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Fast-growing start-ups in Switzerland

Report of the Federal Council
in response to the Postulate 13.4237 Derder
from 12 December 2013

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1 Summary

With the acceptance of the Derder Postulate (13.4237), the Federal Council has agreed to conduct a more in-depth analysis of fast-growing young enterprises (start-ups) in Switzerland based on the report on venture capital from 2012, and to highlight possible weaknesses and recommend measures. This report examines various aspects, such as entrepreneurship, public support programmes, the fiscal environment and regulatory framework conditions. In accordance with the mandate, the purpose of this report is not to provide a conclusive overall view of the funding of fast-growing start-ups, but to identify any need for action in individual areas relevant for the start-ups.

Entrepreneurship in Switzerland

This report finds that the overall situation of fast-growing start-ups in Switzerland appears good to excellent. Switzerland is one of the countries with the best framework conditions for entrepreneurial activities. Nevertheless, there is a low level of entrepreneurial motivation amongst the Swiss population, and the Swiss are less likely to perceive the establishment of a new company as a good career opportunity than people in other innovation-based national economies.

However, the fact that the Swiss enterprise birth rate is slightly lower compared to international benchmarks indicates neither a lack of interest in entrepreneurship nor an – often quoted – risk aversion or fear of failure. Rather, it reflects the high per capita income combined with a strong innovation focus of the national economy. Thanks to a high level of labour market participation, comparably low unemployment rates, and good income opportunities in most occupational groups, start-ups are seldom founded out of necessity.

The thesis that only few high-growth companies and a small number of innovative start-ups exist in Switzerland cannot be confirmed. On a per capita basis, the number of high-growth start-ups in Switzerland is significantly above that of most analogue countries. There are up to 7 high-growth start-ups per 100,000 Swiss residents. This figure is just below 6 in Israel and 0.5 in the USA. The proportion of persons employed by these companies in Switzerland is also very close to that of the leading analogue countries. Around 400 high-growth start-ups in Switzerland employ up to 20,000 people. This equates to 0.67 percent of the total population. Switzerland is a location equally characterised by fast-growing start-ups in cross-comparison. The fact that Switzerland is amongst the leading countries in relation to the proportion of high-growth companies despite its comparatively low enterprise birth rate indicates that the quality of the start-ups is high.

Venture capital in Switzerland

While financing is a challenge for start-ups, the Swiss venture capital market is overall functioning and active; in particular, also thanks to strong foreign investments. Nevertheless, the venture capital market can be developed further. At a summit of the Heads of the Federal Department of Home Affairs and the Federal Department of Economic Affairs, Education and Research, as well as representatives of associations and venture capital firms, a willingness to promote pension scheme investments in venture capital.

With regards to the percentage share of GDP venture capital investments account for, Switzerland ranks second within Europe. However, compared to leading countries, such as Israel or the USA, such investments account for a much lower share of GDP. The Swiss venture capital market is open, and largely supplied with funds from abroad. Switzerland is one of the countries which have an active venture capital market.

Public financing options

With 87 programmes, Swiss cantons offer a great range of financing options for existing companies and start-ups. On national level, further offers are in place which help companies to obtain credits or loans, including commercial guarantees, the Swiss Association for Hotel Financing (SGH) and the Technology Fund.

Numerous OECD countries have state capital contribution programmes, largely in the form of direct public equity funds, fund of funds or co-investment funds. Virtually all OECD countries also utilise guarantee instruments.

In Europe, the European Investment Funds (EIF) plays an important role in the area of venture capital financing and provision of guarantees for SMEs, including start-ups. Swiss start-ups and venture capital funds also benefit from EIF's investment activities.

At present, the Federal Council does not consider it necessary to launch a public financing programme to support start-ups in addition to the aforementioned offers. Rather, the proven policy of providing good framework condition should be continued, creating or maintaining the most attractive environment for start-up and investors possible.

Fiscal environment

In general, Switzerland boasts an attractive fiscal environment. In recent years, various adjustments were made which also improved the situation for start-ups.

Nevertheless, further tax policy measures are needed. This report illustrates this need for action from the perspective of start-ups; however, SMEs are often in the same situation. Start-ups typically have relatively high capital requirements while only generating low or no profits. Taxes on equity and assets (capital and wealth tax) therefore effectively erode net assets. From an economic perspective, however, taxes that erode net assets should always be avoided. Shifting the tax burden away from taxes with a negative impact of net assets should therefore be considered. However, before the decision to shift taxation towards a higher income tax was made, the economic effects on the national economy and the financial impact on the public sector should be assessed in-depth. If requested by Parliament, the Federal Council would be willing to perform such an assessment.

For unlisted companies, the cantonal wealth tax and income tax is primarily determined on the basis of an assessment of participation rights. According to the relevant regulation for start-ups, the decisive market value following financing rounds can be determined by the price paid by investors, which may result in a tax burden that erodes net assets, as well as liquidity bottlenecks.

In numerous OECD countries, business angels benefit from both, front-end tax incentives (tax deductions for seed and early-stage funding) and back-end tax incentives (tax breaks on capital gains or losses). Switzerland offers no tax incentives for business angels. Yet, thanks to current tax arrangements in relation to capital gains, it is an attractive location for business angels compared to other countries, even without tax privileges. As long as capital gains from private assets remain exempt from taxation, a need to act on privileged taxation of business angels cannot be recognised.

Given the experiences with the Federal Act on Venture Capital Companies (BRKG) on a national level, as well as the moderate total taxation compared to other countries, the Federal Council opposes the introduction of an investment deduction for start-up investors.

According to the Tax Harmonisation Act (StHG), Swiss cantons can provide tax breaks for companies on a at cantonal and communal level. In addition, tax breaks may be granted for industrial companies or production-related service companies in structurally weak regional centres under the federal government's regional policy. These instruments are also available to start-ups.

In principle, the Federal Council sees no need for action in relation to the tax treatment of employee profit participation when calculating income tax. Non-cash benefits from employee profit participation constitute taxable income from paid employment.

The partial taxation of dividends introduced as part of Corporate Tax Reform II can result in substantial tax relief for business angels.

Regulatory framework conditions

In international comparison, Switzerland is positioned good to excellent for the attractiveness of the location in general, as well as the administrative burden. The overall economic framework conditions in Switzerland are amongst the best in the world. The challenge is in the continuous alignment of the framework conditions to the dynamics of the economy and the technological development.

To this end, the Federal Council adopted the report on the framework conditions of the digital economy (“Rahmenbedingungen der digitalen Wirtschaft”)¹ on 11 January 2017, and issued assessment mandates in the process, including for measures for the improvement of the framework conditions in the areas of accommodation services, competition law, mobility services, as well as education and research.

The Federal Council will assess possible improvements to the framework conditions for pension scheme investments in the report on abandonment of the Graber Motion (13.4184).

Moreover, the Federal Council acknowledges a need for action in the reduction of regulatory obstacles for crowd funding.

The Federal Council also seeks simplifications of the foundation of companies. For instance, it recommends that Parliament include provisions on the abolishment of the formal official recording requirement in the ongoing revision of company law². In addition, the free movement of notarial services across cantonal borders should be reviewed.

eGovernment facilities help start-ups to focus on value-creation activities and the development of their company. To achieve this, SME portal is continuously developed. The planned one-stop-shop will simplify the exchange between the authorities and companies further, and ease the administrative burden.

Public consultancy, training and infrastructure offers

In relation to consultancy, training and infrastructure for start-ups, the Swiss cantons provide numerous and excellent offers, some of which are supported by the New Regional Policy (NRP). Various support offers exist on a national level; for instance, those offered by the Commission for Technology and Innovation (CTI, which will become Innosuisse) or Switzerland Global Enterprise (S-GE). Innosuisse also plans to provide a new programme to support knowledge-based start-ups with the ‘Take-off Programme’.

With their decision in autumn 2015, the Federal Assembly has established the foundation for a Swiss innovation park. Even though SMEs and start-ups are not the primary target group of such an innovation park, it can be expected that specific offers relating to start-ups and spin-offs will emerge sooner or later.

The various governmental offers are regularly assessed for effectiveness and optimised as required. This constant review facilitates continuous alignment of the offering to the requirements of the start-ups.

¹ Federal Council (2017)

² Message on the Amendment of the Swiss Code of Obligations (OR) – Company Law from 23 November 2016

2 Adopted measures and potential future action areas

Despite the overall favourable findings, a potential need for action is identified in individual areas. In this context, the focus should remain on the continuous improvement of the framework conditions. Especially in the industries where start-ups are typically established, the dynamics are strong. The associated challenge for regulation to keep up with the changing requirements of the economy is equally substantial.

The Federal Council already identified a need for action to improve the framework conditions in the past. Thus, it has adopted measures in the following areas:

1. The Federal Council acknowledges that the wealth tax determined on the basis of a valuation of assets following financing rounds of start-ups may result in an excessive tax burden and liquidity bottlenecks for the company founders. It has instructed the Federal Department of Finance (EFD) to cooperate with the Swiss cantons to look for optimisation options in the assessment of start-ups which would enhance the attractiveness of Switzerland as a location for start-ups. The cantons' federal leeway should be respected in this endeavour.
2. On 01 February 2017, the Federal Council opened the consultation process on changes to the Banking Law and the Swiss Banking Ordinance to reduce barriers to market entry for providers in the FinTech segment, and increase the legal certainty for the sector as a whole. This includes the specification of a 60-day time limit for holding funds in settlement accounts in the Swiss Banking Ordinance, the extension of occupations exempt from permits, and the introduction of a new permit category for FinTech companies.
3. On 23 November 2016, the Federal Council proposed provisions for the rescission of official recording as a formal requirement for the formation and dissolution of stock corporations with simple structures to the Parliament as part of its Message on the Revision of Company Law.
4. In order to ease the administrative burden, the Federal Council has instructed the Federal Department of Economic Affairs, Education and Research to review the free movement of notarial services across cantonal borders and recommend possible measures within the scope of the report.
5. The Federal Council adopted the report on the framework conditions of the digital economy ("Rahmenbedingungen der digitalen Wirtschaft") on 11 January 2017, and issued assessment mandates in the process, including for measures for the improvement of the framework conditions in the areas of accommodation services, competition law, mobility services, as well as education and research.
6. As part of the report on abandonment of the Graber Motion (13.4184), the Federal Council will assess possible improvements of the framework conditions for investments in start-ups by pension funds.
7. The Federal Department of Economic Affairs, Education and Research will develop a federal one-stop-shop for companies Version 1.0 by the end of 2017. This should result in a lower administrative burden for start-up.

In addition, the Federal Council considers the following potential future areas of action:

8. In order to strengthen the Swiss venture capital market, the Federal Department of Economic Affairs, Education and Research (SECO) is investigating the option of cooperating with the European Investment Fund (EIF); for instance, in relation to training offers for pension fund representatives and Swiss venture capital funds, or use of the EIF's extensive data material.

9. In principle, the Federal Council would consider further relief from capital and wealth taxes which diminish net assets due to their negative economic incentives. Subject to a parliamentary mandate, it would therefore be willing to review the economic and financial effects of shifting taxation which diminishes net assets to increased taxation of income.
10. The Federal Council is willing to review the question of an unrestricted loss account for all companies in connection with minimum taxation as part of a future tax revision (also see Motion 16.3605).

The Federal Council will continue its willingness to review further improvements; in particular, considering the fact that this report offers no conclusive and complete synopsis of the ecosystem of fast-growing start-ups.

3 Mandate and starting point

3.1 The Derder Postulate (13.4237)

Wording of the postulate from 12 December 2013

The Federal Council is instructed to furnish Parliament with a report on the development of innovative start-up in Switzerland. Only few high-growth start-ups exist in our country, and only few jobs are created in this area. The objective of the report is to examine the causes for our weaknesses, to analyse the programmes for the support of such companies in our neighbouring countries, and to evaluate how useful it would be to introduce such a programme in Switzerland. The Federal Council is further instructed to define the term “innovative start-ups” in this report.

Explanatory statement

Start-ups are essential for a country's young talent in business and industry, as well as its innovative strength. The large majority of OECD countries has programmes to promote such companies. However, Switzerland does not, and start-up development is feeble. Paradoxically, we are leading worldwide in terms of innovation, while we have a poor record of formations of innovative SMEs.

The large majority of OECD countries offers measures relating to a number of aspects: finance (direct support, tax breaks, promotion of investment in venture capital), consultancy services and infrastructure (free legal and tax advice, coaching, innovation parks), as well as education (promotion of technology transfer). Switzerland is weak in relation to the first aspects; it is more active in the other two areas. We therefore instruct the Federal Council, to examine the causes for the weak development of start-ups in Switzerland, to analyse the programmes for the support of such companies in our neighbouring countries, and to evaluate how useful it would be to introduce such a programme in Switzerland.

The Federal Council is further instructed to define the term “start-ups”. In its response to Interpellation 13.3951, it describes how important these companies are; yet, it surprisingly states at the same time that a definition was not possible. However, this specific type of company with special requirements – especially in terms of venture capital – exists and numerous OECD countries have such a definition. For instance, requirements in France include that the company was founded less than 8 years ago, is 50%-owned by natural persons, has a maximum of 250 employees, has a turnover of under 50 million, and its research and development expenses amount to at least 15 percent of its total expenditures. The Federal Council might take inspiration from the above for a Swiss definition.

Statement of the Federal Council from 12 February 2014

In the report on venture capital in Switzerland (Report of the Federal Council, Venture Capital in Switzerland, June 2012), the Federal Council summarised fiscal and non-fiscal measures for the promotion of the venture capital market and young enterprises. The report shows that the focus on continuous improvement of the economic and innovation-friendly framework conditions has generally also proven successful in this area.

Based on the aforementioned report, the Federal Council is willing to analyse fast-growing start-ups in Switzerland in more depth, including possible weaknesses and potential measures. This aims to capture the situation in an integrated manner, analyse international programmes and measures, and draw conclusions for Switzerland. At the same time, this analysis will provide the opportunity to assess further measures for improving the framework conditions. Furthermore, the works of the OECD should be consulted as a basis. Existing statistical data bases which limit the intended analysis provide a special challenge.

As the Federal Council already expressed in its response to Interpellation 13.3951, a definition always serves a particular purpose. Thus, any definitions should be outlined in direct association with individual measures insofar as these require definitions.

3.2 Reference to the Federal Council's report on venture capital in Switzerland

This report is based on the Federal Council's report "Venture Capital in Switzerland" in fulfilment of the Postulates of Fässler (10.3076) and Noser (11.3429, 11.3430, 11.3431) from 27 June 2012³. In this report, the Federal Council finds that company formations in high-growth sectors make a significant contribution to the modernisation of the Swiss economy, wherefore the financing of these companies are of correspondingly great importance.

The report provides a synopsis of the Confederation over the Swiss venture capital market. The Federal Council herein concludes that the venture capital market in Switzerland is functioning in principle. It further finds that no significant problems have been identified between investors and start-up in the areas of innovation and information exchange in recent years. This also applies to the provision of venture capital which allows a stimulation of private initiatives to support young entrepreneurs. Continuous improvement of economic policy framework conditions has also proven successful for this area.

The financing issues in the early company creation phase suspected in the report "Venture Capital in Switzerland" could not be confirmed in an additional follow-up study⁴ commissioned. A workshop with actors from the venture capital environment held in 2012 came to the same conclusion. Potential information gaps could not be shown, either. Nevertheless, the Federal Council considers it an ongoing task to improve the framework conditions in the field of company financing and attractiveness of location in general.

This report constitutes a consolidation and supplementation of the report from 2012, and it shows additional perspectives.

3.3 Definition of terms

In its response to the Interpellation 13.3951, the Federal Council stipulated the following: The creation and development of successful companies plays an important role for the dynamics of the national economy. From the perspective of the national economy, maximum value creation and the creation of new jobs are paramount, and these result from high productivity and success in the market. Fast-growing "start-ups" can contribute to this objective, as can other companies. However, the effective degree of innovation of a product can only be identified retrospectively, once it becomes successful in the market; an *ex ante* recording is therefore impossible.

With this in mind, this report uses the term "innovative" is used from an economic perspective. In terms of this report, a company is innovative if it is successful in the market. Only successful networking differentiates an innovation from an idea.

A differentiation must be made between definitions serving different intended uses, e.g. for statistical, tax, legal or economic purposes. The report on venture capital in Switzerland uses the economic interpretation. In its response to Postulate 09.3935, the Federal Council has shown that a definition of innovative start-ups creates demarcation problems for tax purposes.

A precise definition or demarcation is necessary if the legal foundation requires such. Such a definition should always serve the legal purpose. In the absence of this requirement, the Federal Council finds no reason for a precise definition in legal terms. The Canton of Geneva, for instance, has a legal foundation with the "Jeunes entreprises développant des innovations (JEDI)". However, Article 2 of the same law does equally not define the degree of innovation.

³ Federal Council (2012)

⁴ Gantenbein P., Volonté C., Zaby S. (2013)

From an economic perspective, must be acknowledged that such companies exhibit certain characteristics (product and process innovation). However, a legal differentiation – e.g. in terms of company law – does not appear necessary or useful.

In order to facilitate international comparisons, start-ups are defined in accordance with the Eurostat/OECD definition for statistical purposes for so-called ‘gazelles’ for this report⁵:

All companies which are less than 5-years old, and have an average growth in employee numbers of 20 percent per annum over a period of three years and at least ten employees at the beginning of the observation period. Growth can be measured based on employee numbers or the turnover.

‘Gazelles’ are a sub-group of high-growth enterprises, with the distinction that gazelles are less than 5 years old, while the term ‘high-growth enterprises’ does not refer to a specific phase of a company’s life. The requirement of an average annual increase in employee numbers of 20 percent over a three-year period means that the definition can only be applied *ex post*. The OECD definition also has the advantage of international comparability.

‘Medium and high-growth enterprises’ are frequently considered as an additional category. These exhibit an average growth of above 10 percent over a 3-year period.

It should also be noted that the start-ups supported by the Confederation’s Commission for Technology and Innovation (CTI) are exclusively knowledge-based companies, and therefore constitute a subset of the innovative companies examined in this report.

3.4 Definition of the subject of the report

In accordance with the mandate from the Dender Postulate (13.4237), the development of innovative start-ups in Switzerland is a priority in this report. In particular, it seeks to answer the question of whether Switzerland actually has a small number of high-growth start-ups compared to other countries. In addition, it aims to analyse international programmes and measures, and draw conclusions for Switzerland.

In the area of start-up funding, numerous private and state initiatives and offers exist. This report focusses on individual aspects without assessing the effectiveness or overall management. It does not claim completeness. The focus is on a presentation of government incentives. Based on the Parliament’s instruction, the great range of existing private offers is not presented.

Equally, the subject areas of ‘digitalisation’ and ‘FinTech’ (except for crowdfunding) are not subject of this report. These subjects are already examined within the scope of numerous works of the Administration. In this context, the Federal Council adopted its “Digital Switzerland”⁶ strategy on 20 April 2016, and the report on the framework conditions of the digital economy⁷ on 11 January 2017. In addition, the Federal Council will review measures for strengthening and improving the competitiveness of the financial centre in the area of new financial technologies in fulfilment of the Postulate 15.4086 in the report. Moreover, the Federal Council has instructed the Federal Department of Finance (EFD) to review the regulatory need for action in the area of innovative financial technologies.

This report does not discuss the subject of work and residence permits, as this question is currently subject to parliamentary consultations and motions.

An analysis of social security issues is not provided, either. Reference is made to the Report of the Federal Council on the Framework Conditions of the Digital Economy⁸.

⁵ OECD/Eurostat Manual on Business Demography Statistics (2007), p. 63

⁶ BBI 2016 3985

⁷ Federal Council (2017)

⁸ Federal Council (2017)

Thus, this report offers no synopsis of the ecosystem of fast-growing start-ups, and cannot cover all dimensions and aspects. Rather, it is a continuation and consolidation of the analysis in the Federal Council's report on venture capital in Switzerland from June 2012.⁹

4 The situation of entrepreneurship and fast-growing start-ups in Switzerland

4.1 Entrepreneurship in Switzerland and in international comparison

4.1.1 Introduction

The international Global Entrepreneurship Monitor (GEM) offers a comprehensive overview of entrepreneurship across the world. To this end, the attitudes and characteristics of the individuals involved in the different phases and types of the entrepreneurial activity are measured. Within the scope of the GEM, the factors which stimulate or hinder entrepreneurial activity are identified. In 2014, 73 countries participated in the study, which represents all regions in the world, as well as a broad range of degrees of economic development¹⁰.

Switzerland has been participating in the GEM project since 2002. In 2014, the tenth country report on Switzerland has been published. The Fribourg School of Economics has collected the data in Switzerland in 2014 in cooperation with the Federal Institute of Technology of Zürich, SUPSI Manno and the ZHAW School of Management and Law¹¹. Through 2000 telephone and 36 expert interviews, entrepreneurial attitudes, activities and ambitions were investigated, and the factors of influence which dictate the type and scope of entrepreneurial activity were identified.

The key findings of the GEM study are expressed from the perspective of Switzerland. Highly developed national economies serve as a basis of comparison. The GEM conceptual framework is then analysed, before Total Early-Stage Entrepreneurial Activity is compared internationally and a conclusion is drawn.

4.1.2 The GEM conceptual framework

One of GEM's key objectives is to produce reliable data on entrepreneurship which is useful for facilitating meaningful comparisons over time, both, within and between national economies. For this reason, all participating national economies use standard research instruments.

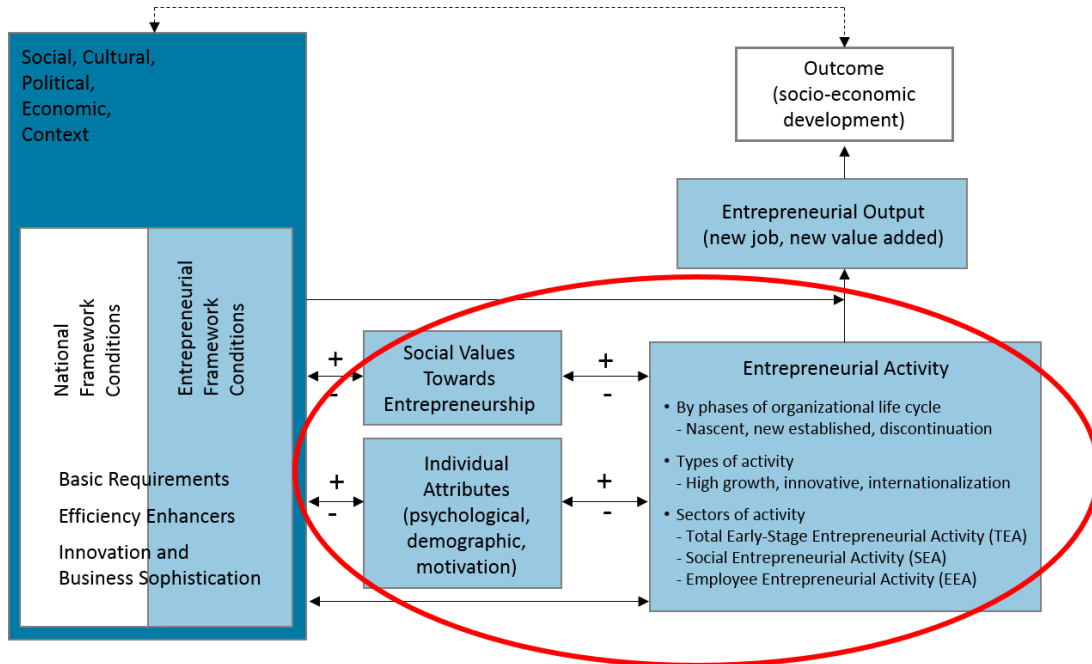
The GEM model illustrates the key elements in the relationship between entrepreneurship and economic growth, as well as the manner in which the individual factors affect each other. The GEM study was originally designed with the objective of analysing the correlation between entrepreneurship and economic development. The current revised GEM conceptual framework is illustrated in Figure 1.

