the creation under commercial law booked through profit and loss and are to be removed from taxation accordingly at the time of the release under commercial law booked through profit and loss.

C. Participation deduction

I. Administrative costs

In principle, the gross income is to be reduced by a flat-rate amount of 5%. The right is reserved to prove that the administrative expenses are actually lower or higher. If the actual cause cannot be proven, the entire administrative expense shall be allocated on a pro rata basis on the basis of the profit tax values.

II. Financing costs

Financing costs are debt interest, commissions and other expenses that are economically equivalent to debt interest. Two-thirds of these are apportioned on a pro rata basis in the ratio of the profit tax values of the participations for whose income the reduction is claimed to the profit tax value of the total assets.

III. Cost price

The bank or investment firm must provide evidence of the change in the cost price for each tax period.

D. Tax separation

With regard to the intercantonal and international tax segregation, the principles set out in Circular No. 5 (Tax segregation at banks) of the SSK are authoritative.

E. Loss offsetting

Losses from a foreign permanent establishment are offset against domestic profits. The bank or investment firm may waive offsetting6. If the foreign permanent establishment records profits within the following seven financial years, the losses assumed by Switzerland are transferred back. Thus, taxation takes place to the extent of the retransferred foreign losses that were offset against domestic profits at the time.

F. Entry into force

This information sheet replaces the previous information sheet dated 30 November 2015 and applies for the first time to the financial statements ending in the calendar year 2021. Any necessary adjustments to value adjustments for default risks must be made on a straight-line basis no later than six years after this information sheet comes into force (2027). Agreements deviating from this in justified individual cases remain reserved.

Cantonal Tax Office Zurich
The boss:

Marina Züger

[6] If there are several permanent establishments abroad, the right of election exists for each permanent establishment.

Annex 1 to the Information Sheet Taxation of Banks and Investment Firms

Categorisation of banks according to Annex 3 of the Banking Ordinance

Category	Criteria (in CHF billion)		
1	Balance sheet total	≥	250
	Assets under management	≥	1000
	Privileged deposits	≥	30
	Minimum own funds	≥	20
2	Balance sheet total	≥	100
	Assets under management	≥	500
	Privileged deposits	≥	20
	Minimum own funds	≥	2
3	Balance sheet total	≥	15
	Assets under management	≥	20
	Privileged deposits	≥	0.5
	Minimum own funds	≥	0.25
4	Balance sheet total	≥	1
	Assets under management	≥	2
	Privileged deposits	≥	0.1
	Minimum own funds	≥	0.05
5	Balance sheet total	<	1
	Assets under management	<	2
	Privileged deposits	<	0.1
	Minimum own funds	<	0.05

Allowances and provisions permitted for tax purposes: Example 1

1. *Valuation allowances on loans and advances to customers after specific valuation allowances for impaired loans and provisions for off-balance sheet transactions*

	Book value according to balance sheet	**for tax purposes permissible**
Due from banks and public bodies	15'000'000	
Maximum allowance (0%)		0
Secured domestic customer receivables	885'000'000	
Maximum allowance (3%)		26'550'000
Secured foreign customer receivables0		
Maximum allowance (5%)		0
Other unsecured receivables from customers	8'800'000	
Maximum allowance (10%)		880'000
Provision for off-balance sheet transactions (excluding fiduciary transactions)	20'000'000	
Maximum permissible reset (2%)		400,000
Total value adjustments and provisions permitted for tax purposes		
	27,830,000	**Valuation adjustments**
and provisions according to current year balance sheet		
Allowance for doubtful accounts	5'000'000	
Other provisions	20'000'000	
		25'000'000
Unused tax allowances and provisions		**-2'830'000**
Tax profit and capital adjustment concerning value adjustments and provisions0		

2. *Reserves for general banking risks*

Book value of reserves for general banking risks as per balance sheet previous year		-15'000'000
Of which previously taxed as profit		15'000'000
Income tax value Reserves for general banking risks End of tax period previous year0		
Book value of reserves for general banking risks as per balance sheet current year		-20'000'000
Of which previously taxed as profit		15'000'000
Income tax value of reserves for general banking risks End of tax period current year before tax adjustment		-5'000'000
Increase in reserves for general banking risks	5'000'000	
Unused tax allowances and provisions---	2'830'000	
Tax correction in the current year		2'170'000
Income tax value of reserves for general banking risks End of tax period current year after tax adjustment		**-2'830'000**
New reserves for general banking risks current year		
	5,000,000	
Unused tax-allowable value adjustments and provisions	-2'830'000	
Increase in taxable net profit due to new formation of taxed reserves for general banking risks current year		**2'170'000**
Taxed reserves for general banking risks in previous year		
	15,000,000	
Increase in taxed reserves for general banking risks current year	2'170'000	
Adjustment of capital by taxed reserves for general banking risks as at balance sheet date current year		**17'170'000**

Valuation allowances and provisions allowed for tax purposes: Example 2

1. *Valuation allowances on loans and advances to customers after specific valuation allowances for impaired loans and provisions for off-balance sheet transactions*

	Book value according to balance sheet	for tax purposes permissible
Due from banks and public bodies	15'000'000	
Maximum allowance (0%)		0
Secured domestic customer receivables	885'000'000	
Maximum allowance (3%)		26'550'000
Secured foreign customer receivables0		
Maximum allowance (5%)		0
Other unsecured receivables from customers	8'800'000	
Maximum allowance (10%)		880'000
Provision for off-balance sheet transactions (excluding fiduciary transactions)	20'000'000	
Maximum permissible reset (2%)		400,000
Total value adjustments and provisions permitted for tax purposes		
	27,830,000 **Valuation adjustments**	
and provisions according to current year balance sheet		
Allowance for doubtful accounts	5'000'000	
Other provisions	25'000'000	
		30'000'000
Translated value adjustments and provisions not permitted for tax purposes		2'170'000
Tax profit and capital adjustment concerning value adjustments and provisions		**2'170'000**

