

Tax loss carryforwards: the period will increase from 7 to 10 years from 2028

A business-friendly reform that may already affect tax losses incurred since 2020.

The Federal Council has decided to extend the period during which a company may offset future profits against prior tax losses. From 1 January 2028, this period will increase from 7 to 10 years.

Key points in 30 seconds

- Today: a tax loss may generally be carried forward for 7 years.
- From 1 January 2028: this period will increase to 10 years.
- The new rule may also apply to losses from the 2020 tax period onwards, provided they can still be carried forward under the new rules.

How does the tax loss carryforward work in practice?

When a company incurs a loss, it may deduct that loss from profits earned in subsequent years. This reduces taxable profit and, consequently, the future tax burden.

Simple example

A company incurs a tax loss of CHF 100,000 in 2021. If it subsequently returns to profitability, it may use this loss to reduce its taxable profits. Under the reform, it will have more time to make use of it.

Key takeaway

The maximum carryforward period will increase from 7 to 10 years. A loss that would otherwise have expired due to insufficient profits may therefore, in certain cases, remain available for longer.

Why is this change being introduced?

The aim is to give companies more time to absorb significant losses. In particular, the reform takes into account the economic effects of the COVID-19 period and the loss-making financial years that followed for certain businesses.

When will the new rule apply?

The amendment will enter into force on 1 January 2028. Importantly, it may also apply to tax losses incurred from the 2020 tax period onwards, provided they can still be carried forward under the new rules.

Which companies are affected?

The reform concerns companies subject to direct taxation in Switzerland. It may be particularly relevant for:

- companies that have incurred significant losses since 2020;
- companies that are gradually returning to profitability;
- companies undergoing restructuring, reorganisation or a business transfer;
- companies with permanent establishments abroad.

Special case: permanent establishments abroad

The rules are more technical where a Swiss company has a permanent establishment abroad, for example a branch, agency, workshop or fixed place of business.

Do not confuse

A permanent establishment forms part of the same company. A foreign subsidiary is, in principle, a legally separate entity.

1. A foreign loss may sometimes be taken into account in Switzerland

In certain situations, a Swiss company may take into account, for federal direct tax purposes, a loss incurred by its permanent establishment abroad. This is subject, in particular, to the condition that the loss has not already been used for tax purposes in the foreign country.

Principle

The same loss must not give rise to two tax benefits: one in Switzerland and one abroad.

2. The Swiss deduction may be provisional

If the foreign permanent establishment subsequently returns to profitability and the loss can then be used in the country concerned, Switzerland may recapture all or part of the deduction previously granted. The position must therefore be monitored over several years.

3. The monitoring period will also increase to 10 years

The monitoring period for these losses will likewise be extended from 7 to 10 years. A tax adjustment may therefore still be made in Switzerland if the loss is ultimately used abroad during this period.

Simplified example

A Swiss company has a foreign branch that incurs a loss of CHF 200,000 in 2028. If Switzerland takes this loss into account and it is then used abroad a few years later, Switzerland may adjust the deduction previously granted. The aim is to prevent the same loss from being deducted twice, in Switzerland and abroad.

4. Federal and cantonal levels: watch for differences

The rules described above apply directly to federal direct tax. The treatment may differ for cantonal and municipal taxes, as the cantons have a certain degree of discretion.

- the treatment of the loss in the foreign country;
- its treatment for federal direct tax purposes;
- its treatment for cantonal and municipal tax purposes.

What should companies do?

No immediate action is required in every case. However, it is useful to identify now which tax losses remain available and the year in which they arose.

We recommend checking:

- the tax losses still available for carryforward and the year in which they arose;
- amounts that may soon expire;
- the effect of the new 10-year period on tax planning;
- the position of any permanent establishments abroad;

- the consequences of a restructuring, business transfer or reorganisation.

Our advice

Companies that still have tax losses from 2020 and subsequent years should prepare an accurate schedule of the amounts still available. This will make it possible to plan their use when profits are generated again.

Do you still have tax losses available for carryforward?

DS Fiduciaire can help you determine which losses remain available, how long they can still be carried forward and the implications of the new rules for your business.

We also review specific situations involving restructurings and permanent establishments abroad.

Contact us for an analysis tailored to your situation.