⁹ Federal Council (2012)

¹⁰ Singer, Amorós and Moska Arreola (2015)

¹¹ Baldegger, Alberton, Wild and Hacklin (2014)

Figure 1: The revised GEM conceptual framework



Source: Global Entrepreneurship Monitor 2014 – Report on Switzerland

The social, cultural, political and economic context is reviewed on the basis of the national framework conditions and the entrepreneurial framework conditions. The characteristics off the assumed interdependencies between social values, personal characteristics and various forms of entrepreneurial activity are analysed. This is bordered in red in the Figure. Social values relating to entrepreneurship comprise the social status or entrepreneurs, how society perceives entrepreneurship as a career opportunity, and how media attention to entrepreneurship contributes to the development of an entrepreneurial culture in the country. *Individual attributes* consist of demographic factors, psychological factors and motivational factors. Entrepreneurial activity comprises the company’s life cycle phase, as well as the type and sector of activity. The entrepreneurial outcome is measured in consideration of the number of new jobs and value creation.

4.1.3 International comparison of Total Early-Stage Entrepreneurial Activity (TEA)

The rate of *Total Early-Stage Entrepreneurial Activity (TEA)* – the company formation activity – is defined as the proportion of working age individuals within the population who are actively involved in the creation of a company, either in the phase before company formation (*nascent entrepreneurs*) or up to 42 after the formation of the company (*owner-managers of new firms*). The GEM study examines the payment of wages for more than three employees.

Table 1: Total Early-Stage Entrepreneurial Activity rate in selected innovation-based national economies, 2014

Innovation-Driven Economies	Total Early-Stage Entrepreneurial Activity (TEA)
Unites States	13.8%
Canada	13.0%
Singapore	11.0%
United Kingdom	10.7%
Netherlands	9.5%
Austria	8.7%
Average (unweighted)	8.5%
Italy	7.1%
Luxembourg	7.1%
Switzerland	7.1%
Sweden	6.7%
Norway	5.7%
Finland	5.6%
Belgium	5.4%
France	5.3%
Germany	5.3%

Source: Global Entrepreneurship Monitor 2014 – Report on Switzerland

With the exception of the 2010 results, the Swiss rate of Total Early-Stage Entrepreneurial Activity was in region of six to eight percent. In 2014, the TEA rate in Switzerland (7.1%) was below the average of the innovation-based national economies (8.5%). Results for the neighbouring countries Germany (5.3%) and France (5.3%) in the area of entrepreneurial activity were lower. The countries with the highest TEA rates within the comparison group were the USA (13.8%), Canada (13.0%) and Singapore (11.0%).

4.1.4 Factors of influence on entrepreneurship

4.1.4.1 Entrepreneurial attitudes

The entrepreneur profile of the GEM conceptual framework includes entrepreneurial attitudes. Individual attributes (*perceived opportunities, perceived capabilities, fear of failure, entrepreneurial intentions*), as well as social values (*entrepreneurship as a good career choice, high status to successful entrepreneurs, media attention for entrepreneurship*) constitute an important part of the context in which an individual will or will not show entrepreneurial behaviour.

Table 2 shows where Switzerland stands compared to other innovation-based national economies in terms of entrepreneurial perceptions and attitudes. The contextualisation is significant for comparing these measurements across different countries. Individuals in different national economies may be thinking of diverse types of companies when they express their perceptions of opportunities and their own abilities, as well as their fear of failure and their entrepreneurial intentions. Cultural differences and different economic cycles are key explanations for country-specific perceptions.

Table 2: Percentage share of individuals with specific entrepreneurial perceptions, intentions and societal attitudes in selected innovation-based national economies, 2014

Innovation-driven Economies	Individual attributes				Social values		
	Perceived opportunities	Perceived capabilities	Fear of failure	Entrepreneurial intentions	Entrepreneurship as a good career choice	High Status to successful entrepreneurs	Media attention for entrepreneurship
Austria	44.4	48.7	34.9	8.1	-	-	-
Belgium	35.9	30.4	49.4	10.6	52.4	51.7	50.8
Canada	55.5	49.0	36.5	12.0	57.2	69.7	67.7
Finland	42.4	34.9	36.8	7.9	41.2	84.4	66.9
France	28.3	35.4	41.2	14.2	59.0	70.4	39.0
Germany	37.6	36.4	39.9	5.9	51.7	79.1	51.4
Italy	26.6	31.3	49.1	11.4	65.1	72.1	48.3
Luxembourg	42.5	37.6	42.0	11.9	40.7	68.2	43.5
Netherlands	45.6	44.3	34.8	9.3	79.1	67.8	55.7
Norway	63.5	30.5	37.6	5.0	58.2	83.5	-
Singapore	16.7	21.4	39.4	9.4	51.7	62.9	79.1
Sweden	70.1	36.7	36.5	8.5	51.6	70.9	60.3
Switzerland	43.7	41.6	29.0	7.1	42.3	65.8	50.4
United Kingdom	41.0	46.4	36.8	6.9	60.3	75.0	58.4
Unites States	50.9	53.3	29.7	12.1	64.7	76.9	75.8
Average (unweighted)	38.8	42.0	37.8	12.3	55.1	68.2	60.3

Source: Global Entrepreneurship Monitor 2014 – Report on Switzerland

Perceived opportunities are defined as the percentage share of individuals in the 18-64 age group who see good opportunities for starting a company in their direct environment. In 2014, the proportion of people in Switzerland who saw these entrepreneurial opportunities (43.7%) was greater than the average in the innovation-based national economies (38.8%). Canada (55.5%), the USA and the Nordic countries such as Sweden (70.1%) and Norway (63.5%) remain in the lead in terms of entrepreneurial opportunities.

Perceived capabilities are defined as the percentage share of individuals in the 18-64 age group who believe that they have the required skills, knowledge and experiences to start a company. The perception of a person's own entrepreneurial capabilities in Switzerland (41.6%) is comparable to the average of the innovation-based national economies (42.0%).

The measurement of *fear of failure* (associated with the formation of one's own company) only applies to those who perceive an opportunity for starting a company (this scale should be interpreted inversely. A low percentage rate expresses a deeper fear of failure.). The percentage share of individuals who report that their fear of failure would prevent them from starting a company is relatively low in Switzerland (29.0%). Switzerland (29.7%) even takes the leading position of all innovation-based national economies together with the USA (average: 37.8%). This disproves the often suspected fear of failure in Switzerland.

Entrepreneurial intentions are defined as the percentage share of individuals in the 18-64 age group who expect to start a company within the next three years. Those who are already involved in an entrepreneurial capacity are excluded from this measurement. Entrepreneurial intentions in Switzerland (7.1%) are below the average of the innovation-based national economies (12.3%). While on 5.0% of the individuals in Norway expect to start a company within the next three years, 12.1% of the individual in the USA and 14.2% of those in France plan to create a new venture.

In Switzerland, starting a company is less likely to be perceived as a good career opportunity (*entrepreneurship as a good career choice*) than in other innovation-based national

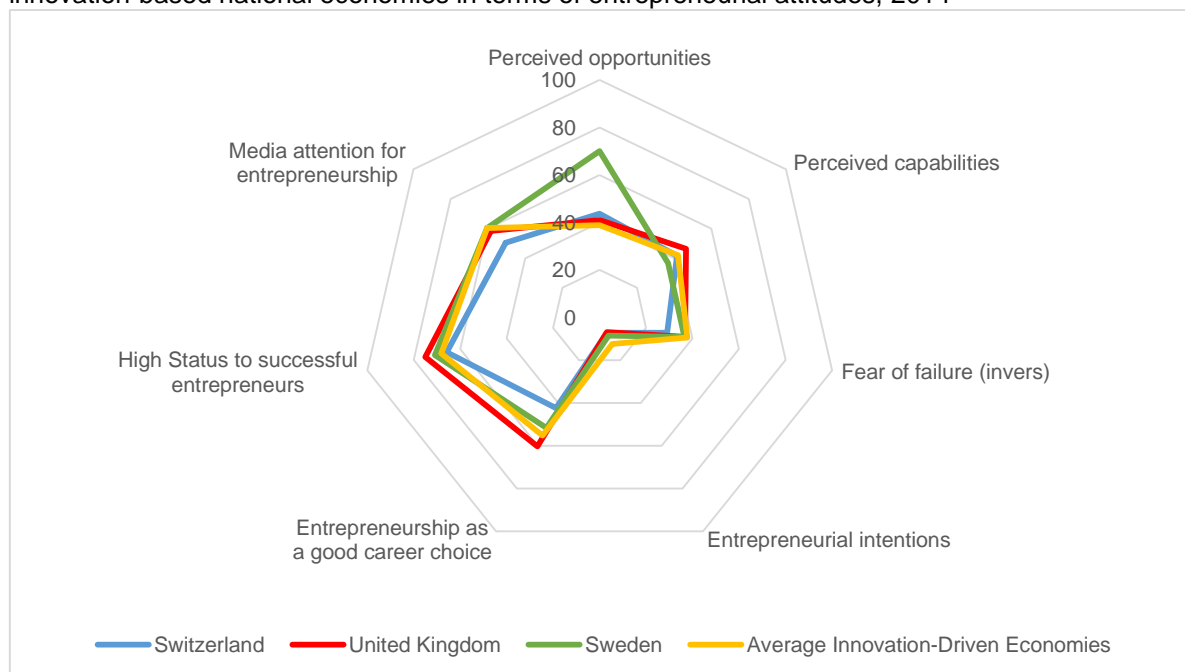
economies. The percentage share of individuals in the 18-64 age group who consider starting a new company a good career opportunity in Switzerland (42.3%) is lower than the average of the innovation-based national economies (55.1%) and significantly lower than the results in countries, such as the Netherlands (79.1%), Italy (65.1%), the USA (64.7%) or the United Kingdom (60.3%).

The percentage share of individuals in the 18-64 age group who attribute a *high status to successful entrepreneurs* stands at 65.8% in Switzerland. This is close to the average of the innovation-based national economies (68.2%).

50.4% of the individuals in the 18-64 age group in Switzerland think that *media attention for entrepreneurship* contributes to the development of an entrepreneurial culture in the country. This number is significantly below the average of the innovation-based national economies (60.3%), and significantly lower than the results in Singapore (79.1%), the USA (75.8%) or Canada (67.7%).

Figure 2 charts how Switzerland is positioned in terms of perception of the individual attributes as compared to the United Kingdom, Sweden and the average of the innovation-based national economies.

Figure 2: Comparison of Switzerland against the United Kingdom, Sweden and the average of the innovation-based national economies in terms of entrepreneurial attitudes, 2014



Source: Global Entrepreneurship Monitor 2014 – Report on Switzerland

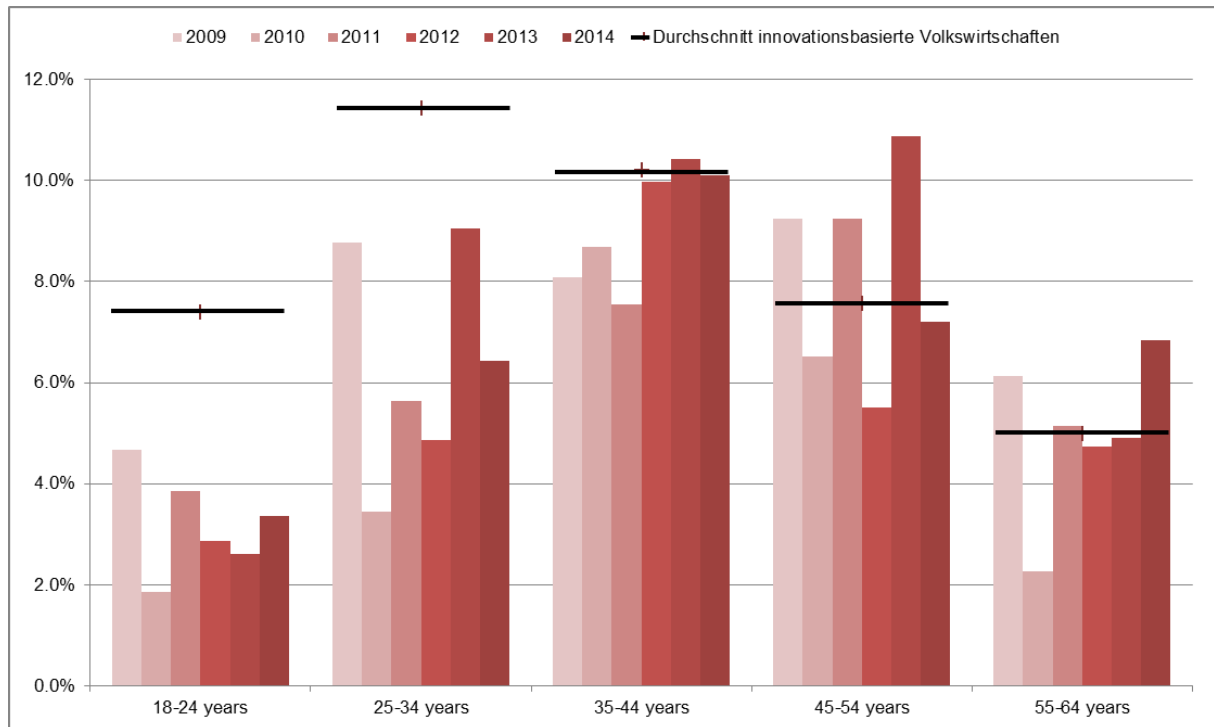
4.1.4.2 Demographic factors and gender

As described in the revised GEM conceptual framework, demographic factors are amongst the *individual attributes* that have an impact on the entrepreneur profile.

The age of the founders is significant with regards to entrepreneurship. On the one hand, younger people often have new ideas, they have grown up with digital technologies, and they are frequently better educated than their parents. On the other hand, older persons have usually acquired a lot of experience, contacts and capital in the course of their professional career.

Figure 3 illustrates the development of the rate of early-stage entrepreneurial activity from 2009 to 2014 in Switzerland by age groups.

Figure 3: Rate of Total Early-Stage Entrepreneurial Activity in Switzerland by age groups, 2009-2014, with the average of the innovation-based national economies, 2014



Source: Global Entrepreneurship Monitor 2014 – Report on Switzerland

Amongst the adult population aged between 35 and 44 years, the TEA rate in Switzerland stands at 10.1% in 2014, which is comparable to the average of the innovation-based national economies (10.2%). Compared to other innovation-based countries, the TEA rate of the 18-24 age group in Switzerland is amongst the lowest in 2014 with 3.4%, and significantly below the average (7.4%). However, this should not necessarily be considered negatively, as this age group is often still in training or education in Switzerland. The TEA rate for individuals older than 55 years (the ‘senior entrepreneurs’) of 6.8% in Switzerland is above the average of the innovation-based countries (5.0%).

From a gender perspective, the proportion of women involved in entrepreneurial activities is lower than the proportion of men in most countries. According to GEM, such gender-specific differences in Total Early-Stage Entrepreneurial Activity cannot be identified in Switzerland. While early-stage entrepreneurial activity in Switzerland was still dominated by men in 2003, it now shows a virtually balanced female/male ratio, and even held the top position amongst all innovation-based national economies for this aspect in 2014. While the female/male ratio is, for instance, 1:2 in Sweden and Singapore, it stands at 1:1 in Switzerland.¹² The authors of the study interpret this as an indication that women are taking a strong position in economic activities, and as an indicator for a good macroeconomic situation in Switzerland.¹³

4.1.4.3 Motivational factors

Motivational reasons facilitate additional understanding of the entrepreneurial profile of a national economy. In line with the demographic factors, motivational factors are captured under the *individual attributes* of the revised GEM conceptual framework.

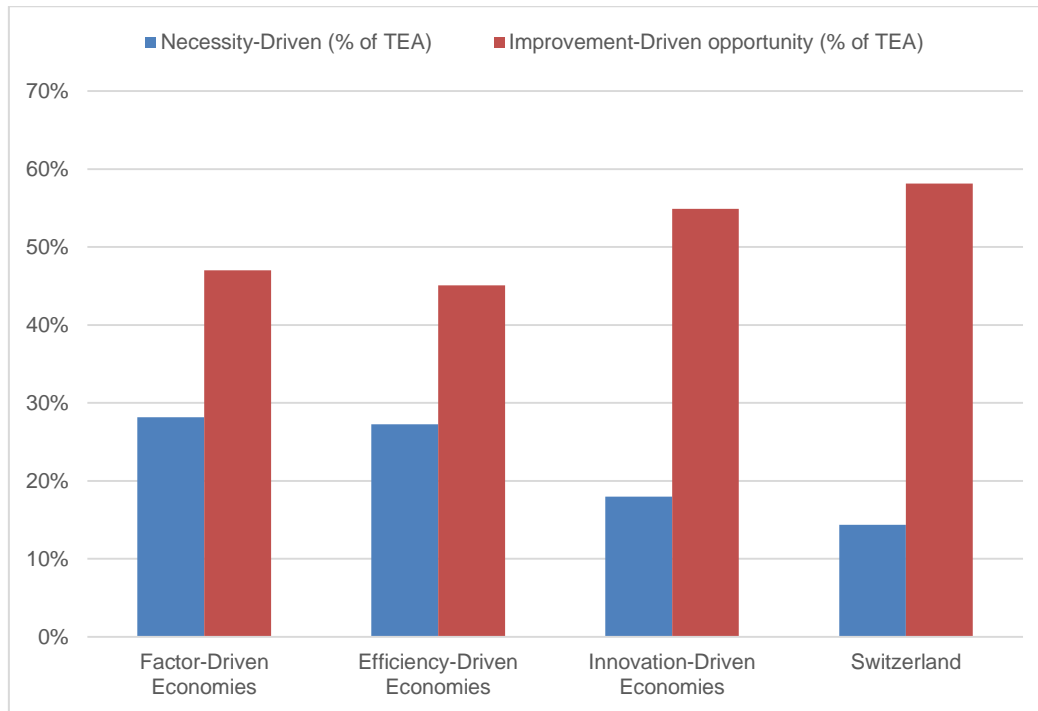
The GEM study differentiates between “*necessity-driven*” and “*opportunity-driven*” entrepreneurship. Entrepreneurs who start-up a company out of necessity (“*necessity-driven*”) do so for a lack of better options. Others do not start-up a company, because they

¹² This is confirmed by data from the Federal Statistical Office (FSO). According to statistics on company demographics (UDEMO), the proportion of company formations in which at least one woman was involved stood at 45 percent in 2014.

¹³ GEM Report Switzerland 2014, p. 27

lack options, but because of existing opportunities (“*opportunity-driven*”). Those who consider their start-up as an opportunity – the *opportunity-driven* entrepreneurs – are further categorised by the nature of the opportunity. “*Improvement-driven opportunity (IDO)*” entrepreneurs are defined as entrepreneurs who see an opportunity for improving their living conditions. They are either interested in a higher income and/or a greater degree of independence.

Figure 4: Percentage share of early-stage entrepreneurs motivated by necessity and opportunity, 2014



Source: Global Entrepreneurship Monitor 2014 – Report on Switzerland

Figure 4 shows what motivates the entrepreneurs in the different economic development phases¹⁴. Entrepreneurs in factor-based national economies are primarily steered by necessity. With an increasingly higher standard of economic development, necessity is gradually fading away as a motivational factor, while opportunity-related motivation increases. Figure 4 does not take account of those opportunity-driven start-ups where the motivation is limited to securing an income, and neither a necessity, nor an improvement of living conditions are a priority.

Swiss entrepreneurs are generally not motivated by necessity based on a lack of better options, but by the desire to increase their independence and/or income. The indicator for “*improvement-driven*” activities in Switzerland is slightly higher than the average of the innovation-based countries in 2014. This reflects the high degree of development of the Swiss economy.

4.1.4.4 Entrepreneurial framework conditions

In the GEM model, the factors expected to have a major impact on the company sector are captured in the *Entrepreneurial Framework Conditions (EFCs)*. The nine entrepreneurial framework conditions are mentioned and described in Annex 1. The quality of the framework

¹⁴ “Classification according to phases of economic development is based on the level of GDP per capita and the extent to which countries are factor-driven in terms of how much primary goods account for total exports. Factor-driven economies are primarily extractive in nature, while efficiency-driven economies exhibit scale intensity as a major driver of development. At the innovation-driven stage of development, economies are characterized by the production of new and unique goods and services that are created via sophisticated, and often pioneering, methods.” Global Entrepreneurship Monitor 2014 – Report on Switzerland, p. 5

conditions has a direct impact on the entrepreneurial opportunities and capabilities which, in turn, also determine the business dynamics.

In order to evaluate the framework conditions which influence entrepreneurial activity in Switzerland in 2014, 36 Swiss experts¹⁵ in various fields filled in a survey on factors related to the entrepreneurial environment in Switzerland. The results of the expert survey on entrepreneurial framework conditions in Switzerland and selected innovation-based national economies are stated in Table 3.

Table 3: Entrepreneurial framework conditions in selected innovation-based national economies, based on a survey of experts, 2014

Innovation-driven Economies	1. Financial environment related with entrepreneurship	2a. Government concrete policies, priority and support	2b. Government policies bureaucracy, taxes	3. Government programmes	4a. Entrepreneurial education at primary and secondary levels	4b. Entrepreneurial education at vocational and professional levels	5. R&D level of transfer	6. Access to professional and commercial infrastructure	7a. Internal market dynamics ¹⁶	7b. Internal market burdens	8. Access to physical infrastructure and services	9. Cultural and social norms, social support
Austria	2.51	2.46	2.60	3.58	1.66	3.02	2.82	3.40	2.49	3.33	4.12	2.46
Belgium	3.38	2.62	1.98	2.71	1.95	2.75	2.99	3.74	2.50	3.19	3.79	2.15
Canada	3.10	2.50	2.85	2.86	2.32	3.14	2.57	3.49	2.31	2.95	4.28	3.28
Denmark	2.73	3.33	3.31	3.43	3.10	3.43	2.77	3.56	2.43	3.44	4.49	2.82
Finland	2.82	3.17	2.95	2.77	2.28	2.70	2.61	3.20	3.23	2.72	4.25	2.76
France	2.77	2.99	2.96	3.17	1.75	2.92	2.73	3.06	3.02	2.34	4.04	2.14
Germany	2.84	2.93	2.87	3.46	2.13	2.81	2.75	3.34	2.84	2.81	3.82	2.65
Italy	2.55	2.40	1.50	2.08	1.68	2.33	2.18	2.83	3.50	2.61	2.92	2.22
Luxembourg	2.76	3.41	3.22	3.47	2.13	2.90	2.98	3.50	2.76	3.05	4.04	2.56
Netherlands	2.81	2.59	3.13	3.15	2.85	3.17	2.88	3.68	2.85	3.40	4.82	3.58
Norway	2.58	2.49	3.18	3.18	2.48	2.56	2.78	3.42	2.59	2.64	4.43	2.86
Singapore	3.56	3.48	3.98	3.68	3.02	3.34	3.17	3.23	3.42	3.04	4.45	3.16
Sweden	2.63	2.74	2.53	3.00	2.55	2.75	2.65	3.28	3.13	2.80	4.25	3.07
Switzerland	3.23	3.08	3.70	3.48	2.56	3.42	3.57	3.51	2.34	2.97	4.45	3.40
United Kingdom	2.77	2.90	2.33	2.62	2.44	3.02	2.20	2.95	3.28	2.73	3.54	2.83
United States	2.99	2.69	2.33	2.61	2.21	2.87	2.64	3.12	3.30	2.67	3.98	3.75
Average	2.74	2.69	2.65	2.90	2.19	2.89	2.64	3.18	2.94	2.79	3.99	2.82

Source: Global Entrepreneurship Monitor 2014 – Report on Switzerland

Scale 1-5, 1 = poorest rating, 5 = best rating

The experts generally rate the general framework conditions in Switzerland and Singapore higher than those in other innovation-based national economies participating in the study. Switzerland achieves outstanding results in the areas of finance, economic infrastructure, higher education, knowledge and technology transfer, and the stability of the domestic market dynamics. Switzerland is very strong in the field of research and development, and this results in numerous new commercial opportunities¹⁷. Higher education provided by universities, universities of applied sciences and professional training offer suitable preparation for the creation and development of new ventures.

