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SWITZERLAND, CANTON TICINO: MEASURES TO ENCOURAGE INNOVATIVE START-UPS LEGISLATION ON ECONOMIC INNOVATION AND TAX INCENTIVES

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1. Introduction

One of the Canton Ticino governmental objectives is to implement legislative measures to encourage the formation, development and competitiveness of small and medium-size businesses.

On the one hand, **the legislation on economic innovation**, which encourages the expansion and the consolidation of already existing companies as well as the formation and development of new ones providing at the same time ideal conditions to attract entrepreneurial activities from foreign countries.

The law entered into force in 1997 and revised in 2015 to adapt the legislation to the new business environment in the economic, technological, educational and institutional context.

On the other hand, **the amendment to the Regulation of the tax legislation** of the 21 June 2018 (entered into force retroactively on 01 January 2018) has defined in details the necessary requirements to be qualified as “innovative company” in order to benefit of the tax advantages and incentives.

2. Legislation on economic innovation

The legislation on economic innovation provides for several measures of different nature.

a) Direct measures

There are at first **measures addressed directly to companies** such as:

- Non-refundable financial incentives for primarily intangible investments such as the purchase of advisory services regarding the innovation and development of the business project, the support of costs regarding research and development activities, the prototyping and validation of new products, the support of costs for the preparation and participation to national and international research programs and the financing of costs for training and professional qualification;

- Non-refundable grants (in the measure from 15% to 30% computed on the amount allocated to innovative investments) for primarily tangible investments as the realization of new products, the introduction of innovation in the production process and addressing the core activity towards emerging areas or new markets which are decisive for the business development;
- Grants for the participation to specialized fairs and exhibitions, for market researches, for advices regarding the participation to international calls for tenders or for other measures regarding business internationalization;
- The maximum amount of the guarantee as set by the Confederation is raised to CHF 250'000 to facilitate the access to credit facilities to be used for the financing of investments and the transfer of ownership of business entities.

b) Indirect measures

In addition to direct measures, Canton Ticino legislation also advocates and supports **indirect measures** for the benefit of enterprises, such as:

- The allocation of credit facilities to support financially innovative startups;
- Grants for events, publications, awards or other initiatives to raise awareness and information to companies regarding the importance of innovation;
- Carrying out territorial marketing activities to promote the establishment of businesses with a high added value for Canton Ticino.

3. Canton Ticino tax reform

The tax reform, which entered into force on 1 January 2018, was enacted with the aim to **encourage the formation, development and establishment of innovative enterprises in Canton Ticino**.

Please note that the following tax advantages apply for the first three fiscal years starting the moment when the innovation requirement is fulfilled and therefore the type of business activity is qualified as "innovative".

a) Tax exemption of capital investments in start up companies:

With this measure Ticino aims to promote investments in innovative startups by individuals by **taxing with an annual tax with a rate of 1%** the part of the individual's income allocated to capital investments in companies or cooperatives.

To benefit of such tax facility the amount of the investment shall be more than CHF 50'000 (this requirement is considered fulfilled in case the investment is made in more than one company or cooperative). The tax facility, furthermore, shall apply on maximum 80% of the taxable income of an individual or on a maximal amount of CHF 800'000.

As an example, consider an individual with an annual taxable income of CHF 500'000 of which CHF 200'000 invested in an innovative start up.

The fiscal consequence for the individual will be the following: the one part of the individual's taxable income invested in the startup, therefore the CHF 200'000, will be separately taxed with the special tax rate of 1%; while only the remaining portion of taxable income of CHF 300'000 will be submitted to taxation applying a tax rate corresponding to the total taxable income of CHF 500'000.

b) Reduction of the taxation on capital

The reform has reduced the tax on capital of companies and cooperatives **from 1,5 ‰ to 0,01 ‰**.

c) Exemption from the minimum property tax

Legal entities that own real estate properties in Canton Ticino have to pay usually a minimum real estate tax on the property located in the Canton. In case the amount of such tax exceeds the tax on profits and on capital, companies or cooperatives classified as innovative may benefit of the total tax exemption provided **an express request** of the taxpayer is addressed to the tax office.

d) Exemption from gift tax

Every non-refundable contribution transferred by a third individual to an innovative start-up are exempted from the cantonal gift tax. To apply for such exemption **an express request of the taxpayer is necessary**.

4. Regulation to the Ticino tax law

The **Regulation to the Ticino tax law** sets the necessary requirements to classify a company or a cooperative, as defined by Swiss legislation, as innovative. To qualify as such, the following requirements have cumulatively to be fulfill:

- at the time of fulfilment of the innovative requirements the company or the cooperative must already be formed
- comply with one of the requirements set out in Art. 5, paragraph 1 of the Regulations, such as, for example, the participation to programs for innovative startups or have obtained awards as an innovative start up.

The full list is available on the following web site:

<https://www3.ti.ch/CAN/RLeggi/public/index.php/raccolta-leggi/legge/vid/280f>

5. Conclusion

Canton Ticino aims, with the mentioned legislative measures herewith briefly reported, to support and improve the formation, establishment and development of new innovative companies becoming more attractive and providing the fertile ground for Swiss or foreign businesses to relocate to Canton Ticino.

For further information on the above, please do not hesitate to contact us

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