2. *Reserves for general banking risks*

Book value of reserves for general banking risks as per balance sheet previous year		-15'000'000
Of which previously taxed as profit		15'000'000
Income tax value Reserves for general banking risks End of tax period previous year0		
Book value of reserves for general banking risks as per balance sheet current year		-20'000'000
Of which previously taxed as profit		15'000'000
Income tax value of reserves for general banking risks End of tax period current year before tax adjustment		-5'000'000
Increase in reserves for general banking risks	5'000'000	
Unused tax allowances and provisions	0	
Tax correction in the current year		5'000'000
Income tax value Reserves for general banking risks End of tax period current year after tax adjustment0		
New reserves for general banking risks current year		
	5,000,000	
Unused tax-allowable value adjustments and provisions	0	
Increase in taxable net profit due to new formation of taxed reserves for general banking risks current year		**5'000'000**
Taxed reserves for general banking risks in previous year		
	15,000,000	
Increase in taxed reserves for general banking risks current year	5'000'000	
Adjustment of capital by taxed reserves for general banking risks as at balance sheet date current year		**20'000'000**

Valuation allowances and provisions allowed for tax purposes: Example 3

1. *Valuation allowances on loans and advances to customers after specific valuation allowances for impaired loans and provisions for off-balance sheet transactions*

	Book value according to balance sheet	for tax purposes permissible
Due from banks and public bodies	15'000'000	
Maximum allowance (0%)		0
Secured domestic customer receivables	885'000'000	
Maximum allowance (3%)		26'550'000
Secured foreign customer receivables0		
Maximum allowance (5%)		0
Other unsecured receivables from customers	8'800'000	
Maximum allowance (10%)		880'000
Provision for off-balance sheet transactions (excluding fiduciary transactions)	20'000'000	
Maximum permissible reset (2%)		400,000
Total value adjustments and provisions permitted for tax purposes		
	27,830,000 **Valuation adjustments**	
and provisions according to current year balance sheet		
Allowance for doubtful accounts	5'000'000	
Other provisions	25'000'000	
		30'000'000
Translated value adjustments and provisions not permitted for tax purposes		2'170'000
Tax profit and capital adjustment concerning value adjustments and provisions		**2'170'000**

2. *Reserves for general banking risks*

Book value of reserves for general banking risks as per balance sheet previous year		-15'000'000
Of which previously taxed as profit		15'000'000
Income tax value Reserves for general banking risks End of tax period previous year0		
Book value of reserves for general banking risks as per balance sheet current year		-15'000'000
Of which previously taxed as profit		15'000'000
Income tax value Reserves for general banking risks End of tax period current year before tax adjustment0		
Change in reserves for general banking risks0		
Unused tax allowances and provisions	0	
Tax correction in the current year		0
Income tax value Reserves for general banking risks End of tax period current year after tax adjustment0		
New allocation to reserves for general banking risks current financial year0		
Unused tax allowances and provisions	0	
No adjustment of taxable net profit for taxed reserves for general banking risks current year0		
Taxed reserves for general banking risks previous year		
	15,000,000 No	
change in taxed reserves for general banking risks current year	0	
Adjustment of capital by taxed reserves for general banking risks as at balance sheet date current year		**15'000'000**

Allowances and provisions permitted for tax purposes: Example 4

1. Valuation allowances on loans and advances to customers after specific valuation allowances for impaired loans and provisions for off-balance sheet transactions

	Book value according to balance sheet	**for tax purposes permissible**
Due from banks and public bodies	15'000'000	
Maximum allowance (0%)		0
Secured domestic customer receivables	885'000'000	
Maximum allowance (3%)		26'550'000
Secured foreign customer receivables0		
Maximum allowance (5%)		0
Other unsecured receivables from customers	8'800'000	
Maximum allowance (10%)		880'000
Provision for off-balance sheet transactions (excluding fiduciary transactions)	20'000'000	
Maximum permissible reset (2%)		400,000
Total value adjustments and provisions permitted for tax purposes		
	27,830,000 **Valuation**	**adjustments**
and provisions according to current year balance sheet		
Allowance for doubtful accounts	5'000'000	
Other provisions	20'000'000	
		25'000'000
Unused tax allowances and provisions		-2'830'000

Tax profit and capital adjustment concerning value adjustments and provisions0

2. Reserves for general banking risks

Book value of reserves for general banking risks as per balance sheet previous year		-15'000'000
Of which previously taxed as profit		15'000'000
Income tax value Reserves for general banking risks End of tax period previous year0		
Book value of reserves for general banking risks as per balance sheet current year		-15'000'000
Of which previously taxed as profit		15'000'000
Income tax value Reserves for general banking risks End of tax period current year before correction0		
Change in reserves for general banking risks0		
Unused tax allowances and provisions	2'830'000	
Tax correction in the current year		2'830'000
Income tax value of reserves for general banking risks at end of tax period current year after adjustment		**-2'830'000**
New allocations to reserves for general banking risks current financial year0		
Unused tax allowances and provisions	2'830'000	
Reduction in taxable net income due to release of taxed reserves for general banking risks current year		**-2'830'000**
Taxed reserves for general banking risks in the previous year	15,000,000	
Release of taxed reserves for general banking risks in the current year	-2'830'000	
Adjustment of capital by taxed reserves for general banking risks as at balance sheet date current year		**12'170'000**