Even though the Swiss experts rate the financial environment in Swiss as exceptional, they see further potentials for improvement for stimulating the start-up scene in the support for venture capital (equity) availability for growth companies. They also identify potential for improvement in the area of education for entrepreneurship. In the experts' opinion, the

¹⁵ A list of the experts is included in the Global Entrepreneurship Monitor 2014 – Report on Switzerland, p. 71

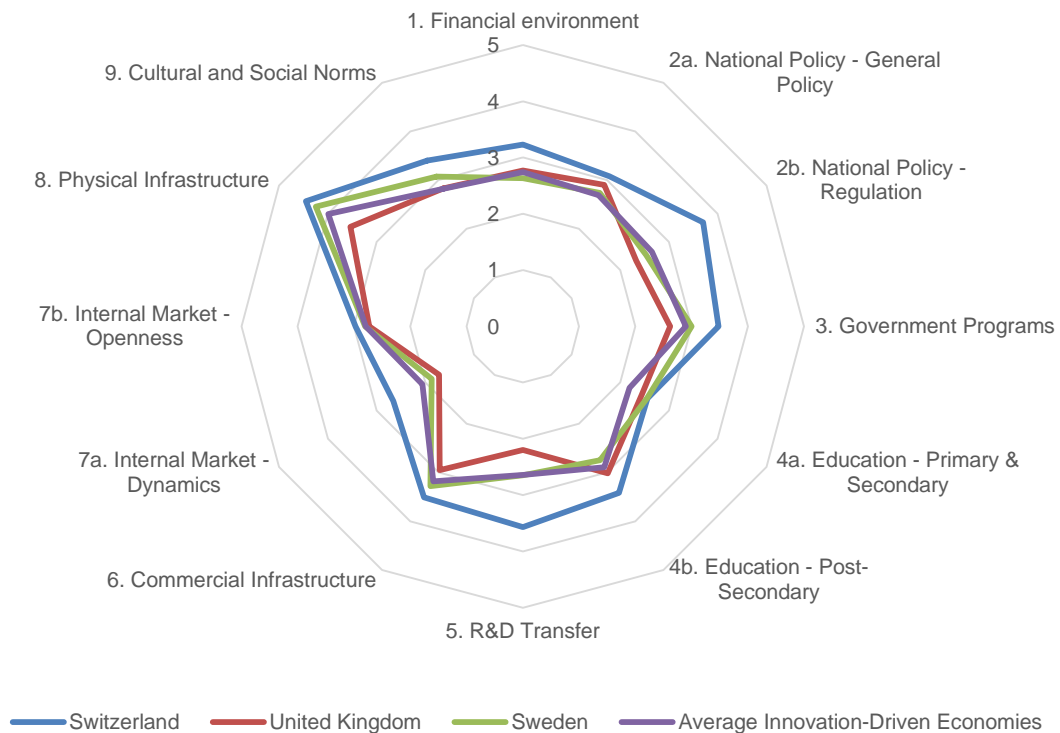
¹⁶ This EFC is scaled inversely; thus, lower values are a positive indication.

¹⁷ Comp. SERI Report on Research and Innovation in Switzerland 2016

degree to which primary and secondary education deals with leadership, creativity, innovation, independence and initiative is insufficient. The experts are wondering whether entrepreneurial projects and training commences too late in Switzerland, and whether entrepreneurial spirit and innovative behaviour should already be taught during the obligatory school period. Moreover, the experts highlight a potential for improvement for the stimulation of entrepreneurship through development of a culture of risk tolerance.

Figure 5 shows how the entrepreneurial framework conditions in Switzerland are rated as compared to the United Kingdom, Sweden and the average of the selected innovation-based national economies.

Figure 5: Comparison of Switzerland against the United Kingdom, Sweden and the average of the innovation-based national economies in terms of entrepreneurial framework conditions, 2014



Source: Global Entrepreneurship Monitor 2014 – Report on Switzerland
 Scale 1-5, 1 = poorest rating, 5 = best rating

In general, the entrepreneurial framework conditions in Switzerland are rated higher than those in the UK, Sweden or the average of the innovation-based national economies.

4.1.5 Opportunity costs for entrepreneurs in Switzerland

Opportunity costs relate to the foregone income which arises by the decision for one and against another given alternative, insofar as several alternatives exist. If a self-employed activity is taken up from a position of employment, opportunity costs may be incurred. In other words: founders may generate a lower income with a self-employed activity than they would receive from employment.

Evidence from the surveys on entrepreneurial attitudes in the Global Entrepreneurship Monitor suggests that Swiss entrepreneurs face higher opportunity costs than entrepreneurs from other countries for the reasons discussed below. This could provide information on the somewhat lower level of early-stage entrepreneurial activity in Switzerland in international comparison.

Compared to the innovation-based national economies (average: 38.8%), the existence of entrepreneurial opportunities is increasingly identified in Switzerland (43.7%). Moreover, individuals rate their own entrepreneurial capabilities as good. At the same time, there is a

low fear of failure (29.0%); the lowest rate amongst all survey participants in innovation-based countries (average: 37.8%). Nevertheless, entrepreneurial intentions remain low, and entrepreneurship is less frequently considered to be a good career opportunity (42.3%) compared to the results of other innovation-based national economies (average: 55.1%). Despite excellent overall entrepreneurial framework conditions, the proportion of 18 to 64-year olds who are attempting to start-up a company or have done so within the past three and a half years (the '*TEA enterprise birth rate*') in Switzerland is slightly below the average of the innovation-based national economies with 7.1%.

In actual fact, a study¹⁸ conducted by St. Gallen University on behalf of the State Secretariat for Economic Affairs (SECO) confirms the negative correlation between per capita income – as an indicator for the average opportunity costs in a country – and the national enterprise birth rate in international comparison. Thus, the fact that the Swiss enterprise birth rate is slightly lower compared to international benchmarks indicates neither a lack of interest of the Swiss in entrepreneurship nor an – often quoted – risk aversion or fear of failure, but is rather due to a very high per capita income combined with a strongly innovation-based economy. High labour market participation rates, relatively low unemployment and good earnings opportunities in most occupational groups result in a significantly lower rate of *necessity-driven* company formation in Switzerland compared to other countries (also see Figure 4) which, in turn, reduces the enterprise birth rate in international comparison.

In contrast to the international comparison, the studies indicate a positive correlation between opportunity costs and probability of entrepreneurial activity within Switzerland. This means that the highest inclination to start-up a company is found amongst the group of people with higher opportunity costs, i.e. on a high income. On the one hand, this positive correlation can be explained by the fact that *necessity-driven* company formations in Switzerland are relatively rare, while the identification and realisation of a good business idea requires knowledge and skills which are also valuable on the labour market.

In reality, a person's inclination to start a company is not only based on the opportunity costs, but also influenced by a range of other factors which can offset the opportunity cost effect to some degree. In particular, these include:

- The desire for independence and self-realisation. People usually only follow this desire once a certain level of income or wealth has been achieved.
- A certain degree of knowledge and cognitive skills is always required to actually identify and develop business opportunities.
- Certain self-employed activities require specific training or degrees.

The study shows that the rate of company formation involving individuals with a university degree (3.2%) is almost double that of individuals with only primary education. Furthermore, founders with high opportunity costs more frequently pursue – economic consistency – companies with higher growth objectives and high revenue expectations. The results are consistent with the findings of the Global Entrepreneurship Monitor that most company formations in Switzerland are based on the realisation of a good business idea, and not due to a lack of alternative occupational options.

4.1.6 Conclusion for entrepreneurship in Switzerland and in international comparison

According to the Global Entrepreneurship Monitor (GEM), Switzerland is close to the average of the innovation-based national economies in terms of perception of the existence of entrepreneurial opportunities, people's perception of their own entrepreneurial capabilities, as well as social status and society's respect for entrepreneurs. Compared to other innovation-based countries, Switzerland exhibits an extraordinarily low fear of failure. Only 29% of the economically active population would be prevented from starting their own business due to a fear of failure. With this figure, Switzerland is even ahead of the USA.

¹⁸ Bergmann (2016)

Nevertheless, there is a low level of entrepreneurial motivation amongst the Swiss population, and the Swiss are less likely to perceive the establishment of a new company as a good career opportunity than people in other innovation-based national economies. According to the survey, entrepreneurship receives a low level of media attention compared to other countries.

Switzerland is one of the countries with the best framework conditions for entrepreneurial activities. The experts' assessments are especially outstanding in the areas of finance, economic infrastructure, higher education, knowledge and technology transfer, and the stability of the domestic market dynamics. However, experts see a potential for improvement in the areas of venture capital availability for growth companies, and education for entrepreneurship during primary and secondary education.

Despite good framework conditions, Swiss results relating to early-stage entrepreneurial activity stands at 7.1 percent which is below the average of innovation-based national economies (8.5%). However, the fact that the enterprise birth rate is slightly lower compared to international benchmarks indicates neither a lack of interest of the Swiss in entrepreneurship nor a fear of failure. Rather, the slightly lower TEA rate is attributable to the high per capita income combined with a strong innovation focus of the national economy. High labour market participation rates, relatively low unemployment and good earnings opportunities in most occupational groups result in a significantly lower rate of necessity-driven company formation in Switzerland compared to other countries. At the same time, the identification and realisation of a good business idea requires knowledge and skills which are also valuable on the labour market. The enterprise birth rate in international comparison is reduced accordingly.

At 3.4 percent, early-stage entrepreneurial activity of the 18-24 age group is particularly low in Switzerland as compared to other countries (7.4%). This can be explained by the fact that people in this age group are often still in education in Switzerland. In contrast, Switzerland holds the leading position of all innovation-based national economies in terms of women's early-stage entrepreneurial activity. Switzerland boasts a balanced ration between male and female entrepreneurs.

4.2 Statistical data on the development of fast-growing start-ups in Switzerland

4.2.1 Data on high-growth companies

Overall, the data basis on high-growth companies in Switzerland has thus far been thin. Thus, international comparisons are not always straightforward, especially on account of methodological differences and data collection issues. In order to respond to the Postulate, SECO has commissioned a study.¹⁹ It links data of the Federal Statistics Office (FSO) to make statements on the new ventures and high-growth companies in Switzerland. In addition, the FSO published data on the high-growth enterprises for the year 2014 for the first time in March 2017.

According to a SECO study, the number of new ventures in Switzerland remained stable between 2007 and 2013 across all sectors, and deviated from the longer-term average by a maximum of 5 percent in any given year. The developments in Belgium and the USA were similar to those in Switzerland. While countries, such as Germany, Italy, Denmark or Spain, showed a declining number of new ventures, others including Sweden and the UK experienced significant increases.

The probability of new venture survival is very high in Switzerland compared to other countries: Almost 60 percent of all companies founded in 2007 were still active five years later. Out of all 18 analogue OECD countries, this proportion is only higher in Austria,

¹⁹ Ecoplan (2016)

Belgium and Sweden. The other neighbouring countries are in the international middle range with 40 to 50 percent.

Table 4: Overview of high-growth companies in Switzerland 2008-2013

	Companies with at least 10 employees	Total employees	High-growth enterprises		Gazelles ²⁰	
			Number of Companies	Number of Employees	Number of Companies	Number of Employees
2008	44,028	2,957,361	1,585	139,523	79-*	5,836-*
2011	49,221	3,308,515	1,873	146,110	78-340	3,258-22,079
2013	49,780	3,355,725	1,823	93,365	104-463	3,773-19,461

Source: Ecoplan (2016)

* No upper limit can be specified for 2008.

The SECO study shows that the proportion of *high-growth enterprises* in Switzerland with an annual growth rate of at least 20 percent over 3 years is stable at around 3.5 percent of all enterprises with 10 or more employees. Here, Switzerland is close to the internationally leading nations, such as Sweden, the UK or Israel which boast percentage shares of between 4.0 and 5.5 percent. Especially in the years following the economic crisis of 2008, the proportion of high-growth enterprises is high in Switzerland as compared to other countries. In Switzerland – as in most analogue countries – the proportion in the service sector is particularly high at 4.5 percent.

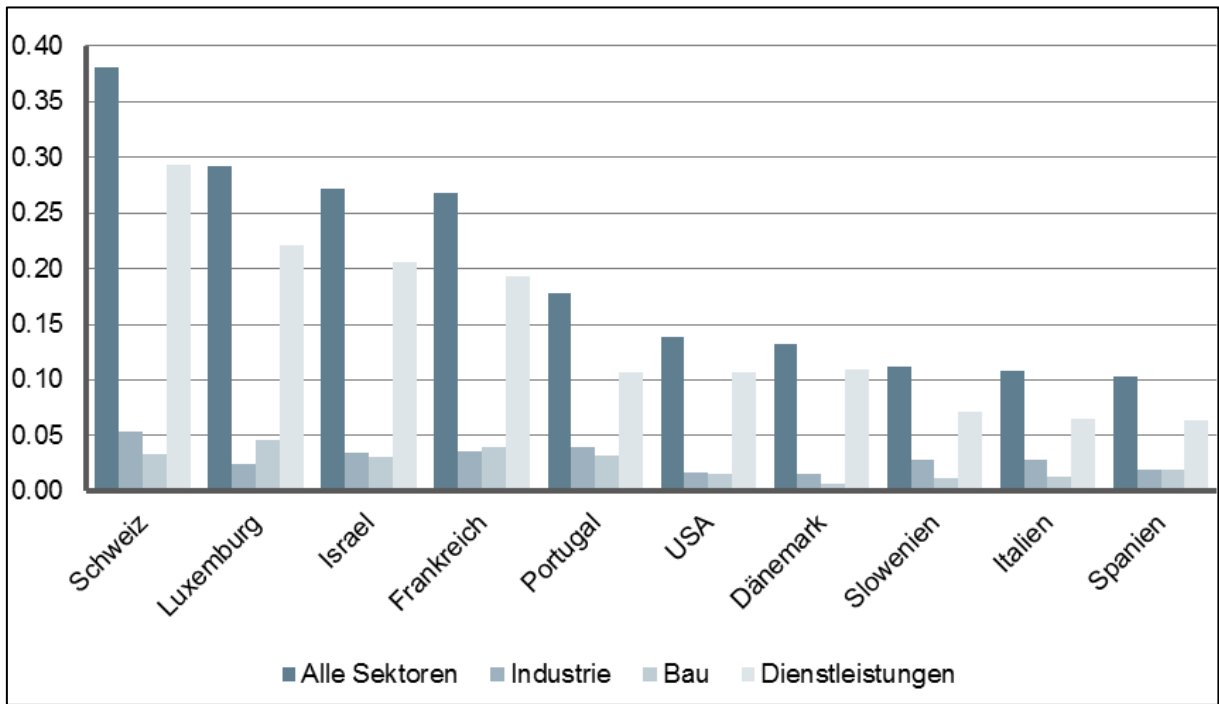
On a per capita basis, the number of *high-growth enterprises* in Switzerland is significantly above that of most analogue countries. There are around 400 high-growth start-ups per 100,000 Swiss residents. This figure is just below 300 in Israel and 150 in the USA. The majority of high-growth enterprises – usually around 75 percent – is active in the service sector, both in Switzerland and internationally (comp. Figure 6).

Within Switzerland, the major regions of Zürich and Lake Geneva are home to an above-average number of high-growth enterprises. In 2011, 45 percent of all Swiss *high-growth enterprises* were based in these two major regions. Meanwhile, the proportion of high-growth enterprises based in the Canton of Ticino is below average.

The share of high-growth enterprises in employment in Switzerland reflects their share in the number of companies with 10 or more employees. Around 4 percent of the employees work in *high-growth enterprises*. Thus, Switzerland is close to internationally leading analogue countries: Switzerland is in the middle between the analogue countries Israel, New Zealand and the USA. In the USA, the share of employees working in *high-growth enterprises* is around one percentage point higher in the USA than in Switzerland; however, their per capita number of *high-growth enterprises* is only half of Switzerland's figure. This indicates different corporate structures in the USA and Switzerland. While the number of high-growth enterprises in the USA is significantly lower than in Switzerland, they employ a larger number of people. Meanwhile, the Swiss structure is characterised by a large number of medium-sized high-growth companies.

²⁰ Identification of gazelles in Switzerland is difficult, because the company age can only be determined for some companies and only *ex-nihilo* where a new enterprise is formed. Together, these factors mean that only an upper and lower limit can be specified for the number of people employed by gazelles in Switzerland.

Figure 6: Number of *high-growth enterprises* in 2011 per 1,000 working age residents (20-64)



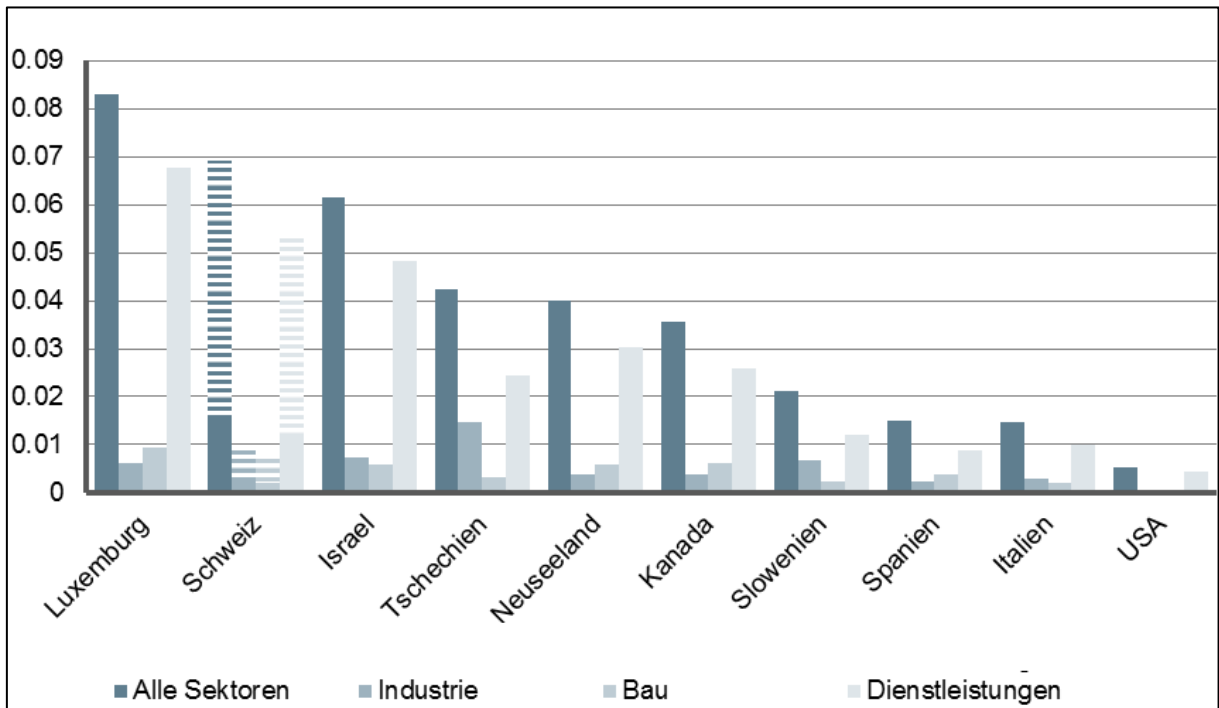
Source: Ecoplan (2016)

Then again, the proportion of employees in high-growth enterprises is highest in the service. This applies to both, *high-growth enterprises* and gazelles. For the *high-growth enterprises*, the share of employees working in the service sector is 5 percent, while 4 percent work in the construction industry and 2 percent in the industrial sector. Within Switzerland, the share of employees of *high-growth enterprises* is above average in the major regions of Zürich and Lake Geneva, as well as in Central Switzerland. In these regions, 4.7 to 5.7 percent of all employees work in high-growth enterprises. For the gazelles, the major regions of Zürich and Lake Geneva are clearly in the lead with an extra percentage point of employees working for gazelles.

The number of gazelles (start-ups younger than 5 years with an above-average annual growth above 20 percent per year over a three-year period, and 10 or more employees at the beginning of the observation period) follows that of the high-growth enterprises, standing at between 0.2 and 0.8 percent of all companies with 10 or more employees, which corresponds to approximately 80 to 400 companies (data from 2011 and 2013) There are various indication for the percentage share of gazelles being close to the upper limit. At 0.8 percent, this is at a similar level at the leading analogue country of Israel with 0.9 percent.

The number of gazelles per 1,000 working age residents largely shows the same picture as that of *high-growth enterprises*. Then again, Switzerland is in the leading group of the analogue countries based on the upper limit with up to 7 gazelles per 100,000 residents (comp. Figure 7). Only Luxembourg boasts a slightly higher proportion. In this more likely case, Switzerland is on a very similar level to Israel (6 gazelles per 100,000 residents). If, contrary to expectation, the real figure is closer to the lower limit, Switzerland would still have a higher per capita number of gazelles than Spain, Italy and the USA.

Figure 7: Number of gazelles in 2011 per 1,000 working age residents (20-64)



Source: Ecoplan (2016)

In March 2017, the Federal Statistical Office (FSO) published data on high-growth enterprises for the first time²¹, i.e. data on enterprises which averaged an annual employment growth of more than 10 percent over a period of three years (*medium- and high-growth enterprises*²²). The results show that a total of 4,594 medium and high-growth enterprises were based in Switzerland in 2014. This equates to 7.7 percent of all enterprises with 10 or more employees. Between 2011 and 2014, these enterprises contributed to the creation of 88,000 new jobs.

4.2.2 Conclusion

In terms of the proportion of high-growth enterprises, Switzerland is amongst the leading countries. Relative to resident numbers, the number of high-growth enterprises in Switzerland is significantly above that of most analogue countries. Moreover, the share of high-growth enterprises in Swiss employment figures reflects their share in the number of companies with 10 or more employees.

Thus, thesis that Switzerland has a low number of high-growth enterprises and only few jobs are created in this area cannot be confirmed based on the existing data. On the contrary, Switzerland is a location characterised by fast-growing start-ups and existing enterprises in international cross-comparison.

²¹ Press release of the FSO from 06 March 2017: "2014 wurden 4594 Unternehmen bezüglich Beschäftigung als wachstumsstark qualifiziert" (In 2014, 4594 enterprises qualified as high-growth in terms of employment)

²² The definition of high-growth enterprises used by the FSO differs from that of the SECO study: *Medium and high-growth enterprises* according to the definition in this report are referred to as *high-growth enterprises* in the FSO statistics.

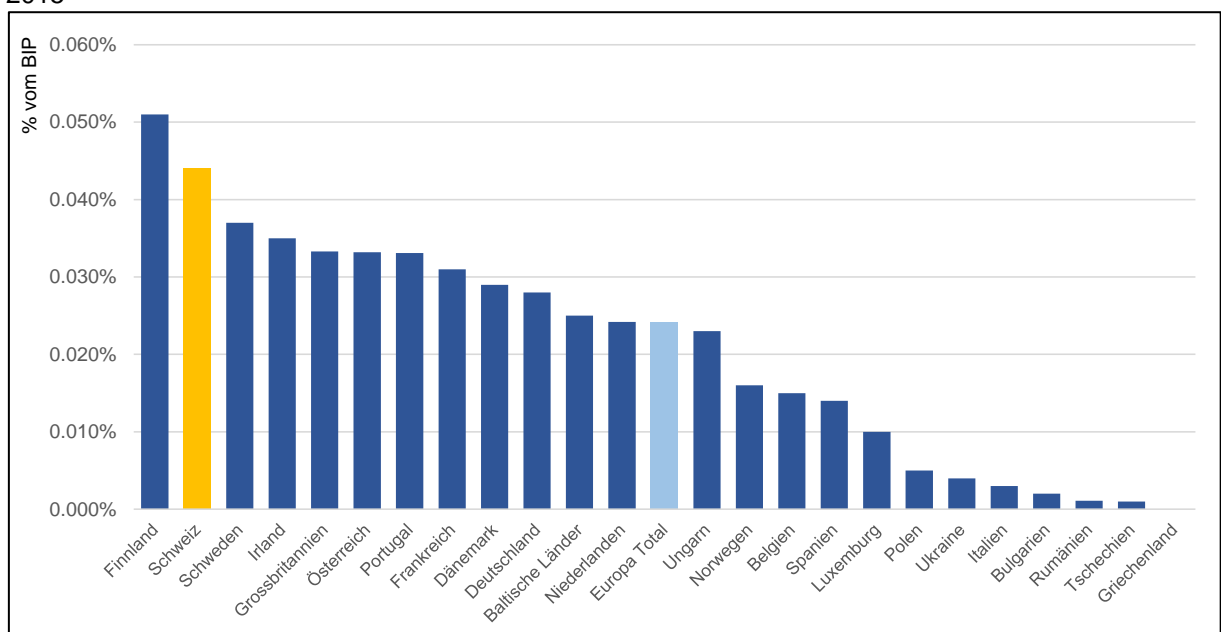
4.3 The venture capital market in Switzerland

4.3.1 Investment in venture capital in Switzerland and in international comparison

The *Global Venture Capital and Private Equity Country Attractiveness Index 2015* attests Switzerland good overall framework conditions for venture capital. In the global benchmark, Switzerland takes tenth place.²³

International comparisons show that Switzerland is one of the countries with a stronger level of development of the venture capital market. According to the most recent figures of Invest Europe (formerly EVCA), Switzerland is in the lead within Europe in relation to venture capital.²⁴ With regards to the percentage share of GDP that venture capital investments account for, Switzerland ranks second within Europe behind Finland in 2015. The percentage share of venture capital of GDP was 0.044 percent (comp. Figure 8). In global comparison, venture capital in Switzerland accounts for a significantly lower percentage share of GDP; in particular, compared to Israel (0.383 percent) and the USA (0.284 percent)²⁵

Figure 8: European comparison of the percentage share of investments in venture capital of GDP, 2015



Source: Invest Europe (EVCA) Yearbook 2016

According to the data from Invest Europe, a total of CHF 369 million was invested in seed, start-up, later stage and growth capital in Switzerland in 2015. This equals a growth of 33 previous year as compared to the previous year (comp. Table 4).

²³Groh A., Liechtenstein H. and Lieser K. (2015)

²⁴ Invest Europe Yearbook 2016

²⁵ OECD (2015a)

Table 5: Private equity investments by phase in Switzerland

in TCH	2008	2009	2010	2011	2012	2013	2014	2015
Seed	27'360	9'219	7'239	8'025	15'221	9'950	4'240	5'380
Start-up	150'884	229'277	176'744	198'593	88'179	163'483	113'645	234'300
Later stage venture	91'856	101'615	66'858	42'204	115'550	52'479	87'259	38'888
Total venture	270'101	340'112	251'215	248'823	218'951	225'912	205'144	278'567
Growth	218'517	115'870	295'200	53'522	118'464	44'885	72'092	90'681
Rescue / Turnaround	7'950	-	8'561	1'798	-	-	-	-
Replacement capital	7'343	9'438	7'037	596	241	47'617	345'980	36'223
Buyout	887'615	414'392	1'297'166	1'157'528	1'879'954	775'919	575'425	969'164
Total investment	1'391'528	879'812	1'859'178	1'462'267	2'217'610	1'094'333	1'198'640	1'374'633
Eurokurs	1.5874	1.5100	1.3823	1.2340	1.2051	1.2304	1.2144	1.0680

Source: Invest Europe (EVCA) Yearbook 2016

Table 6: Investments in private equity in S] by geographical origin and destination

in Mio. CHF	2008	2009	2010	2011	2012	2013	2014	2015
Invest. durch einheimische Gesellschaften	1'720'169	1'083'561	2'149'724	790'366	797'473	749'818	1'502'450	683'302
(-) davon investiert im Ausland	1'246'774	765'159	843'867	566'520	273'163	519'163	779'560	509'274
(+) Invest. im Inland durch ausländ. Gesellsch.	918'133	561'409	553'321	1'238'420	1'693'301	863'676	475'749	1'200'606
Totalinvestitionen in der Schweiz	1'391'528	879'811	1'859'178	1'462'267	2'217'611	1'094'332	1'198'640	1'374'634
Anteil ausländische Investitionen	66%	64%	30%	85%	76%	79%	40%	87%

Source: Invest Europe (EVCA) Yearbook 2016

The consolidation of the venture capital flows shows that the Swiss venture capital market is open, and largely supplied with funds from abroad (comp. Table 6). This openness also manifests itself in the large proportion of foreign investment by Swiss companies or investors.

Due to differences in methodology, the data from Invest Europe cannot be compared to that of the Swiss Venture Capital Report. The Swiss Venture Capital Report which captures and analyses all published venture capital investments in Swiss start-ups has noted an increase in investments for the fifth time in a row. According to the Swiss Venture Capital Report, domestic and foreign investors provided venture capital of CHF 909 million in 151 financing rounds in 2016, which represents an increase of 35 percent as compared to the previous year (2015: CHF 676 million).²⁶ Independently from each other, both sources confirm the strong growth in venture capital investments in Switzerland.

4.3.2 Conclusion

The percentage share of investments in venture capital of GDP in Switzerland is high in international comparison. Switzerland takes second place within Europe while recording a significantly lower share compared to the leading countries worldwide, especially Israel and the USA. The Swiss venture capital market is open, and largely supplied with funds from abroad. Various sources show a notable increase in investment in Switzerland in recent years. Thus, it can be noted that Switzerland is one of the countries with an active venture capital market.

4.4 Conclusions for the situation of entrepreneurship and fast-growing start-ups in Switzerland

While Switzerland is one of the countries with the best framework conditions for entrepreneurial activities, the Swiss populations has a lower degree of entrepreneurial intentions than those of other comparable national economies. The Swiss are less likely to perceive the establishment of a new company as a good career opportunity than people in other innovation-based national economies.

However, the fact that the Swiss enterprise birth rate is slightly lower compared to international benchmarks indicates neither a lack of interest of the Swiss in entrepreneurship

²⁶ Comp. Swiss Venture Capital Report 2017

nor an – often quoted – risk aversion or fear of failure, but rather a very high per capita income combined with a strongly innovation-based economy. Thanks to a high level of labour market participation, comparably low unemployment rates, and good income opportunities in most occupational groups, start-ups are relatively seldom founded out of necessity. The proportion of people creating a new venture based on the identification and realisation of a good business idea is slightly higher in Switzerland than the average of the innovation-based countries.

In terms of the proportion of high-growth enterprises, Switzerland is amongst the leading countries. Relative to resident numbers, the number of high-growth enterprises in Switzerland is significantly above that of most analogue countries. Switzerland is a location characterised by fast-growing start-ups and existing enterprises in international cross-comparison.

In terms of the percentage share of GDP attributable to venture capital investments, Switzerland takes second place within Europe while recording a significantly lower share compared to the leading countries worldwide, especially Israel and the USA. The Swiss venture capital market is open, and largely supplied with funds from abroad. Switzerland is one of the countries which have an active venture capital market.

5 Public financing options in Switzerland

5.1 Cantonal financing options

5.1.1 Object of the survey of the Swiss cantons

As part of this report, a survey of the cantons was conducted with the objective of mapping as complete an overview of the cantonal offers for start-ups as of 01 February 2016 as possible.

As part of this report, a survey of the cantons was conducted with the objective of mapping as complete an overview of the cantonal offers for start-ups as of 01 February 2016 as possible. A questionnaire was sent to the business development offices of the cantons. The questions related to existing financing offer (subsidies, debt financing offers, equity offers) on the one hand, and fiscal incentives offered by the cantons on the other hand. In addition, the cantons were asked about consultancy, training and infrastructure offers that benefit start-ups.

The survey constitutes no assessment of the individual programmes. Thus, the question of whether the measures are effective and efficient was not subject of the survey.

5.1.2 Overview of cantonal financing offers

Table 7 shows the different cantonal support options relating to enterprise financing. The relevant offers are financed by the Swiss cantons (without cantonal banks) in full or in part. Offers which are not financed by the municipalities are not included in the survey. In supplement to Table 7, the associated legal foundations are shown in Annex 2.

Only measures relating to incentives of financial value were considered, excluding tax measures, consultancy offers, training offers and infrastructure offers. The latter subjects are dealt with in separate chapters. Table 7 also includes no offers provided by the cantonal banks, such as the Innovation Foundation and the guarantee fund of Schwyzer Kantonalbank, or the equity financing and mezzanine capital for start-ups provided by Zürcher Kantonalbank.

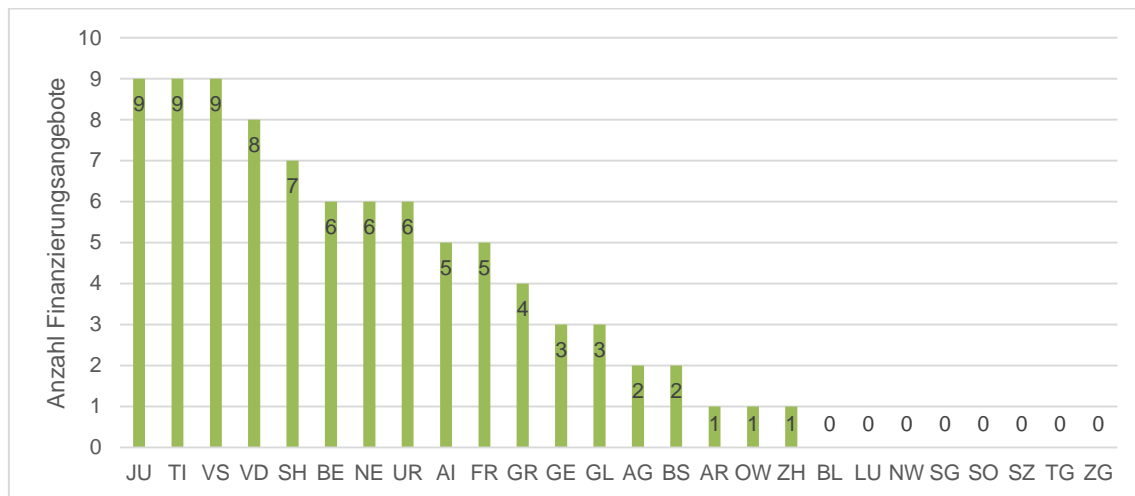
Table 7: Overview of cantonal financing offers

	AG	AI	AR	BE	BL	BS	FR	GE	GL	GR	JU	LU	NE	NW	OW	SG	SH	SO	SZ	TG	TI	UR	VD	VS	ZG	ZH	Tot.
Debt financing offers			X	X		X	X	X	X	X	X		X				X				X	X	X	X		X	15
Interest cost subsidies		X					X		X		X						X					X	X	X			8
Research contributions	X						X			X	X										X		X	X			7
Grants for job creation		X		X			X		X		X						X					X					7
Investment cost subsidies		X		X						X			X				X				X						6
Contribution towards trade fair participation				X							X		X								X		X	X			6
Grants for patent applications											X		X								X		X	X			5
Grants for market research	X												X								X		X	X			5
Grants towards founding SMEs		X		X							X						X					X					5
Contribution to rental costs						X					X				X		X					X					5
Grants for certifications													X								X		X	X			4
Equity offers							X	X													X			X			4
Grants towards training costs																					X		X				2
Other Support offers		X		X				X		X	X						X					X		X			8
Total	2	5	1	6	-	2	5	3	3	4	9	-	6	-	1	-	7	-	-	-	9	6	8	9	-	1	87

Source: SECO, own survey (2015), status date: 01 Feb. 2016

Table 7 shows a great variety of a total of 87 cantonal financing offers. More than half of the Swiss cantons (18) provide financing options for start-ups. For a more in-depth analysis, two charts are shown which reflect the findings in Table 7 from two different perspectives.

Figure 9: Number of financing offers for start-ups per canton



Source: SECO, own survey (2015), status date: 01 Feb. 2016

15 cantons offer several options, including Jura, Ticino and Valais (9), Vaud (8), Schaffhausen (7), or Berne, Neuchâtel and Uri (6). Three cantons (Appenzell Ausserrhoden, Obwalden and Zürich) each provide one financing offer. Eight cantons offer no financing options as defined in this survey (Basel-Landschaft, Lucerne, Nidwalden, Schwyz, Solothurn, St. Gallen, Thurgau and Zug).

Figure 10 shows which types of offers are provided by the cantons, and at which frequency.

Figure 10: Cantonal financing options for start-up support



Source: SECO, own survey (2015), status date: 01 Feb. 2016

15 Swiss cantons offer debt financing options. These mainly include loans (interest-bearing and interest-free) and guarantees for bank loans. 'Equity offers' is understood as a canton's or a foundation's participation in a company's equity. Four of the 26 Swiss cantons have such an instrument. Eight cantons grant interest cost subsidies. Seven cantons approve grants for research and job creation. A detailed list of the cantonal financing options is included in Annex 2. These measures are often not exclusive to start-ups, but also available to small and medium-sized enterprises which meet the required conditions. Grants towards investment costs (6), trade fair participation (6), patent applications (5), market research (5),

founding of SMEs (5), rental costs (5), certifications (4) or training costs (2) are also provided.

5.1.3 Conclusion

Under the economic policy, the Swiss cantons are competent to set up financing programmes that benefit enterprises. They mostly utilise this competence, and offer a great range of financing options for existing enterprises and start-ups. According to the survey of the cantons, 87 different cantonal offers relating to enterprise financing are in place as at 01 February 2016. 15 cantons offer support for borrowing capital, and four for raising equity.

5.2 Guarantees and loans of the Confederation

5.2.1 Commercial guarantees

Thanks to the system of commercial guarantees supported by the partnership of the Confederation and the guarantee cooperatives, SMEs can benefit from easier access to bank loans. Switzerland has three regional guarantee cooperatives – BG Mitte, BG Ost and Cautionnement romand – as well as the guarantee cooperative Frauen SAFFA which is active in all of Switzerland (www.kmu-buergschaften.ch). They can issue guarantees for loans of up to CHF 500,000. The Confederation assumes 65 percent of the cooperatives' loss risk and covers a share of the administration costs. The administration cost contributions allow the cooperatives to keep the cost of application review and monitoring, as well as the risk premium low²⁷ and thereby offer favourable terms to the SMEs.

The legal foundations for the commercial guarantees are the Federal Law from 06 October 2006 on Financial Assistance for Commercial Guarantee Providers²⁸, as well as the Ordinance from 12 June 2015 on Financial Assistance for Commercial Guarantee Providers.²⁹

Commercial guarantees were subject to an in-depth revision in 2007. Around five years later, SECO commissioned and external impact analysis as a basis for a synopsis. This supported the Federal Council's accountability to the Federal Assembly on the usefulness, effectiveness and efficiency of the law as part of a report from 20 November 2013.³⁰

In its report, the Federal Council found that the system of guarantees has developed favourably, and is based on a good and solid foundation. The system of guarantees successfully supports SMEs by enabling them to receive loans which banks would not otherwise issue to them. The system of guarantees thereby secures the companies' formation and successorship, and it facilitates business expansion. The most important purpose of guarantees with 34 percent is financing of operating resources, followed by financing the acquisition of existing operations (e.g. due to succession plans) with a share of 23 percent. Financing of new venture creation accounts for a share of around 15 percent. Even though not all new venture creations are start-ups as defined in this report, commercial guarantees are also important for the latter. The size of the market share relevant for commercial guarantees relating to venture creations with a higher capital requirement has been estimated at 4 to 16 percent as part of a study.³¹

A parliamentary motion demands an increase of the intervention limit of commercial guarantees to CHF 1 million.³² The Council of States accepted the motion of 16 September

²⁷ SR 951.251, Art. 12

²⁸ SR 951.14

²⁹ SR 951.251

³⁰ Federal Council (2013a)

³¹ KMU-HSG (2013)

³² 15.3792 Motion Comte: Increase of the intervention limit of guarantee providers to the benefit of SMEs

2015, and the National Council on 17 March 2016. The Federal Council will issue a corresponding Message to the Parliament by 2018.

5.2.2 Swiss Association for Hotel Financing (SGH)

The Confederation has access to a specific instrument for promoting the accommodation industry through the Swiss Association for Hotel Financing (SGH) (www.sgh.ch).³³ SGH is a cooperative under public law with the statutory remit of promoting the accommodation industry in tourist areas and spa locations. It disposes of an interest-free loan from the Confederation amounting to CHF 136 million. In addition, SGH has access to cooperative capital of around 26.5 million Swiss francs, as well as reserves (including profit carried forward) of around 16 million Swiss francs.

The SHG is active in two business segment. On the one hand, it grants loans subordinated to private capital providers to accommodation establishments in tourist areas and spa locations for the refurbishment and acquisition of accommodation establishments, new constructions and replacements. SGH thereby helps to take full advantage of the existing potential of the accommodation industry. At the end of 2014, the loan book stood at 155.5 million Swiss francs across 275 loans.

On the other hand, SGH provides consultancy services across Switzerland. These services focus on company valuations, feasibility studies and stimulus programmes which include an in-depth analysis and assessment of the accommodation structure in individual regions.

5.2.3 Technology funds

The Confederation uses a technology fund to promote innovations which reduce greenhouse gases or resource consumption, facilitate the use of renewable energies, and increase energy efficiency (www.technologiefonds.ch).³⁴ Guarantees make it easier for innovative companies to take out loans.

The Confederation can issue loan guarantees to enterprises which develop and market novel products and processes for the reduction of greenhouse gas emissions, the use of renewable energies, and the conservation of natural resources.

The guarantee must not exceed CHF 3 million. It can secure the guaranteed loan and the accrued interest in full or in part. The maximum term of the guarantee is 10 years. The enterprises must usually finance at least 40 percent of the subsidised ventures from their own funds. In justified cases, collateral may be required.

The guarantee is issued to banks or other suitable loan providers. In order to cover losses incurred from the guarantees, a maximum of CHF 25 million per year from the CO₂ levy income flow into a technology fund.

5.3 Review of a Confederation financing programme for start-ups

According to the mandate of the Postulate, the usefulness of introducing a financing programme for the benefit of start-ups should be reviewed. In order to facilitate such a review, a potential design of such a financing programme for start-ups provided by the Confederation is outlined below. This illustration then allows an assessment on the basis of a concrete object. The following description of an equity-based federal public financing programme for start-ups adjusted to Switzerland is based on the works of the OECD, and the publicly accessible insights of analogue programmes in other countries. This includes a financing programme tailored to the situation in Switzerland; however, without making assumptions about the assessment of usefulness provided hereinafter.

³³ SR 935.12

³⁴ SR 641.71 (Art. 35)

5.3.1 Description of a potential Confederation financing programme for start-ups

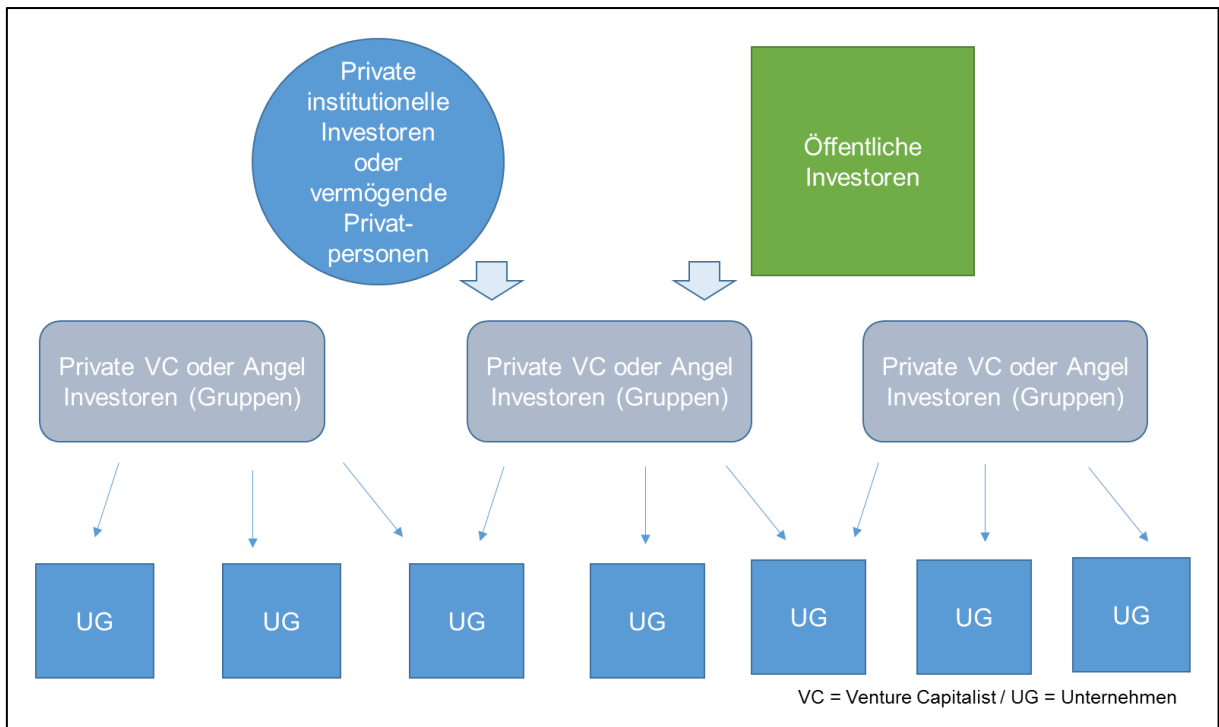
a. Illustration of models of public investment forms

A study³⁵ commissioned by the State Secretariat for Economic Affairs (SECO) provides two possible types of financing programmes for Switzerland: Co-investment funds and funds of funds. Experiences in other countries show that direct investment by the state is less successful than co-investment funds or funds of funds. Thus, this model was not evaluated further.

Co-investment funds:

Co-investment funds use public funds to supplement private investments. In these programmes, public funds are usually combined with funds provided by private investors which have been approved under the model.

Figure 11: Co-investment funds



Source: Wilson (2016)

Co-investment models are often considered as more than just an option for mobilising private funds, and also act as a driver for development, growth and professionalization of the market of seed and early-stage financing, because it provides a structured investment process.³⁶

Under this model, the investment decision is not made by the state, but by the private venture capital provider or angel investor, because the state usually lacks the expert knowledge. Delegating investment decisions to private investors has benefits, but also incurs costs. The state has to pay management fees. At the same time, private investors must accept that state participation also involves additional restrictions and reporting requirements.

Fund of funds

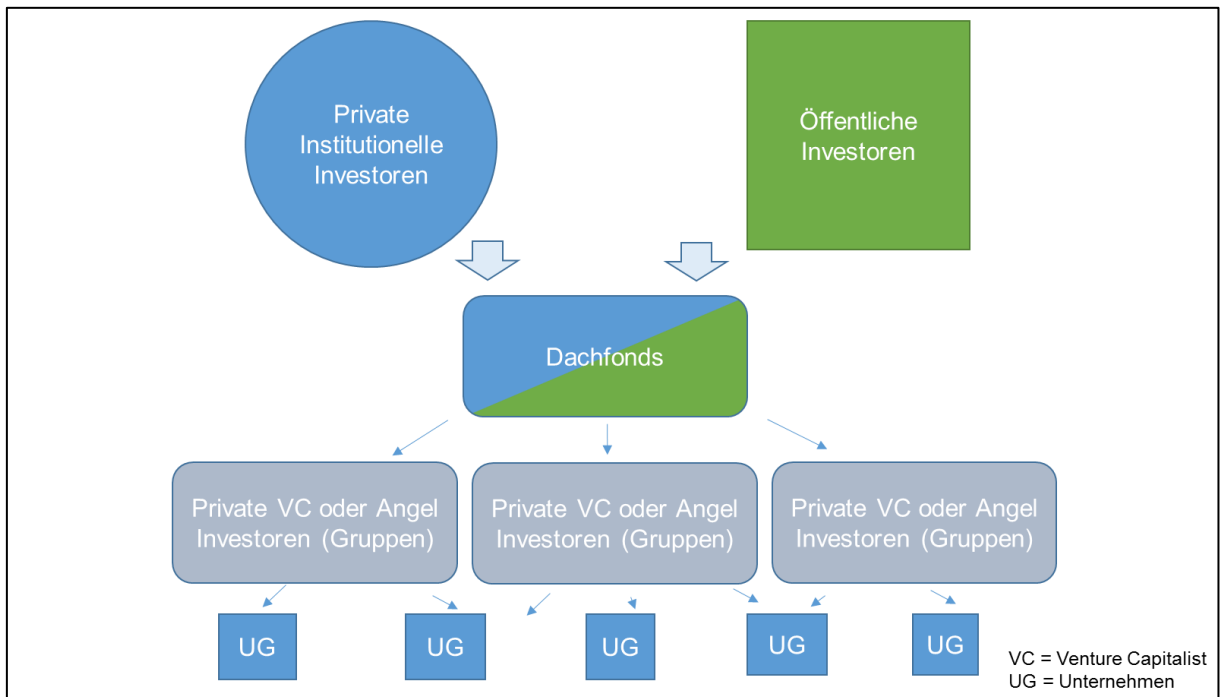
A “fund of funds” is an investment strategy that involves holding a portfolio on other investment funds, rather than investing directly in VC funds. A public-private fund of funds

³⁵ Wilson (2016)

³⁶ Wilson, K. E. and F. Silva (2013)

invests in private venture capital firms, often subject to the condition that other private institutional investors also invest in the fund of funds.³⁷

Figure 12: Fund of funds



Source: Wilson (2016)

Under this model, an additional layer is created between investors and private venture capital funds or angel investors with the fund of funds. The public sector selects no venture capital funds, but only a fund of funds. It is often easier for public authorities to appoint a fund of funds manager, than to select specific venture capital funds. However, this approach also results in higher management fees owing to the additional layer. State investments in funds of funds are primarily geared towards mobilising reluctant institutional investors. With a fund of funds, even institutional investors with limited experience in the venture capital market can invest in a diversified portfolio of venture capital funds.

In recent years, the fund of funds model has become an increasingly popular choice in various countries to create incentives for more private investments by institutional investors in the venture capital market. The European Investment Fund³⁸ chose this approach with the objective of supporting the growth of venture capital firms in Europe.

b. Rationale and objectives

In Switzerland, the general financing situation for seed and early-stage is considered as good overall. A Swiss financing programme should therefore focus on the early growth phase, where investments of 2 to 10 million Swiss francs are required. A programme can hardly be justified with a market failure, when such a failure cannot be substantiated in Switzerland. Rather, the promotion of an entrepreneurial ecosystem should be the primary motivation.

In this light, a fund of funds approach might contribute to the development of the Swiss venture capital market by supporting the growth of smaller venture capital funds, as well as involving institutional and international investors. On the other hand, a co-investment fund could enable Swiss venture capital funds to invest larger amounts in Swiss start-ups due to the public involvement.

³⁷ Wilson, K. E. and F. Silva (2013)

³⁸ Comp. Chapter 7.3

c. Term

The term of an individual investment fund should equal that of the private sector (10 years + 2). In order to ensure that consistent investments are possible, it is expected that a second fund should be established after 5 years, equally with a term of 10+2 years.

d. Structure

The programme design must fit the local context and, in particular, the existing ecosystem of the venture capital market. It must also be embedded in existing funding programmes and aligned with these.

A public financing programme should be realised in close cooperation with private participants in the market. The private sector should be involved in the development of the programme as early as possible. This is not only crucial for the planning, but also for the long-term success, and, while not the only requirement, it is a mandatory one.

The detailed structure is dependent on the approach taken for the programme (co-investment funds or fund of funds). Irrespective of this decision, private sector advisory board should be set up in any case. The programme could be set up by either an authority – for the co-investment fund – or as a public-private fund for the fund of funds

On account of the experiences in other countries, a period of approximately 18 to 24 months should be expected from all necessary political decisions being taken to a public financing programme being launched. Considering the 4-year period required for the full legislative process, another one or two years should be expected for the development.

e. Fund size, phase, sector and geographical orientation

In order to have an impact on the Swiss venture capital market and achieve the necessary security, the fund would need to be of a certain minimum size. With a focus on the early growth phase, experts recommend a minimum size of 200 million Swiss francs for Switzerland.³⁹ Assuming that the initial investment period typically lasts approximately 4 to 5 years, a second programme for further investments should be launched after 5 years. This would facilitate continuous investments over a 10-year period. In order to invest in 50-60 enterprises, two co-investment funds of 250 million Swiss francs each (after 0 and 5 years), or a series of programmes of 200 million Swiss francs each after 0, 5 and 10 years could be introduced. The total commitment of the Confederation over a period of ten years would therefore amount to approximately 500 million Swiss francs with yearly investments of around 50 million Swiss francs.

Since these programmes should focus on the growth phase (see a), investments of between 2 and 10 million Swiss francs per start-up (including follow-up investments) should be expected. Assuming annual investments of around 50 million Swiss francs and 10 million Swiss francs per start-up including follow-up investments, around 50 start-ups could be supported over the 10-year period.

A public financing programme should follow neither a sector-specific, nor a regional policy approach. No sector should be excluded, as it is not known at this point, which new, innovative sector might develop in Switzerland in the future.

f. Rules of engagement

The share of public funds in a fund should not exceed 50 percent. As an incentive for investors, a ceiling for returns of the Confederation could be agreed while losses would be distributed equally. Based on the experiences in other countries, this approach creates a better incentive, even though it may hinder the Confederation's efforts to achieve the highest possible return. However, an asymmetrical loss distribution should be avoided, as this often

³⁹ Comp. Wilson (2016), p. 30

creates the wrong incentives. Ensuring that the public funds mobilise additional private funds without resulting in market distortions or crowding out private funds is important.

g. Monitoring and evaluation

Numerous foreign financing programmes were not formally evaluated, and their effect has not been examined empirically. Sometimes, evaluation findings are not published, either. However, an evaluation of public programmes is crucial for assessing the desired impact and taking possible corrective action.

A public financing programme should be continuously monitored and report regularly (e.g. on transactions, involvement of private investors, performance of the funds and the enterprises, further financing in future rounds, returns, etc.).

In addition, an external evaluation should be conducted e.g. every five years to review whether the outcomes are in line with the originally defined objectives.

5.3.2 Assessment regarding the introduction of a Confederation financing programme for start-ups

The demand for a Confederation financing programme is usually justified with the argument that Switzerland has an insufficient number of high-growth enterprises, and that this is largely due to financing issues. The aforementioned analyses⁴⁰ did not confirm these assumptions. Switzerland is a location characterised by an above-average number of fast-growing start-ups and existing enterprises in international comparison while having access to an active venture capital market with a strong international network.

Switzerland has a relatively well-developed venture capital market. At present, certain deficits are only apparent in the early growth phase where financing in the region of approximately 2 to 10 million Swiss francs is required. The positive development of the venture capital market in Switzerland in recent years suggests that the financing situation in the early growth phase will also gradually improve in the coming years. A public financing programme would only be justified if no private resources could be mobilised, and a positive macroeconomic net effect of such a programme was also apparent. However, there are no indications for a market failure in this area.

A Confederation financing programme could only be justified with the objective of developing the Swiss venture capital market further, and increasingly motivating private, institutional investors to participate in this area. However, based on the experiences in other countries, the extent to which a public financing programme would effectively contribute to the achievement of this objective cannot be substantiated. Only a small financing programmes in other countries have been evaluated thus far. Their effectiveness cannot be substantiated effectively.

The introduction of a Confederation financing programme for start-ups requires long-term political commitment, as verifiable results will rarely be obtained in the initial ten years. Current and former programmes in other countries suffer(ed) from political pressure for their launch or discontinuation based on the political agenda or a lack of short to medium-term success.

Moreover, a public financing programme should not be considered as a stand-alone measure. The initial investment is typically followed up with further funds several years later to extend the support and develop the programme further.

A financing programme also involves a long-term financial commitment from the Confederation, amounting to 500 million Swiss francs over 10 to 15 years. The possibility of

⁴⁰ Comp. Chapter 4

the worst-case scenario that this amount is lost must be taken into account. Thus, introducing a programme also involves a financial risk for the federal budget.

5.3.3 Conclusion

In principle, Swiss economic policy aims to avoid state intervention in the absence of a market failure. The focus on improving framework conditions has also been successful in the area of venture capital.

The fact that Switzerland is one of the most innovative countries worldwide, and is home to an above-average number of fast-growing enterprises ⁴¹ shows that an attractive environment for start-ups can also be created without a public financing programme. Attractive framework conditions and a low level of obstacles are more important for the enterprises. Furthermore, private domestic and foreign investors should find that the conditions for investing in Swiss start-ups are optimal. This policy should also be continued in the future. Measures for improving framework conditions are explained in this report. At present, the Federal Council does therefore not consider it necessary to launch a public financing programme of the Confederation to support start-ups.

5.4 Conclusions regarding public financing options in Switzerland

Under the economic policy, the Swiss cantons are competent to set up financing programmes that benefit enterprises. They mostly utilise this competence, and offer a great range of financing options for existing enterprises and start-ups.

On national level, further offers are in place which help companies to obtain credits or loans, including commercial guarantees, the Swiss Association for Hotel Financing (SGH) and the Technology Fund. These instruments are also available to start-ups.

Even without a financing programme, Switzerland is one of the most innovative countries in the world, and already boasts an above-average number of fast-growing enterprises. At present, the Federal Council does therefore not consider it necessary to launch a public financing programme to support start-ups. Rather, the proven policy of providing good framework condition should be continued, creating the most attractive environment for start-up and investors possible.

6 The fiscal environment in Switzerland

6.1 Introduction

Switzerland generally offers an attractive level of tax burden from an international perspective. Compared to the rest of the OECD countries, the general level of taxes on profits is below average, capital gains from private assets are exempt from taxation, and the total average tax burden on income is internationally competitive. However, within its borders, there are significant differences which exist both between the individual cantons, and between different municipalities within a canton. This is primarily due to the fact that each of the 26 cantons has its own tax laws and significant tax autonomy, as they're autonomy includes the specification of the tax rates and thresholds. With the Federal Law on the Harmonisation of Direct Taxation at Cantonal and Communal Levels (StHG)⁴², the cantons' freedom in the arrangement of their tax laws has been restricted. It is directed at the cantonal and communal law makers and sets out the principles based on which they must arrange the Tax Code in relation to liability, the object of the tax and the tax period, procedural law and the law relating to tax offences. The taxation principles of the constitution,

⁴¹ Comp. Chapter 4.2

⁴² SR **642.14**

such as the principles of universality of taxation or taxation according to ability to pay must always be observed.

Taxes raised in Switzerland are categorised as direct taxes (e.g. income and wealth tax of natural persons or profit and capital tax of legal entities) and indirect taxes (e.g. excise duties and property or consumption tax). The following explanations relate exclusively to direct taxes, as questions on taxation in the start-up ecosystem frequently revolve around these.

The wealth tax is raised by the cantons and municipalities. There is no direct federal tax on the wealth of natural persons or the capital of legal entities.

6.2 Profit tax for legal entities

6.2.1 Starting point

The Confederation, the cantons and the municipalities raise a tax on the net profit of legal entities. The profit tax is often not very relevant for start-ups, as they frequently generate very little profit in the initial few years of business operation.

Company profits are taxed by both, the Confederation and the cantons. The Federal Law on Direct Federal Tax (DBG) sets out a profit tax for stock corporations and cooperatives with a proportional tax rate of 8.5 percent of the net profits⁴³. Taking into account the deductibility of the direct federal tax gives an effective tax burden of 7.8 percent.

6.2.2 Progressive cantonal taxes on profits

The cantonal laws also provide for a profit tax, and most also use a proportional tax rate. The cantons of Zürich, Lucerne, Uri, Schwyz, Obwalden, Nidwalden, Glarus, Schaffhausen, Appenzell Ausserrhoden, Appenzell Innerrhoden, St. Gallen, Graubünden, Thurgau, Ticino, Vaud, Geneva and Jura apply a proportional tax rate on profits.

However, nine cantons are still using a mixed system or a progressive rate with a maximum and minimum rate. The Cantons of Berne, Zug, Fribourg, Solothurn, Basel-Stadt, Basel-Landschaft, Aargau, Valais and Neuchâtel have set out a mixed system with two or three rates, combined according to earnings intensity or amount of profit. The applicable rates of profit tax for legal entities in 2015 are stated in Annex 6.

Non-proportional tax rates may offer undesirable incentives for tax optimisation, e.g. by demerging organisations into smaller units.

6.2.3 Reduction of cantonal profit tax

As part of the abolition of the cantonal tax status for holding and management companies, numerous cantons have announced a reduction of their profit tax rate, and the Canton of Vaud has already adopted this measure.

All companies which generate a taxable net profit benefit from lower profit tax rates.

6.2.4 Conclusion

The profit tax is often not very relevant for start-ups, as they frequently generate very little profit in the initial few years of business operation.

Non-proportional tax rates may act as undesirable incentives, e.g. by demerging organisations into smaller units. Such incentives should be minimised or avoided where possible.

⁴³ Art. 68 DBG (SR 642.11)

With the abolition of the cantonal tax status for holding and management companies, numerous cantons will implement a reduction of their profit tax rate. All companies which generate a taxable net profit will benefit from this.

6.3 Income tax for natural persons

6.3.1 Starting point

Income tax for natural persons is raised by both, the Confederation and the cantons. Pursuant to Art. 17 para. 1 DBG⁴⁴, all income from employment relationships under private or public law are taxable. Application of Art. 16 para. 3 DBG means that capital gains from the sale of moveable private assets are exempt from tax⁴⁵. The principle of taxation of income is enshrined in the Federal Law on the Harmonisation of Direct Taxation at Cantonal and Communal Levels (StHG)⁴⁶ in Art. 7 para. 1.

6.3.2 Taxation of employee profit participation

The Federal Law on Taxation of Employee Profit Participation entered into force in 2013. In the same year, Circular 37 “Taxation of Employee Profit Participation”⁴⁷ was decreed by the Federal Tax Administration. This included a new express regulation of the taxation of employee shares and employee options. These changes were also included in the StHG⁴⁸, so that the time of taxation was also harmonised in the cantons.

Non-cash benefits from restricted or unlisted employee options are taxed at the time of exercise. If such employee options are issued free of charge or at preferential rates, the positive difference between the market value and the exercise price to the employee constitutes a non-cash benefit, and therefore an income from paid employment.⁴⁹

With regards to employee shares, non-cash benefits are taxable as income from paid employment at the time of acquisition. Circular 37 also specifies the taxation of employee shares which are not listed at a stock exchange, i.e. in particular, those that might be issued to employees of a start-up.

Experience shows that highly qualified employees of start-ups often work for salaries below the market rates for remuneration as compared to large companies in the same sector, but with the option to acquire shares in the start-ups or receive these as part of their salary. If employee shares are issued free of charge or at preferential rates, the positive difference between the market value, taking account of the impact of any vesting periods, and the issue price to the employee constitutes a non-cash benefit, and therefore an income from paid employment.⁵⁰

Badran, Member of the National Council, submitted a parliamentary initiative (16.424) for privileged taxation of employee profit participation in start-ups in March 2016. In her motion, she recommends an adjustment of the statutory provisions of DBG and StHG in order to significantly reduce the tax burden based on employee profit participation for start-ups. The parliamentary initiative has not yet been discussed by the National Council as at February 2017.

The valuation of securities without a market value under employee profit participation programmes for income tax purposes is performed by the competent cantonal tax administrations. Hereby, the formula value pursuant to Article 4 of the Ordinance on

⁴⁴ SR **642.11**

⁴⁵Art. 16 para. 3 DBG (SR **642.11**) and Art. 7 para. 4 lit. b StHG (SR **642.14**)

⁴⁶ SR **642.14**

⁴⁷Federal Tax Administration (FTA) (2013)

⁴⁸ Art. 7d StHG (SR **642.11**)

⁴⁹Art. 18b para. 1 DBG (SR **642.11**)

⁵⁰ Art. 18 para. 3 DBG (SR **642.11**)

Employee Profit Participation and Circular 37 applies as decisive market value of an employee profit participation. This formula value is determined for each enterprise based on its financial figures. The calculation method by which the formula value is derived regularly reflects prior periods, and is – in the initial period – based on the net asset value method. If a market value exists in exceptional cases (change of ownership, financing round), this is generally applicable. However, in individual cases, a formula value may be used despite availability of a market value on application of the employer. However, this is subject to the employer holding an unrestricted purchase right to buy the employee shares back at the formula value calculated by the same method. Once a calculation method is chosen, it must always be applied for the relevant employee profit participation plan.⁵¹

6.3.3 Dividend taxation

Dividends constitute income from moveable asset for income tax purposes.⁵² Since 01 January 2009, dividends are only taxable to 60 percent on federal level, if the shareholder holds at least 10 percent of the share and nominal capital of a domestic or foreign stock corporation or cooperative.⁵³ Dividends from participation rights in the business assets are only taxable to 50 percent, once they represent at least 10 percent of the share and nominal capital of a domestic or foreign stock corporation or cooperative.⁵⁴ Partial taxation of dividends was introduced as part of Corporate Tax Reform II (USR II) with the objective of reducing economic double taxation. The cantons are free to specify their taxation rate and select the system of their partial taxation (partial-income or partial-rate method). Private investors holding more than 10 percent of a company benefit from this regulation above all. This can result in substantial tax relief for business angels.

6.3.4 Conclusion

With regards to the tax treatment of employee profit participation of start-ups for the determination of the income tax, the Federal Council does not establish a need for action in principle. Non-cash benefits from employee profit participation constitute income from paid employment, and they are therefore subject to income tax, just like other types income from paid employment. However, questions which are discussed with the cantons anyway in relation to the valuation of assets for wealth tax purposes (see Chapter 6.5) are also explained for this report.

The partial taxation of dividends introduced as part of Corporate Tax Reform II can result in substantial tax relief for business angels.

In the international context, the tax exemption of private capital gains should be highlighted. This enables shareholders to achieve tax-free capital gains. However, in practice, demarcation issues from taxable income may arise which could result in legal uncertainties.

6.4 Cantonal taxation of enterprise equity

6.4.1 Introduction fiscal development

As part of the Corporate Tax Reform I⁵⁵, Parliament abolished capital taxation of legal entities on federal level with effect from 01 January 1998. In contrast, the Tax Harmonisation Act (StHG) obliges the cantons to raise a capital tax on the legal entity's equity⁵⁶.

For profitable enterprises, the tax burden is reduced, as cantons have the option to credit the profit tax against the capital tax pursuant to Art, 30 para. 2 StHG since the Corporate Tax

⁵¹ Comp. Circular 37, p. 7-8

⁵² Comp. Art. 20 para. 1 lit. c DBG (SR **642.11**)

⁵³ Comp. Art. 20 para. 1 to DBG (SR **642.11**)

⁵⁴ Comp. Art. 18b para. 1 DBG (SR **642.11**)

⁵⁵ BBI **1997** II 1164 (Message 97.022)

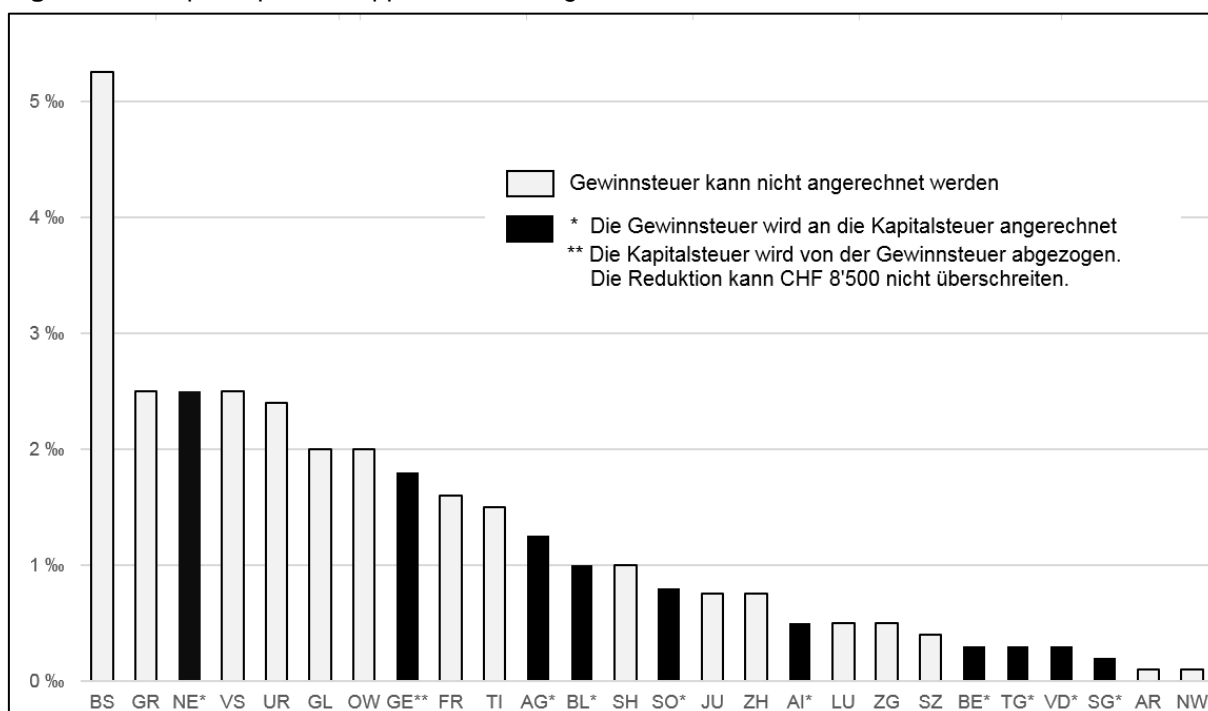
⁵⁶ Art. 2 para. 1 StHG (SR **642.14**)

Reform II.⁵⁷ In principle, this credit is also available to start-ups; however, in practice, this can seldom be realised, as start-ups frequently generate no profits in the early-stage. Consequently, start-ups, especially those with high capital requirements – e.g. in the area of life sciences – often have to carry the full additional tax burden of the capital tax. Start-ups with high equity requirements represent a significant share of investments in Swiss start-ups. Around 71 percent of the investments in 2015 were made in life science start-ups.⁵⁸

6.4.2 Overview

13 Swiss cantons have reduced the capital tax rate to below 1 % under the available options of the Tax Harmonisation Act (StHG). The capital tax rates of the different cantons differ significantly, and range from 0.1 % in the Cantons of Appenzell Ausserrhoden and Nidwalden to 5.25 % in the Canton of Basel-Stadt (comp. Figure 13). Ten cantons offer the option of crediting the profit tax against the capital tax.⁵⁹

Figure 13: Simple capital tax approaches for legal entities



Source: FTA (comp. Annex 7)

On the occasion of the announcement of Corporate Tax Reform III in December 2008, the Federal Council also held in prospect an amendment in the area of cantonal capital tax.⁶⁰ The cantons should be given the option to waive raising this tax. This recommendation was assessed negatively by the project organisation composed of an equal number of representatives of the Confederation and the cantons, because the abolition of the capital tax without simultaneous increases in profit tax would result in significant revenue shortfalls. The Federal Council therefore waived the recommendation of this measure.

6.4.3 Fiscal significance

The share capital tax has in the direct taxes of legal entities is important for the cantons, but differs significantly between cantons. Income from capital tax totalled 1.6 billion Swiss francs in 2013, accounting for almost 15 percent of all direct cantonal corporate taxes for legal entities which amounted to almost 11 billion Swiss francs. Cantonal income from profit tax stands at 9.1 billion Swiss francs. Creditability of the profit tax against the capital tax means

⁵⁷ BE, SO, BL, AI, SG, AG, TG, VD, NE, GE

⁵⁸ Comp. Swiss Venture Capital Report 2016

⁵⁹ Comp. Annex 7

⁶⁰ EFD (2013), p. 46

that this share varies significantly between cantons. While this share only accounts for 1 percent in the Canton of Thurgau, it amounts to almost one third in the Cantons of Graubünden or Schwyz.⁶¹

6.4.4 Economic assessment

In contrast to the profit tax, capital taxes affect the enterprise's net assets. In particular, this can hinder capital-intensive company formations and the overall development of start-ups, because newly founded enterprises tend to have a lower return on equity in the initial years. Capital tax also has a negative impact on liquidity. Most OECD countries do not raise taxes on equity, or have abolished these. Thus, the OECD recommended the abolition of capital taxes to Switzerland.⁶²

Capital tax constitutes a burden on net assets for enterprises with high capital requirements and without profits, which especially applies to start-ups. Shifting these taxes which erode net assets to the income taxes appears worth considering from an economic perspective.⁶³

6.4.5 Conclusion

The cantonal taxes on equity are a type of tax that diminishes net assets. From an economic perspective, taxes that erode net assets should always be avoided.

Most OECD countries do not raise taxes on equity. Thus, the OECD recommended the abolition of capital taxes to Switzerland.

As mentioned in the Report of the Federal Council in fulfilment of the Postulate 09.3935 of National Council Member Darbellay⁶⁴, the Federal Council would consider further relief from taxes which diminish net assets in principle. However, the economic and financial effects of a shift from capital tax to income tax should be assessed in-depth before such a decision was made. If requested by Parliament, the Federal Council would be willing to perform such an assessment.

6.5 Cantonal wealth tax for natural persons

6.5.1 Starting point

The Tax Harmonisation Act (StHG) contains the principle for the evaluation of assets in Article 14. According to this, assets are measured at their market value. The earnings value can be taken into account adequately. Raising wealth tax is an original competence of the cantons (Art. 3 BV⁶⁵). They have a degree of freedom in the valuation of assets.

6.5.2 Valuation of unlisted enterprises

For unlisted enterprises – as start-ups regularly are – the fiscal focus is on the valuation of the equity securities, because transaction prices for the valuation of the market value do frequently not exist. For the wealth tax, the Swiss Tax Conference (SSK) has issued the Circular 28 “Guidance on the Valuation of Securities without Market Value for Wealth Tax Purposes”⁶⁶ in 2008 which contains guidelines for the valuation of unlisted securities for tax purposes. The Circular shows by means of formulae, how securities can be valued for wealth tax purposes. For instance, a regulation applicable to start-ups can be found under Point 2.5, according to which the decisive market value for wealth tax purposes is calculated on the

⁶¹ Comp. Annex 8

⁶² Comp. OECD (2013a), p. 75

⁶³ Federal Council (2013b), p. 14

⁶⁴ Federal Council (2013b)

⁶⁵ Swiss Federal Constitution (SR 101)

⁶⁶ Swiss Tax Conference (2008)

basis of financing rounds, once one such round is conducted. This requires that this price is considered as authoritative, and that it results in a reasonable and plausible market value.

This may mean that the basis of measurement for wealth tax payments significantly increases after a financing round, and that young entrepreneurs have to pay a wealth tax which exceeds their income. Seven cantons⁶⁷ have a ceiling for this wealth tax burden which can mitigate this issue.

For instance, the Canton of Zürich takes account of this issue with the Directive on the Valuation of Securities and Credit Balances for Wealth Tax Purposes from 01 November 2016⁶⁸. This directive specifies that valuation of start-ups involving financing rounds should be based on the net asset value until representative business results have been obtained. Investor prices are only included in the valuation of securities after this development phase. In this context, start-ups are defined as stock corporations (AG or GmbH) with an innovative, usually technology-driven business model in the development phase which are scalable. Specifically, these are enterprises which develop innovative technological products or services which are not yet established on the market, while being geared towards marketability in multiple form.

6.5.3 Parliamentary motions

National Council Member Derder submitted two parliamentary motions on the same subject (Motion 16.3293 and Interpellation 16.3342). The motion demands a harmonised model for all enterprise valuations of start-ups which applies to all cantons, is applied to all enterprises, and involves a valuation method that is not changed from one day to the next. The motion was retracted on 15 September 2016.

In its statement, the Federal Council has recommended the rejection of the motion, because the demand for a harmonised model of start-up valuation cannot be fulfilled in a straightforward manner. Due to differences in shareholder structures, it is necessary from a business perspective to examine each enterprise individually for valuation purposes. The larger the share held by investors participating from a later stage, the greater the importance of the price paid (financing round) for the increase in capital. This price reflects the future profits of the start-up expected by the investors. If several financing rounds have taken place, and different investors have participated in each, it can be assumed that the probability that the expected profits can be realised is high; thus, they should be taken into account in the enterprise valuation.

Moreover, the Federal Council notes in its statement that the cantons have significant leeway in their valuation, considering the harmonisation efforts of the cantons, and the original competence of the cantons to raise wealth tax. However, the Federal Council acknowledges that differing regulations in the cantons have a negative impact on transparency and legal certainty, and that the wealth tax on participation rights for company founders can result in high tax burdens and liquidity bottlenecks. The Federal Council has instructed the Federal Department of Finance (EFD) to hold talks with the Swiss cantons to look for optimisation options which would enhance the attractiveness of Switzerland as a location for start-ups. The cantons' federal leeway should be respected in this endeavour.

6.5.4 Economic assessment

Similar to the cantonal taxes on equity of enterprises, wealth tax also has a diminishing effect on net assets. From an economic perspective, taxes that erode net assets should always be avoided.

⁶⁷ BE, LU, BS, AG, VD, VS and GE

⁶⁸ Press release "Bessere Bedingungen für Start-ups" [Better conditions for start-ups], Department of Finance of the Canton of Zürich, 01 November 2016

6.5.5 Conclusion

In line with the cantonal taxes on equity of enterprises, wealth tax is also a type of tax that diminishes net assets. From an economic perspective, taxes that erode net assets should always be avoided. The Federal Council acknowledges that the valuation of assets of start-ups may result in an excessive tax burden and liquidity bottlenecks, and therefore saw a need for action in its response to Motion 16.3293. It has instructed the Federal Department of Finance (EFD) to cooperate with the Swiss cantons to look for optimisation options which would enhance the attractiveness of Switzerland as a location for start-ups. The cantons' federal leeway should be respected in this endeavour.

However, before the decision to shift taxation away from the wealth tax and towards a higher income tax was made, the economic effects on the national economy and the financial impact on the public sector should be assessed in-depth. If requested by Parliament, the Federal Council would be willing to perform such an assessment.

6.6 Cantonal fiscal incentives for start-ups and business angels

6.6.1 Cantonal tax breaks for newly founded enterprises

According to StHG⁶⁹, Swiss cantons can “provide tax breaks for enterprises which are newly founded and serve the economic interest of the cantons for the year of formation and the following nine years” (Art. 5 and Art. 23 para. 3). According to Art. 5 StHG, the tax break may be granted on the income tax, as well as the wealth tax of natural persons. According to Art. 23 para. 3 StHG, the tax break may be granted on the profit tax, as well as the capital tax of legal entities. Swiss cantons have analogue articles in their tax laws, and are able to offer enterprises tax breaks on cantonal and communal level, including on church tax. Tax breaks are not exclusively for start-ups, but for all enterprises which meet certain criteria. Start-ups can also benefit from these.

6.6.2 Selected cantonal tax incentives for investors

In addition to possible tax privileges under Art. 5 and Art. 23 para 3 StHG (Cantonal Tax Breaks), the Canton of Jura has been subsidising investments in innovative enterprises by means of privileged taxation of private investors on the basis of Art. 1 para. 3 StHG⁷⁰. This canton has created a special statute, the “NEI” (“Nouvelle Entreprise Innovante”) to apply privileged taxation for investments in innovative enterprises.⁷¹ The share of the income of an investor who has invested in an enterprises under the NEI statute is separated from the remaining income, and taxed at a lower rate of around 2 percent⁷² Tax privileged investments include contributions, premiums, donations, non-repayable loans and participations granted to an NEI enterprise by a natural person. Tax privileged investments can account for a maximum of half the taxable income; however no less than 10,000 Swiss francs and no more than 200,000 Swiss francs. According to the Canton of Jura, no data is available on the success of the NEI statutes as yet. Thus, it is too early to draw a conclusion.

6.6.3 Other cantonal tax incentives that benefit start-ups

The Canton of Berne uses another fiscal incentive instrument for the benefit of enterprises. Property transfer tax may be abated when acquiring real estate or industrial land⁷³.

⁶⁹ SR **642.14**

⁷⁰ “The cantons will retain responsibility; in particular, with regards to the determination of tax rates and thresholds and tax allowances.”

⁷¹ Pursuant to the Law on new innovative enterprises [‘Loi concernant les nouvelles entreprises innovantes’] from 21 November 2012 (RSJU **901.6**)

⁷² Pursuant to Art. 37c of the Tax Law [‘Loi d’impôt’] from 26 May 1988 (RSJU **641.11**)

⁷³ Pursuant to Art. 12 lit. h and Art. 24 of the Law on property transfer tax from 18 March 1992 (BSG **215.326.2**)

No other cantonal tax incentives for the benefit of start-ups were mentioned in the survey of the cantons as at 01 February 2016.

6.7 Tax breaks under the federal government's regional policy

Under the regional policy, the Confederation supports measures to strengthen the competitiveness of individual regions and increase their value creation. Based on Art. 12 of the Federal Law on Regional Policy (BRP)⁷⁴, tax breaks may be granted to industrial enterprises or production-related service companies which create new jobs or redesign existing jobs in structurally weak rural areas. The implementation provisions and areas are specified in three ordinances⁷⁵.

Tax breaks under the regional policy have contributed to the creation of a large number of jobs in structurally weak regions, and the creation of value. This instrument is also available to start-ups. Since 2005, around 24 enterprises founded *ex nihilo* have benefited from tax breaks.

In 2013, the Federal Council initiated a reform with the objective of introducing an amount-based ceiling, and adjusting the implementation areas in consideration of the regional planning policy. A completely revised Ordinance on Tax Break Grants under the Regional Policy⁷⁶ entered into force on 01 July 2016, together with the completely revised Ordinance of the Federal Department of Economic Affairs, Education and Research on the Determination of the Municipalities included in the Implementation Areas for Tax Breaks⁷⁷, and the new Federal Department of Economic Affairs, Education and Research on Tax Break Grants under the Regional Policy⁷⁸.

6.8 Tax treatment von fund managers

6.8.1 Significance of the location of fund management for start-up financing

A good fiscal environment for fund managers helps to strengthen the location of Switzerland in the area of private equity business. Taking account of the “home bias”, i.e. investors’ tendency to make disproportionately high investment on the home market due to netter knowledge and networks, the location of the fund managers is somewhat significant. In connection with the promotion of investments in Swiss enterprises including start-ups, competitive taxation of fund managers as compared to other countries is important, because they are internationally mobile.

6.8.2 Tax treatment von fund managers

With the enactment of the Swiss Federal Act on Collective Investment Schemes (CISA)⁷⁹ on 01 January 2007, the Limited Partnership for Collective Capital Investments (KgK) as an investment instrument was introduced in line with the Anglo-Saxon limited partnership. Because the KgK is generally not a taxable entity, and therefore transparent from a fiscal perspective, it does not pay any profit tax itself. Thus, the investors (limited partners) can benefit from the transparent taxation. While distributed investment income is subject to income or profit tax payable by the investors, capital gains from private asset are tax exempt. The general partner who also manages the company and holds the power of representation, or the fully liable partner must be a public limited company with registered offices in Switzerland which is subject to ordinary taxation.

⁷⁴ SR 901.0

⁷⁵ SR 901.022, SR 901.022.1 and SR 901.022.2

⁷⁶ SR 901.022

⁷⁷ SR 901.022.1

⁷⁸ SR 901.022.2

⁷⁹ SR 951.31

In the area of private equity, the management is taxed for a share in fund profits according to the selected legal form and the concrete structure of the collective investment. The different fiscal law standards (i.e. profit determination for legal entities, calculation of income for self-employment or paid employment) are applied in accordance with the selected structure. Income from management activities are taxed as income tax on income from self-employed activities for natural persons, and as profit tax on company profits for legal entities.

Depending on the organisational structure for the fund management, fund managers are therefore taxed according to different legal standards. However, these are always the same legal standards which are also applied to other taxable persons, i.e. either the articles of law on the taxation of legal entities (Art. 49 et seq. DBG⁸⁰), or those on self-employed activities (Art. 18 et seq. DBG). In addition, all taxable income is generally subject to Swiss old-age and survivors' insurance contribution obligations,⁸¹ which can result in an additional burden to the fund manager.

The fiscal assessment regularly focuses on the 'carried interest'. 'Carried interest' means the share the management of a private equity firm has in the profits of another investment company. It describes the performance-related compensation for fund managers and other stakeholders which investors or the management of Limited Partnerships for Collective Capital Investments and other venture capital funds typically achieve. The carried interest is often only granted if the capital employed by the investors exceeds a minimum return (minimum interest or hurdle rate) fixed in advance.

In response to the questions raised in Interpellation 08.3559 "Uncertainties regarding hedge funds", the Federal Council has clarified that the carried interest does not constitute a tax-free private capital gain, and that the applicable law leaves no room for privileged taxation of fund managers.

6.8.3 International comparison of taxation

In foreign fund locations, such as Ireland, Luxembourg and the UK, privileged taxation is only applied to carried interest under certain conditions, for instance, at a privileged rate for capital gains. This applies in the UK, where the tax rate is between 18% and 28% instead of 50%. Overall, tax rates between around 10% and 28% could be identified in comparable foreign fund locations.

The tax burden in Switzerland would regularly be between 15% and 30%, depending on the cantonal locations involved, and the selected structure⁸². This burden is not the highest compared to other countries, but is comparable to foreign tax burdens, especially on the lower end of the scale.

However, in addition to the tax burden, the carried interest can also be subject to Swiss old-age and survivors' insurance contribution obligations, which results in an additional burden of over 10 percent and reduces the competitiveness of Switzerland as a location.

As the structures selected by the fund managers are often complex, the specific tax consequences are regularly clarified in advance through a ruling of the cantonal tax authorities. Such a ruling provides the fund managers with the required legal certainty. The Federal Tax Administration supports the cantons in the legal assessment in its supervisory capacity for the direct federal tax.

6.8.4 Conclusion

In the area of general promotion of investments, the Federal Council and the Parliament have taken various measures in the past.

⁸⁰ SR 642.11

⁸¹ Federal Court decision 9C_538/2007, judgement from 28 April 2008

⁸² Comp. Vischer (2013), part C, p. 8 et seq.

With CISA taking effect in 2007 – in particular, with the option of allowing for Limited Partnerships for Collective Capital Investments – a tax transparent investment instrument was introduced which is comparable to the UK law on the promotion of venture capital. Under the Corporate Tax Reform II, the minimum shareholding in a company required to benefit from participation exemption was lowered.

Private equity fund managers have several options for structuring their activities. They may take the form of self-employment or be performed under a legal entity. Different fiscal law standards are applied, depending on the selected legal form and the concrete structure. Thus, the fiscal assessment is dependent upon the specific structure in each case. Privileged taxation of fund managers – specifically, in relation to carried interest – is excluded under applicable law. The specific tax consequences in each case can be clarified by means of a ruling of the cantonal tax authorities. The Federal Tax Administration ensures uniform practice in the cantons in its supervisory capacity for the direct federal tax.

6.9 Review of additional fiscal measures of the Confederation

Switzerland boast attractive overall taxation of enterprises. Total taxation is moderate compared to other highly developed industrialised countries. Nevertheless, the tax system is continuously reviewed, and adjusted and optimised as required.

6.9.1 Repeal of the time limit for loss carryforwards

6.9.1.1 Starting point

Under applicable law, losses from seven financial years preceding the tax period can be deducted. If any losses carried forward remain after these seven years, they finally expire. Across a company's lifetime, this may result in overtaxation. Furthermore, companies which generate a very high profit on a single occasion, and companies which generate smaller losses in various tax periods are receive different tax treatment. Especially for research-based start-ups, it can often take longer than seven years, before taxable profits can be reported.

As part of the consultation draft for the Corporate Tax Reform III, the Federal Council has put the time limit of the loss carryforwards up for discussion, combined with a minimum taxation of annual profits. By repealing this time limit, the principle of investment-neutral taxation would be satisfied to a greater extent. The suggested adjustment of the loss carryforwards was rejected with a large majority in the consultation, because the consultation participants saw no direct connection with the objectives of the Corporate Tax Reform III. Consequently, the Federal Council has waived changes to loss carryforwards in its Message.⁸³

In June 2016, National Council Member Derder submitted a motion (16.3605) for the extension of the loss carryforwards for tax purposes for knowledge-based start-ups. The Federal Council should be instructed to develop the legal foundations to allow knowledge-based start-ups to apply loss carryforwards for tax purposes over a period of more than seven years. It should also review the possibility of permitting loss carryforwards without time limits for certain enterprises. In its statement, the Federal Council has recommended the rejection of the motion, because the extension or removal of the time limit for loss carryforwards is only requested for knowledge-based start-ups. This restriction would result in unequal legal treatment and excessive demarcation difficulties. Legal certainty and transparency would not be ensured as the term “knowledge-based start-ups” is subject to interpretation. However, Federal Council is open to an unrestricted loss account for all companies in connection with minimum taxation as part of a future tax revision (also see Motion 16.3605).

⁸³ BBI 2015 5069

6.9.1.2 Conclusion

The Federal Council is open to an unrestricted loss account for all companies in connection with minimum taxation. It is therefore willing to review the question of an unrestricted loss account for all companies in connection with minimum taxation as part of a future tax revision.

6.9.2 Introduction of an investment deduction for start-up investors

6.9.2.1 Starting point

The Derder Motion 13.3949 demands the introduction of a tax deferral for investors to promote new venture creations. Specifically, the author of the motion recommended facilitating a deduction of the invested amount from the taxable income and assets at the time of investment, whereby taxation would be deferred until the investment was paid back. Natural persons investing in companies through shareholdings or subordinated loans can benefit from the deduction.

In its rejecting statement, the Federal Council noted that the motion was not suitable for removing a potential market failure in enterprise financing. The real issue in enterprise financing – information asymmetries between the capital provider and the investee or borrower – would not be dealt with by introducing an investment deduction.

Moreover, such instruments have already been tested in the past. The Federal Law on Venture Capital Companies (RKG) included exempting venture capital firms from issuance stamp duty. Natural persons granting subordinated loans from their private assets were able to deduct these up to a maximum amount of 500,000 Swiss francs from their taxable income for the direct federal tax, provided other conditions were met. At the time of loan repayment, this amount had to be taxed. In its review of the Federal Law on Venture Capital Companies, the Federal Council noted that the instrument did not achieve the desired results.⁸⁴

6.9.2.2 Conclusion

Within the restrictions of the Tax Harmonisation Act (StHG), the cantons are competent to set up tax incentives for the benefit of enterprises and investors. For instance, the Canton of Jura uses privileged taxation of private investors investing in innovative enterprises.⁸⁵

Given the experiences with the Federal Act on Venture Capital Companies (BRKG) on a national level, which did not achieve the desired results, as well as the moderate total taxation compared to other countries (also see the comparisons in Chapter 8.2 on the taxation of business angels), the Federal Council sees no need for action relating to the introduction of an investment deduction for start-up investors.

6.10 Conclusions regarding the fiscal environment in Switzerland

In general, Switzerland boasts an attractive fiscal environment. Compared to the rest of the OECD countries, the general level of taxes on corporate profits is below average. Capital gains from private assets are exempt from taxation, and the total average tax burden on the income of natural persons is internationally competitive.⁸⁶

In recent years, various adjustments were made which also improved the situation for start-ups. However, further improvements of the fiscal framework conditions are possible and necessary, so that Switzerland continues to be an attractive location for start-ups. The Federal Council focus is on improving the framework conditions for all enterprises operating

⁸⁴ Federal Council (2012)

⁸⁵ Comp. Chapter 6.6.2

⁸⁶ BAK Taxation Index 2015

in Switzerland, including start-ups. Special regulations for individual types of enterprises result in unequal legal treatment, demarcation difficulties and legal uncertainty.

This report illustrates this need for action from the perspective of start-ups; however, SMEs are often in the same situation. Start-ups typically have relatively high capital requirements while only generating low or no profits. Taxes on equity and assets (capital and wealth tax) therefore effectively erode net assets. From an economic perspective, however, taxes that erode net assets should always be avoided. Shifting the tax burden away from taxes with a negative impact of net assets should therefore be considered. However, before the decision to shift taxation towards a higher income tax was made, the economic effects on the national economy and the financial impact on the public sector should be assessed in-depth. If requested by Parliament, the Federal Council would be willing to perform such an assessment.

According to the Tax Harmonisation Act (StHG), Swiss cantons can provide tax breaks for companies on a cantonal and communal level. In addition, tax breaks may be granted for industrial companies or production-related service companies in structurally weak regional centres under the federal government's regional policy. These instruments are also available to start-ups.

In principle, Federal Council sees no need for action in relation to the tax treatment of employee profit participation when calculating income tax. Non-cash benefits from employee profit participation constitute taxable income from paid employment. However, questions which are discussed with the cantons anyway in relation to the valuation of assets for wealth tax purposes are also examined for this report.

The partial taxation of dividends introduced as part of Corporate Tax Reform II can result in substantial tax relief for business angels.

The sometimes significant reductions in profit tax announced in numerous cantons in connection with the abolition of the cantonal tax status for holding and management companies will further improve the fiscal environment for all enterprises, and therefore also for start-ups.

For unlisted companies, the cantonal wealth tax and income tax is primarily determined on the basis of an assessment of participation rights. According to the relevant regulation for start-ups, the decisive market value following financing rounds can be determined by the investment price paid, which may result in a tax burden that erodes net assets, as well as liquidity bottlenecks. The Federal Council acknowledges this, and therefore sees no need for action. It has instructed the Federal Department of Finance (EFD) to cooperate with the Swiss cantons to look for optimisation options. The cantons' federal leeway should be respected in this endeavour.

The Federal Council has indicated its willingness to re-assess a repeal of the time limit of loss carryforwards in terms of an investment-neutral taxation as part of a future tax reform. Given the experiences with the Federal Act on Venture Capital Companies (BRKG) on a national level, as well as the moderate total taxation compared to other countries, the Federal Council also opposes the introduction of an investment deduction.

7 Public financing options and tax incentives in other countries

7.1 Public hedging instruments (guarantees)

For young enterprises, especially innovative high-growth enterprises, access to loans is particularly difficult due to a lack of fixed assets and therefore collateral, and because they have a higher risk profile. Loan bottlenecks experienced by small companies are also attributable to the risks resulting from information asymmetries between creditor and debtor, as well as higher transaction costs. For creditors, it is not easy to differentiate between

enterprises with a higher or lower success potential. Consequently, they may provide less financing than the enterprises required, and demand a higher interest rate.

One option available to creditors to overcome issues associated with information asymmetries is requiring collateral. However, entrepreneurs and young, innovative enterprises are not always able to provide collateral; in particular, if their key assets are intangible or knowledge-based.⁸⁷

Guarantees are a commonly used instrument for closing these financing gaps. Virtually all OECD countries use guarantee instruments, even if in different forms. Furthermore, many non-OECD countries also use instruments that include the securitisation of loans with state guarantees.⁸⁸

OECD studies on the role of credit guarantees and sureties have shown, amongst other things, that credit guarantee systems constituted an important instrument for securing SME financing in many countries, especially during the financial and economic crisis of 2008/2009.⁸⁹ Numerous countries have therefore developed or expanded these instruments in recent years. A great range of systems exists in the different countries, which differ in various characteristics: ownership structure, available funds, legal and regulatory framework conditions, eligibility criteria, etc.⁹⁰

In a comparative study, the guarantee systems in the countries Germany, Austria, France, Portugal, Spain and Italy were examined and compared to the system in Switzerland.⁹¹

In the majority of the analogue countries, guarantee institutions with regional competence have been established, combined with both, cross-regional and competing large collaborative funding institutions (e.g. *Kreditanstalt für Wiederaufbau* (KfW) in Germany, *Austria Wirtschaftsservice GmbH* (aws) in Austria, *Oséo* in France). The degree of decentralisation of the system of guarantees varies significantly between the analogue countries, whereby PwC identifies the Italian system as the most decentralised. With three regional and one cross-regional guarantee institution, the Swiss system of guarantees is organised in a comparatively decentral manner.

The system of partial risk transfer to the state or the EU via counter-guarantees has gained ground in Europe. In Germany, Austria and France, the large state funding institutions, such as KfW, aws and Oséo following the total funding approach dominate the funding business. Meanwhile, guarantee organisation focus on issuing guarantees primarily in cooperation with other funding institutions and/or banks. The product of the guarantee banks is increasingly in competition with loan products; in particular, those offered via principal banks with proportional release from liability.

7.2 Overview of foreign public financing options

As part of a research project in 2012, the OECD examined the role support from public funds plays for the promotion of seed and early-stage financing. The associated questionnaires were sent out to the 34 OECD member states, 32 of which responded. The following chapters are taken from the OECD policy paper "Policies for Seed and Early-Stage Finance"⁹². As a member of the Committee for Industry, Innovation and Entrepreneurship (CIIE), Switzerland contributed to the work.

⁸⁷ Wilson, K. E. and F. Silva (2013)

⁸⁸ Federal Council (2013a)

⁸⁹ OECD (2013b)

⁹⁰ OECD (2015b)

⁹¹ PwC (2013)

⁹² Wilson and Silva (2013)

7.2.1 Overview of state equity programmes of OECD countries

Most OECD countries have a form of state equity programme. These programmes vary between countries, but usually belong to one of three main categories: 1) direct investments in enterprises with public funds, 2) funds of funds, and 3) public-private co-investment funds. Many of these programmes focus on fund-based venture capital, but programmes geared towards business angel investments have also increased.

The number of such programmes has increased between 2007 and 2012; in particular, funds of funds and co-investment funds. 13 of 32 OECD countries have direct public equity fund which are supported by these programmes, and these have especially increased between 2007 and 2012. In addition, 21 of 32 OECD countries have fund of funds programmes, whereby new programmes were introduced in eight countries in the period 2007 to 2012. 21 of 32 OECD countries have co-investment funds with increasing support between 2007 and 2012. Many countries have no state equity programme (Japan, Spain, Switzerland and the USA). Less than 11 countries have evaluated one of these equity programmes and published the results.

Less than half (45%) of these programmes target specific sectors. The most frequent target sectors for instruments subject to such requirements are ICT, biotechnology and cleantech. Moreover, half the instruments focus on a particular phase, and this is often the seed (83%) and/or early-stage (79%). Only few have enterprise age requirements (27%). However, size requirements are common (66%). In 48% of the programmes, the enterprises must not be part of a group.

Where direct investments or co-investment programmes are used, subsequent financing rounds for additional funding are possible in most cases (93%). For the majority of publicly supported funds, the investee's headquarters must be located in the national territory of the supporting state (58%). In some cases, investments can also be made in other countries (34%). Some programmes ("regional programmes") only allow investments in enterprises located in a particular region within the home country (37%).

The total number of equity instruments in OECD countries has significantly increased between 2007 and 2012, especially when compared to fiscal funding instruments. Co-investment funds recorded the greatest growth, but the number of fund of funds programmes has also increased. Meanwhile, the number of direct public funds has decreased. With regards to the amount of state expenditure, a sub-sample of 29 programmes comprising both tax and equity instruments for which data on the level of the programmes was available showed an increase of 98%. Based on experience, co-investment funds and funds of funds aimed at mobilising private investments can be more effective than direct public equity funds. While very little empirical evidence on this exists at present, the OECD suggests that the design, management and incentive structures of these instruments play a key role.

On average, the contributions of these programmes have almost doubled between 2007 and 2012. For co-investment programmes, *pari passu* (equal status of the public and private investment) is the most common investment approach (83%), and investors often need to be approved or accepted first (72%).

7.2.2 Examples of equity programmes in OECD countries

Direct investment funds under regional policy in Sweden and Scotland

These direct investment funds are public venture capital funds which invest directly in start-ups. The objective of these programmes is to promote the development of venture capital within a country.

Many of these programmes used to have a regional policy orientation in the past. Many earlier efforts to support venture capital followed this approach; however, they largely failed to produce positive results. Issues, such as crowding out effects, lack of suitable incentives, lack of investment capability and experience often meant that these funds failed to achieve

their objectives⁹³. For this reason, many such programmes were adjusted by adding the requirement of co-investment by private investors.

The Scottish Co-Investment Fund (SCF)⁹⁴ was one of the first co-investment funds geared towards seed and early-stage funding, and serves as a model for the development of other programmes worldwide. The SCF is geared towards angel and venture capital investment in Scotland, and aims to contribute to the development of a lively entrepreneurial ecosystem in the region. The SCF also allows partners from the rest of the UK and/or Europe. An evaluation conducted by a commission of Scottish Enterprise⁹⁵ has shown that more than half of the SCF investees were under the impression that they would have had to prospect of raising capital without the SCF, and 78% stated that the fund was crucial for their survival⁹⁶. This study also showed that the SCF had a positive economic impact on the supported enterprises in terms of revenues, gross value creation and employment.

Another example is the Swedish public venture capital company Almi Invest⁹⁷. It manages a total of SEK 1.2 billion (approx. CHF 143.6 million⁹⁸) which is available for investments in Swedish enterprises. Similar to many other public investment funds in Europe, half of Almi's capital stems from structural funds of the European Union. Of the remaining 50%, 25% come from regional public investors, such as municipalities, Swedish county councils and regional associations, and 25% from Almi's business partners (financial resources of the Swedish government). Almi invests and co-invests with one or several investors, and can acquire to a maximum of 50% of a share issue. Almi can invest in different sectors. However, the investments must be made in certain regions of Sweden, and thereby conform to a regional policy orientation.

Fund of funds in Norway, Korea and Turkey

A "fund of funds" is an investment strategy that involves holding a portfolio on other investment funds, rather than investing directly in enterprises. Instead of investing directly in start-ups, public funds of funds invest in private venture capital firms. In line with the co-investment funds, this is often tied to the condition that private investors are also investing. This approach has gained ground in the period from 2007 to 2012. Funds of funds may differ in their structure and implementation.

One example for a fund of funds is Argentum⁹⁹ in Norway. The financial resources for Argentum have increased from NOK 3.7 billion (approx. CHF 435.5 million¹⁰⁰) in 2007 to NOK 6.5 billion (approx. CHF 765 million¹⁰⁰) in 2012. Argentum acts not only as a fund of funds, but also invests directly in portfolio companies through co-investments. In addition, Argentum also invests in the secondary market, representing a less common approach to freeing up private investors' funds for new investments. This is justified with the argument that it can be important to facilitate liquidity for investors who would like to exit private equity funds. This aims to ensure that the asset class remains attractive for a broad range of investors in the long-term. Argentum provides a flexible framework for fund managers. It imposes no special requirements with regards to the investment region. A part of the fund can be invested abroad; however, only in Nordic countries. There are no special requirements in terms of size, age, sector or development phase of the enterprise. The flexibility of the fund can be attractive for private investors. This helps to meet the government's policy objective of developing the private venture capital sector.

⁹³ Lerner (2009)

⁹⁴ <http://www.scottish-enterprise.com/services/attract-investment/scottish-coinvestment-fund/scif-overview>

⁹⁵ Scottish Enterprise is a *non-departmental public body* of the Scottish government which supports economic development, enterprises, innovations and investments in the Scottish economy.

⁹⁶ Harrison (2009)

⁹⁷ <http://www.almi.se/Almi-Invest/>

⁹⁸ SEK 1 = CHF 0.1197 (exchange rate on 29 Jan. 2016)

⁹⁹ <http://www.argentum.no/>

¹⁰⁰ NOK 1 = CHF 0.1177 (exchange rate on 29 Jan. 2016)

Korea offers another example for a fund of funds. The Korea Fund of Funds (KFoF)¹⁰¹ was set up with the objective of providing a stable source of capital for risk investment. In January 2013, KFoF managed KRW 1,800 billion (approx. CHF 1.5 billion¹⁰²) in commitments to 251 funds, and it is expected to run until 2035. Around 30 new funds are set up each year with terms of between 5 and 7 years. A special feature of the KFoF is that it brings together the interests of various governmental authorities and different political objectives. The fund management administrates the commitments of each individual authority in separate accounts and co-invests in new funds, each of which meets the conditions specified by the relevant governmental authority in the beginning. Within this framework, there is flexibility in the provision of the desired incentive which should motivate the private sector to participate.

As a third example, the Istanbul Venture Capital Initiative (iVCi)¹⁰³ should be mentioned. The main objective of the iVCi is to act as a catalyst for the development of the venture capital sector in Turkey through co-investments in independently managed funds. The iVCi is not geared towards specific sectors, and was designed such that it can also invest beyond the seed and early-stage. The EIF plays a crucial role in the investment process as an external consultant. Nevertheless, the final investment decision is taken by the iVCi investment committee. The iVCi follows the objective to bring together institutional investors from Turkey and experienced international fund managers. The fund should also facilitate networking within the Turkish venture capital and industrial landscape through the strategic iVCi network, whereby it strives to contribute to the development of the entrepreneurial ecosystems.

Co-investment funds in New Zealand

Co-investment funds use public funds to supplement and mobilise private investments. In these programmes, public funds are usually combined with funds provided by private investors which have been approved under the model. Co-investment models are often considered to be more than just an option for mobilising private funds, and also act as a driver for development, growth and professionalization of the market of seed and early-stage financing, because it provides a structured investment process. Co-investment models can also attract foreign investors, as they provide the permits from the supervisory authority. Co-investment funds have become increasingly popular in recent years which is attributable in part to the perceived success of the existing programmes.

Co-investment funds can be structured differently. The majority of co-investment funds follow the *pari passu* (equal status) principle. However, some funds have an asymmetric structure in order to offer private investors either debt borrowing or loss protection. Asymmetric financing models distribute a greater share of the returns to private investors and/or a greater share of the losses to public investors. This provides private investors with an additional incentive for investment. Early works have shown that asymmetric programmes provide corresponding incentive without creating undesired disadvantages, and had a positive impact on returns if the fund was managed by a private manager¹⁰⁴.

New Zealand has had a co-investment funds for many years. Initially, a co-investment fund for venture capital investments was set up, the Venture Investment Fund (VIF)¹⁰⁵. Later, in 2005, a fund geared towards angel investments was set up, the Seed Co-investment Fund (SCIF)¹⁰⁶, which is based on the model of the Scottish Co-investment Fund. The policy rationale was the financing difficulties experienced by start-up with high growth potential (innovative, technology-oriented enterprises) in the seed or early-stage. The overarching policy objective of the New Zealand Seed Co-investment Fund (SCIF)¹⁰⁶ is to support the development of the angel equity financial market in the country. It aims to improve the professional capacity on the market for the arrangement of funds between investors and

¹⁰¹ <http://www.k-vic.co.kr/eng/contents.do?contentsNo=184&menuNo=450>

¹⁰² KRW 1 = CHF 0.0008 (exchange rate on 29 Jan. 2016)

¹⁰³ <http://www.ivci.com.tr/>

¹⁰⁴ Murray (1999)

¹⁰⁵ <http://www.nzvif.co.nz/>

¹⁰⁶ <http://www.nzvif.co.nz/what-we-offer/seed-co-investment-fund/>

technology-oriented start-ups, deepen the technical skills required for the valuation and management of early-stage investments, increase the scope of early-stage investments, and develop networks.

7.3 European Investment Fund (EIF)

7.3.1 Overview and purpose of the EIF

In order to stimulate economic growth in Europe, the European Investment Fund (EIF) was established in 1994. The EIF is a public-private partnership with legal office in Luxembourg¹⁰⁷. The EIF's shareholder base comprises the European Investment Bank (61.4% of the voting shares), the European Union, represented by the European Commission (26.5% of the voting shares), and various banks and financial institutions from EU Member States and Turkey (12.1% of the voting shares)¹⁰⁸. The share capital of the EIF is EUR 4.5 billion, split into 4,500 shares of EUR 1 million each¹⁰⁹. The Member States of the European Free Trade Association (EFTA)¹¹⁰, Iceland, Liechtenstein, Norway and Switzerland, are not members of the EIF.

The main mandate of the fund is to simplify access to financial resources for European SMEs. The EIF develops equity and debt capital instruments geared towards finance partners (banks, financial institutions, funds) which support SMEs. Thus, funds provided by the EIF do not flow to the enterprises directly, but via financial intermediaries.

The EIF invests in venture and growth capital, starting in the earliest stages of development of intellectual property through technology transfer to later development stages. With its diverse financial products, the EIF strives to support enterprises in all stages of development. The financing offer of the EIF comprises equity instruments (investments in technology transfer, venture capital and growth capital, debt capital instruments (securitisation and guarantees), and products in the area of microfinance (guarantees, loans and equity products). In addition to these three main activities, the EIF also funds accession candidates and the economically weaker EU countries through initiatives and programmes in the area of regional development. The EIF is an active financial institution on the private equity market in Europe.

In the 2014 reporting year¹¹¹, EUR 1,653 billion were invested in equity products. EUR 930 million thereof went towards growth capital, and EUR 723 million towards early-stage capital. In 2014, the EIF has underwritten 60 transactions totalling EUR 1,616 billion for debt capital instruments. EUR 672 million thereof flowed into securitisation. The remaining EUR 944 million relate to regional products, such as initiatives and programmes that the EIF has managed on behalf of clients and third parties. In the area of microfinance, EUR 50.8 million were invested in 2014 through 21 transactions. These transactions related to credits (EUR 47.5 million) and guarantees (EUR 3.3 million).

Examples of EIF programmes of investment capital funds of funds include: Istanbul Venture Capital Initiative (iVCi), European Recovery Programme ERP-EIF Fund of Funds, LfA-EIF Facility, UK Future Technologies Fund and Baltic Innovation Fund. Examples of supported venture capital funds in countries and regions managed by the EIF JEREMY Holding Fund¹¹² include: Practica Seed Fund (Lithuania), Eleven Fund (Bulgaria) und Piraeus Equity Advisors (Greece).

In the area of equity products, the EIF introduced an initiative for angel co-investments, the European Angels Fund (EAF). The EAF was originally initiated in 2012 as a pilot programme

¹⁰⁷ Comp. Art. 3 of the [EIF Statutes](#)

¹⁰⁸ Comp. Art. 4 para. 1 of the [EIF Statutes](#) and [EIF membership list](#) (status date: 07 September 2015)

¹⁰⁹ Comp. Art. 5 para. 1 of the [EIF Statutes](#)

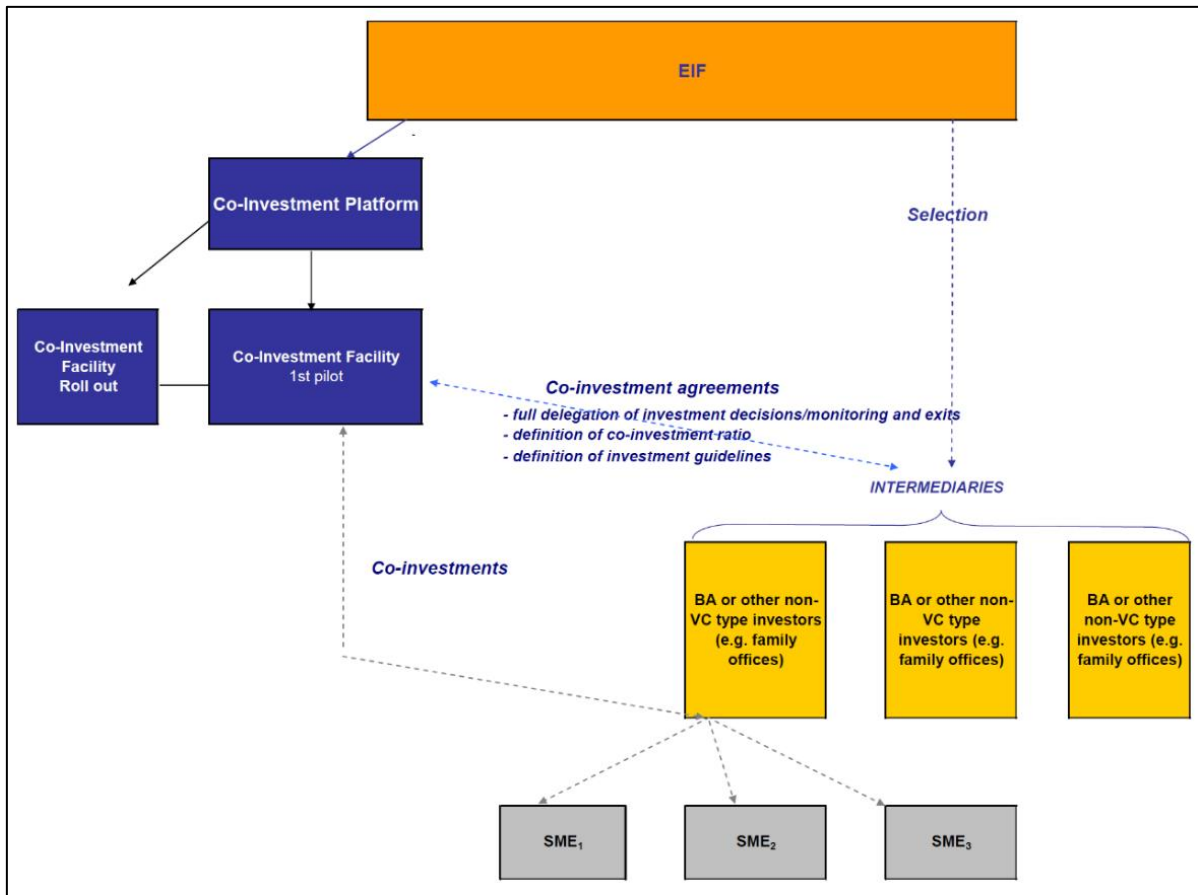
¹¹⁰ European Free Trade Association (EFTA)

¹¹¹ Comp. [EIF Annual Report 2014](#)

¹¹² "Joint European Resources for Micro to Medium Enterprises (JEREMIE)"

in Germany. While most co-investment funds are structured such, that they invest jointly with angel groups, networks or interest groups, this programme offers co-investments with individual angel investors selected by the EIF. The EAF is currently operating in Germany, Ireland, Austria, the Netherlands and Spain. In future, it should also expand to other European countries. The structure of the EAF is illustrated in Figure 14 below.

Figure 14: Structure of the EIF European Angels Fund



Source: Pelly and Kraemer-Eis (2012)

7.3.2 Financial intermediaries of the EIF

Enterprises and start-ups seeking financing, can find an overview of the accepted financial intermediaries of the EIF on the EIF website¹¹³. An interactive map shows the countries in which the EIF is active. It also shows which enterprises are eligible, which financial products and which financial intermediaries are available, and which initiative provides the funds. For a request for equity financing for an enterprise, contact must be made with the relevant finance partner, not with the EIF.

Banks, leasing companies, guarantee funds, private equity funds, venture capital funds, microfinance institutes, and other financial institutions which support SMEs can accede to diverse initiatives and programmes of the EIF or be accepted as a financing partner by the EIF, and therefore receive funds from the EIF. They can apply directly to the EIF and must fulfil certain conditions, depending on the programme.

Certain requirements exist for the cooperation of private financial intermediaries and the EIF. In order to receive funds from the EIF, it is required that either the location of the fund, or the fund vehicle is in the European Union, or that the fund invests a minimum allocation of the funds in the EU. This depends on the mandate issued the EIF by the relevant client. Furthermore, the fund must be established in a conforming jurisdiction. In particular, the regulation and market practice relating to money laundering and tax evasion should be in

¹¹³ www.eif.org

place. In addition, regulatory criteria should be met, e.g. compliance with the applicable legal framework.

7.3.3 The EIF and Switzerland

Just like the other EFTA Member States, Switzerland is not a Member of the EIF. Article 23 para. 1 of the EIF Statutes mentions that the activities of the fund are limited to the EU, accession candidates and potential accession candidates of the EU and countries of EFTA. The EIF can therefore also invest in Swiss fund companies or Swiss start-ups. According to EIF publications, eight funds managed from Switzerland with foreign offices currently cooperate with the EIF¹¹⁴.

Geographically, Switzerland is surrounded by the European Union, and therefore naturally included in the investment area of the EIF. In total, the EIF has invested in 67 funds which also include Switzerland. These funds have an investment capital of approx. EUR 8 billion. At present, Swiss VC funds can benefit from EIF financing; in particular, via French or German programmes. 56 Swiss start-ups have been co-financed by the EIF in this manner since 2006.

Since there is no investment mandate geared towards Switzerland, Switzerland is not an investment focus of the EIF as such. Initial evaluations showed that the EIF is open to cooperation with Switzerland. According to the EIF, bilateral issues relating to the relationship between Switzerland and the European Union do not constitute unsurmountable obstacles. An accession of Switzerland to the EIF is not open to discussion. Any cooperation would not be realised within the scope of financing programmes, but through other activities, such as EIF training modules for pension fund representatives seeking to develop their knowledge of the venture capital market, for representatives of the venture capital industry, or through use of the extensive EIF data material.

7.3.4 Conclusion

In Europe, the European Investment Funds (EIF) is the most important actor in the area of venture capital financing and provision of guarantees for SMEs, including start-ups. As a non-member of the EU, Switzerland is not a Member of the EIF, either. Nevertheless, Swiss start-ups and venture capital funds can benefit from EIF's investment activities. For instance, 56 Swiss start-ups have been co-financed by funds supported by the EIF since 2006.

In the absence of larger private or public venture capital funds with investments in Switzerland, a review of a closer cooperation between Switzerland and EIF may be useful. This might allow Swiss venture capital actors to make more intensive use of the EIF's financial instruments, or to benefit from the valuable knowledge of the EIF. This might strengthen the Swiss venture capital market, and support faster financing of start-ups.

In order to strengthen the Swiss venture capital market, the Federal Department of Economic Affairs, Education and Research (SECO) is investigating the option of cooperating with the European Investment Fund (EIF); for instance, in relation to training offers for pension fund representatives and Swiss venture capital funds, or use of the EIF's extensive data material.

7.4 Foreign tax incentive systems for start-ups

Programmes for young, innovative enterprises¹¹⁵ (YIE programmes) often stipulate tax breaks and reductions in social security costs for start-ups with a proven orientation towards innovation. This is frequently linked to research and development expenditure. The policy rationale for these programmes is that they should balance out both, the financial resources

¹¹⁴ These are BioMedInvest II LP, HBM BioCapital II LP, IPF Fund 1, Lakestar I LP, Lakestar II, NeoMed Innovation V, Qure Invest Life Sciences Fund and Wellington Partners IV Technology Fund (EIF, 2015b).

¹¹⁵ There is no international definition of "young, innovative enterprises" for tax purposes.

an enterprise lacks in the first few years of development, and a lower rate of investment in innovation made by start-ups.

Findings from the 2012 OECD financing questionnaire¹¹⁶ show that 9 of the 32 OECD countries have YIE programmes, whereby these programmes were launched in three countries (Israel, Italy and Turkey) between 2007 and 2012. Only a small number of countries have carried out evaluations of these programmes or published these.

France is one of the countries most frequently mentioned in relation to this type of programme. Governmental support for these programmes has decreased in France between 2007 and 2012. The “Jeune Entreprise Innovante” (YIE) model grants young, strongly innovative SMEs both tax breaks and social security cost reductions. The Statistics Department of the French Ministry of Economics and Finance (SESSI) has evaluated the YIE model in 2008. This showed that the model has an overall positive impact on the employment of qualified staff and the total wage costs (excluding social security contributions). While no positive impact on enterprise formation activity was noted, the YIE model was linked to a significant slowdown of closures of young enterprises from the area of high-tech services¹¹⁷. In 2011, the model was adapted, and the social security allowance was reduced. In 2012, the Ministry conducted another evaluation of the programme for the economic reconstruction¹¹⁸ which took medium and long-term effects of the YIE into account. This showed that the supported YIE achieved a strong increase in employment and revenues; however less than half of the enterprises had achieved a profit. It also showed that the model improved the survival rate of YIEs. The evaluation concluded that the increase in investments in research and development made by the supported enterprises was higher than the government expenditure.

7.5 Foreign tax incentive systems for business angels

7.5.1 Overview of tax incentives for business angels in OECD countries

As part of the OECD study on governmental measures for funding seed and early-stage financing¹¹⁹, front-end tax incentives are defined as tax deductions on investments in seed and early-stage enterprises. Front-end tax incentives can be offered for enterprises (e.g. higher R&D deductions) or for private investors. This Chapter focuses on tax incentives for private investors. In particular, they can encourage investors to invest in young, innovative enterprises. Their objective is often to develop a venture capital market.

Back-end tax breaks relate to privileged taxation of capital gains or losses, including shifting of taxes and loss carryforwards. Back-end tax breaks often serve to encourage investors to not only invest in seed and early-stage enterprises, but to also re-invest, or to move taxation to an internationally more attractive level. The latter is primarily applied if capital gains taxes are relatively high.

According to the findings from the OECD questionnaire, many countries have front-end and back-end tax incentives for seed and early-stage investments. 13 von 32 OECD countries have front-end tax incentives, and the number of such programmes has increased overall. 11 of 32 OECD countries have back-end tax incentives, whereby the support is developed in half these cases, and has remained largely unchanged in the other half. A relatively low number of these programme have evaluated this aspect or published any evaluations.

¹¹⁶ Wilson and Silva (2013)

¹¹⁷ The majority of enterprises which applied for acceptance to this model was involved in the areas of ICT and life sciences.

¹¹⁸ Hallépée and Garcia (2012)

¹¹⁹ Wilson and Silva (2013)

Some countries even offer tax incentives on regional, but not national level. These include the USA, where tax incentives are implemented of state level, and Canada, where tax incentives are in place on provincial level, as well as other countries.

7.5.2 Illustration of selected foreign tax incentive systems for business angels

United Kingdom

The British tax system uses two privileged tax system specifically tailored to business angels. “Seed Enterprise Investment Scheme” (SEIS)¹²⁰ and “Enterprise Investment Scheme (EIS)¹²¹. These special tax regimes were introduced with the objective of funding equity investments in small and medium-sized enterprises. EIS exists since 1994, and is the investor tax incentive programme most frequently mentioned.

Various conditions must be met before SEIS or EIS can be applied. In particular, the investee must be an active company. The activities which are not considered as ‘active’ are specified in a negative list. Whether specific types of enterprises (e.g. biotech) fall under the negative list, should be discussed cases with “Her Majesty’s Revenue and Customs” (HMRC) in individual, and confirmed by a ruling. A further requirement is that the company must have a small number of employees. To allow the investor to benefit from the tax regime, the company must first obtain a certificate from HMRC which confirms the tax regime for which the company qualifies.

Both tax regimes are attractive for the investor compared to ordinary taxation in the UK, because the realised capital gains are tax-free if the investor has held the shares for at least 3 years (back-end incentive). In addition, the tax period in which the investment is carried, the investment can be offset against the income tax liability (front-end) up to a maximum amount of (EIS: £ 1 Million (~ CHF 1.46 Million¹²²); SEIS £ 100,000 (~ CHF 146,000¹²²)) 30% (EIS) or 50% (SEIS).

Earlier evaluations of the EIS, which have largely been carried out by experts, were favourable and indicated significant additional invested funds (more than 50%), as well as a positive impact on the investee enterprises¹²³.

If business angels are involved in the company management, they can benefit from “Entrepreneur’s Relief”. Under this tax regime, the effective tax rate on capital gains is reduced from 20% to 10% (back-end incentive)

Israel

Israel offers tax incentives for investors who invest in start-ups. If shares have been acquired in a start-up in the period from 01 January 2011 to 31 December 2015, the investment amount up to a maximum of NIS 5 million (approx. CHF 1.3 million¹²⁴) per investment can be deducted from income over a period of 3 years (front-end). The 3 years in which the deduction is applied can be selected freely. An extension of the privileged tax treatment until 31 December 2019 is planned.

USA

For cost-benefit reasons, an overview of the member states of the USA was not prepared. Instead, this report will focus on those US states which exhibit strong start-up activity, e.g. Massachusetts and California.

In the state of Massachusetts, the investor can benefit from a tax relief on the capital gains tax or income tax for investments in a start-up (seed phase) and a holding period of more

¹²⁰ <http://www.seis.co.uk/>

¹²¹ <http://www.eisa.org.uk/using-eis/>

¹²² GBP 1 = CHF 1.4596 (exchange rate on 29 Jan. 2016)

¹²³ Mason (2009)

¹²⁴ NIS 1 = CHF 0.2588 (exchange rate on 29 Jan. 2016)

than 5 years (federal tax) or 3 years (state tax) (back-end incentive). The following specific condition must be met:

- at the time of business angel investment, the start-up had shares of less than USD 50 million (approx. CHF 51.1 million¹²⁵);
- the start-up is taxed as a “C Corporation”, i.e. an independent taxable entity;
- die start-up is an active company;
- the business angel acquires the shares within 5 years after the formation of the company; and
- the business holds the shares for more than 5 or 3 years.

If the conditions are met, capital gains are only taxed as income at 50 percent, both on federal tax and state tax level (back-end incentive).

In the state of California, the investor can benefit from federal level tax relief on the capital gains tax or income tax for investments in a start-up (seed phase) and a holding period of more than 5 years (federal tax) (back-end incentive). In relation to the conditions and scope of the tax relief, reference is made to the details provided for Massachusetts. In contrast to Massachusetts, California uses no tax relief on the level of state tax.

7.5.3 Conclusion

According to the findings from the OECD financing questionnaire, 13 of 32 OECD countries have front-end tax incentives and 11 of 32 OECD countries have back-end tax incentives.

For instance, countries such as the UK or Israel create a tax incentive for investing in start-ups. In the UK, the investment amount can be directly offset against income tax liabilities. In Israel, the investment amount is deducted from the taxable income.

The British tax system also uses two privileged tax system specifically tailored to business angels, whereby the investor can realise capital gains tax-free under certain conditions.

The USA privileges capital gains if an investment is made in a certain type of company in the seed phase. This deliberately intensifies early-stage investments.

7.6 Conclusions regarding financing offers and tax incentives in other countries

Numerous OECD countries have state capital contribution programmes, largely in the form of direct public equity funds, fund of funds or co-investment funds. The number of equity programmes has increased significantly in recent years. In particular, co-investment funds and funds of funds recorded the greatest increase. Virtually all OECD countries also utilise guarantee instruments.

The European Investment Funds (EIF) is an important financial institution in Europe in the area of venture capital financing and provision of guarantees for SMEs, including start-ups. As a non-member of the EU, Switzerland is not a Member of the EIF, either. Nevertheless, Swiss start-ups and venture capital funds can benefit from EIF’s investment activities. To strengthen the Swiss venture capital market, a possible cooperation between Switzerland and the EIF is an option worth investigating.

In terms of tax incentives for start-ups, 9 OECD countries offer programmes for young, innovative enterprises (YIE programmes). As part of these measures, young, innovation-based enterprises are offered tax breaks and a reduction in social security costs.

¹²⁵ USD 1 = CHF 1.0217 (exchange rate on 29 Jan. 2016)

In numerous OECD countries, business angels benefit from both, front-end tax incentives (tax deductions for seed and early-stage funding) and back-end tax incentives (tax breaks on capital gains or losses).

8 Public financing options and tax incentives in Switzerland compared internationally

8.1 Public financing options compared internationally

When compared to other countries, no governmental equity programme exists on national level in Switzerland. A diverse range of financing offers for the benefit of enterprises and start-ups are implemented by the cantons on regional level. In the OECD countries, state capital contribution programmes in the form of public investment funds, funds of funds or co-investment funds are often in place.

In Switzerland, the funding instruments of commercial guarantees which facilitate access to bank credits to the enterprises, and therefore enterprise financing, are available on federal level. Four accepted guarantee cooperatives supported by the Confederation can offer guarantees to the banks which issue loans to the enterprises. In order to secure SME financing, most OECD countries also have guarantee instruments according to different systems.

With the European Investment Fund and its equity and debt capital instruments geared towards finance partners, the offer of venture capital for start-ups is strengthened on a European level.

8.2 Tax treatment of business angels compared to international standards

8.2.1 Assumptions for the tax comparison

The tax treatment of business angels in Switzerland is compared to that applied in the United Kingdom, Israel and the USA. It is assumed that all conditions of the relevant tax incentive system are met.

The international comparison of the tax treatment of business angels is based on the following assumptions:

- EUR 125,000 (CHF 138,560¹²⁶) were originally invested.
- The business angel generates a capital gain from the sale of his shareholding in a start-up of EUR 2,500,000 (CHF 2,771,250¹²⁶). On the date of sale, the value of the shareholding is EUR 2,625,000 (CHF 2,910,000¹²⁶).
- In addition to the capital gain, the business angel generates another income (e.g. salary, interest) of EUR 200,000 (CHF 221,700¹²⁶), which is not connected to the start-up, i.e. in particular, not a salary from the start-up.
- The shares were held as private assets.
- The business angel is liable to tax without restrictions in the relevant country, and the enterprise has its registered offices in the same country.
- The business angel is classed as an individual for tax purposes.
- Church taxes have not been taken into account in the calculation.

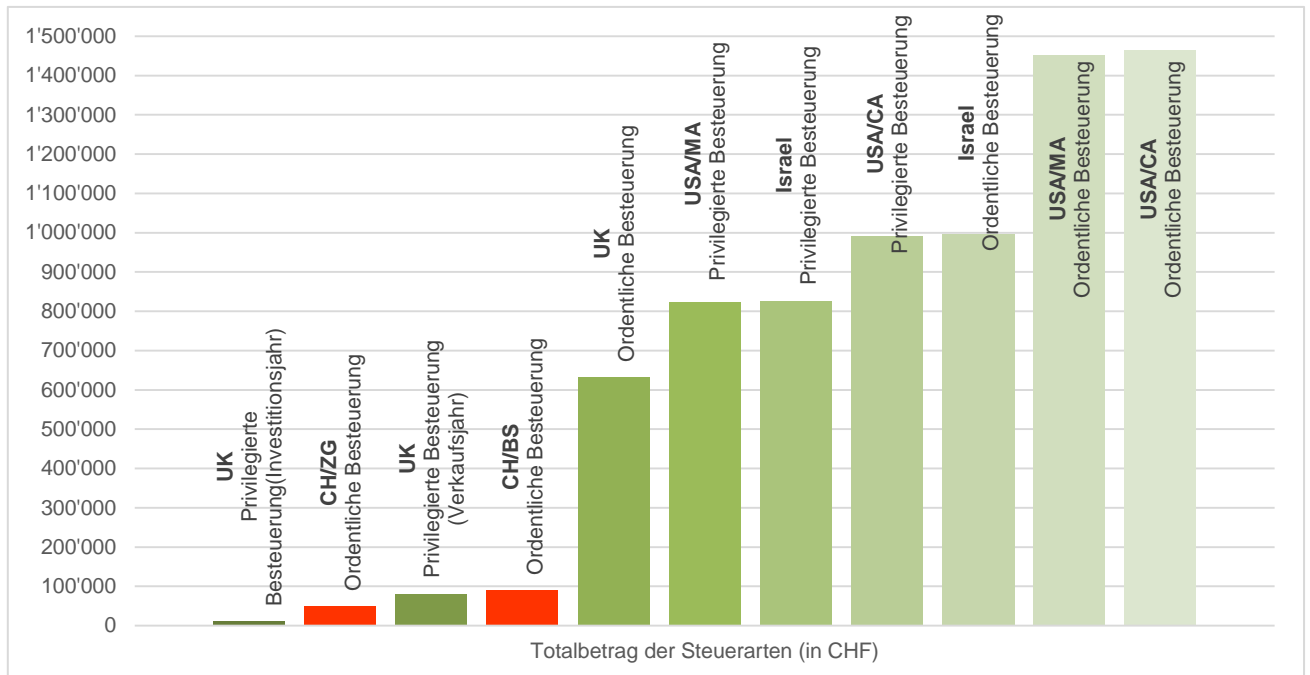
8.2.2 International comparison of the tax treatment of business angels

Figure 15 charts the total tax amounts raised in the different countries and the consideration of the aforementioned assumptions. The details relating to the type of taxation, tax amounts

¹²⁶ EUR 1 = CHF 1.1085 (exchange rate on 29 Jan. 2016)

by tax type, total amount of the tax types, and the effective tax rate for each tax type are detailed for each country in Annex 9.

Figure 15: Tax treatment of business angels compared to international standards



Source: Vischer AG, own calculations (2016)

8.2.3 Notes on the international comparison of the tax treatment of business angels

In Switzerland, a capital gain is always tax-free if the shares are held as private assets¹²⁷. Gains on capital are not taxed. However, the shareholding is subject to wealth tax during the holding period. Possible tax deductions are not taken into account, wherefore the stated income of CHF 221,700 is also the taxable income. The tax burden differs between cantons, because the determination of the tax rates is a competence of the cantons.

In the United Kingdom, capital gains are subject to capital gains tax. If all conditions for the SEIS tax regime are met, and the shares are held for a minimum of 3 years, the full amount of capital gains can be realised tax-free. If the conditions for granting the tax privilege are not met, a tax rate of 20% applies to the capital gain. Up to 50% of SEIS investments can also be offset against income tax liabilities in the tax period of the investment. Thus, total taxation in the year of investment is lower than in the year of sale due to the offsetting of the investment with the income tax liability.

In Israel, capital gains are subject to capital gains tax, plus a special premium. If a shareholding of 10% or more was held at any time during the last 12 months before the sale, a tax rate of 30% plus a premium of 2% for incomes exceeding NIS 810,720 (approx. CHF 209,800¹²⁴) applies. If a shareholding of less than 10% was held during the last 12 months before the sale, a tax rate of 25% plus a premium of 2% for incomes exceeding NIS 810,720 (approx. CHF 209,800¹²⁴) applies. Investments in start-ups can be deducted from the taxable income. If such deduction is applied, the measurement basis for capital gains tax is increased by this amount.

In the USA, capital gains are treated with the tax rate applicable for income tax. The greatest tax burden is incurred if an investment is held for less than one year. If the holding period is longer than one year, capital gains are taxed under the income tax at a privileged rate. In contrast to Massachusetts, California uses no tax relief on the level of state tax.

¹²⁷ Comp. Art. 16 para. 3 DBG ([SR 642.11](#))

8.3 Conclusion

Thanks to current tax arrangements in relation to capital gains, Switzerland is an attractive location for business angels compared to other countries. The fact that no capital gains tax is crucial in this context. At the time of sale of the shareholding, the Canton of Zug in Switzerland has the lowest rate of t amongst all analogue countries.

This is despite the fact that Switzerland uses no tax incentives which are applied directly at the time of investment, and therefore irrespective of the economic success of an enterprise, nor incentives in the taxation at the time of sale. Only at the time of investment, the UK's tax regulations are more attractive, as the investment amount can be directly offset against income tax liabilities. However, when including the year of sale, Switzerland comes off better. Thus, Switzerland is attractive in international comparison, even without tax privileges for business angels; in particular, due to the tax-free capital gains.

9 Selected regulatory framework conditions for start-up funding in Switzerland

9.1 International comparison

In its report on easing the administrative burden and implementing better regulation to reduce the effort required by enterprises¹²⁸ the Federal Council compared the attractiveness of Switzerland as a location based on various international indicators. The Federal Council noted that, in international comparison, Switzerland is positioned good to excellent for the attractiveness of the location in general, as well as the administrative burden. The overall economic framework conditions in Switzerland are amongst the best in the world.

9.2 Administrative burden

Regulations often cause significant costs for enterprises. Excessive bureaucracy has a negative impact of economic development. Continuously increasing regulatory density involves significant risks to the competitiveness of the enterprises and the national economy as a whole. Especially the young high-growth enterprises usually have to invest all their resources in the development of their enterprise, leaving only few resources for the work incurred by regulation. Thus, easing the administrative burden and lowering regulation costs are an important permanent task of the Federal Council, especially since other countries are also making continuous progress towards better quality of regulation and a lower burden for the enterprises. In regular reports on easing the administrative burden, the Federal Council always recommends numerous measures. The focus is on removing unnecessary administrative burdens without compromising the objectives of a regulation. The last report was published in the autumn of 2015.¹²⁹

Compared internationally, Switzerland has a good quality of regulation and various instruments and institutions for its continuous improvement. However, experience shows that its impact is limited and a potential for improvement exists. For instance, the OECD recommends that a permanent body with regulatory supervisory function is established close to the governmental centre to ensure that regulation is implemented under the overall government policy.¹³⁰

The existing institutions and instruments were not able to slow down the trend of increased regulation of recent years sufficiently. With the two motions 15.3400 Vogler and 15.3445 FDP liberal parliamentary group, Parliament has instructed the Federal Council to assess which measures or institutions could be used to improve the effect of the measures for

¹²⁸ Federal Council (2015a), p. 11 et seq.

¹²⁹ Federal Council (2015a)

¹³⁰ OECD (2012)

easing the administrative burden and lowering regulation costs. Specifically, the aforementioned motions deal with an improvement of the impact assessment for regulations, and the use of an independent assessment body. For instance, parliamentary motions demand a slowdown of regulation (15.3421 Postulate of Caroni, 16.3360 Motion of the FDP liberal parliamentary group, 16.3543 Motion of Martullo), or a new legal foundation for existing instruments that would improve their effectiveness (16.3388 Motion of Sollberger).

9.3 Collaborative consumption (sharing economy)

Sharing economy means a business model characterised by the temporary shares use of resources not required permanently.¹³¹ The internet offers a range of possibilities, especially for such business concepts, to offer services in a new and unconventional manner, whether free or for a fee. This creates a new type of competition for traditional business models which may have structure-preserving impact through any existing or new regulatory measures.

New offers constantly arise in the most diverse economic sectors. Associated legal questions are of a complex nature, and also differ according to the type of the offer. Brokerage platform, such as AirBnB (rooms and breakfast through provision of private living spaces) or Uber (driving services) primarily affect cantonal and communal regulations (visitor's tax, taxi regulations; see response of the Federal Council to Postulate 14.3658 of Sommaruga Carlo and Motion 14.4269 of Hess), however, they may also touch on the federal law (e.g. rental and employment laws).

Questions constantly arise on taxation, whether income tax or value added tax, or any other duties. Moreover, insurance aspects are relevant. Since the platform operators are not usually legally based in Switzerland, there are also questions on the transnational enforcement of Swiss laws, comparable to those of prohibited content of websites from providers with offices abroad. The possibility of involving the platform operators based in other countries to procure data, e.g. for raising taxes or visitor's tax, must also be clarified.

The Federal Council has therefore recommended the acceptance of Postulate 14.4296 of National Council Member Derder, and indicated its willingness to prepare an overall assessment of the participative economy, and recommend possible measures for the improvement of the framework conditions as part of a report. The National Council adopted the Postulate on 29 February 2016. The Federal Council has prepared this synopsis as part of its Report on the Key Framework Conditions for the Digital Economy.¹³²

9.4 Pension fund investments in start-ups (Graber Motion)

Under Motion 13.4184 "Long-term investments of pension funds in promising technologies and creation of a Swiss future fund", the Federal Council has been instructed to recommend changes to legal provisions and investment guidelines which achieve that pension funds will be able to make long-term future-oriented investments in the future. Furthermore, the Federal Council was invited to initiate a "Switzerland Fund for the Future" organised and held by the private sector, which would look after the promising investments of the pension fund at its request.

In its statement on the motion, the Federal Council noted that pension funds are already able to invest in such assets today, and do so within the scope of their risk capacity. While the state can improve the framework conditions for investments, it must not encourage the pension funds to assume risks they cannot bear.

As part of a workshop on behalf of the working group for the Graber Motion, and organised by SECO, initial talks were held between representatives of the venture capital industry, pension funds and associations in June 2015. Clarifications were made, and representatives

¹³¹ Puschmann / Alt (2016)

¹³² Federal Council (2017)

of the venture capital industry were given the opportunity to hold talks directly with potential clients.

In October 2016, the Heads of the Federal Department of Home Affairs (FDHA) and the Federal Department of Economic Affairs, Education and Research (SECO) invited the Swiss Association of Pension Funds (ASIP), the Swiss Bankers Association SwissBanking, the Swiss Insurance Association (SVV), and representatives of venture capital firms to a summit. The participants signed a declaration that they want to develop and strengthen the venture capital market, and thereby the financing options in Switzerland. This information situation should also be improved with another event.¹³³

As part of a separate report on the abandonment of Motion 13.4184, the Federal Council will review further improvements of the framework conditions, and report on its efforts for the initiation of a fund organised and held by the private sector.

9.5 Crowdfunding

On the subject of promotion of crowdfunding, National Council Member Derder submitted Motion 14.4300 at the end of 2014, "Promoting Crowdfunding and Simplifying Investments in SMEs". In its statement from 06 March 2015, the Federal Council recommended the rejection of the motion, acknowledged the growth potential of the crowdfunding market in Switzerland, and indicated its willingness to conduct an analysis of the crowdfunding market in Switzerland as part of this report in fulfilment of the accepted Postulate 13.4237. For this reason, the subject is discussed in more detail below.

9.5.1 Crowdfunding terminology

In its statement from 04 November 2015 on Interpellation 15.3917, the Federal Council described crowdfunding as follows.

Crowdfunding is an alternative form of financing for different types of projects. It is achieved through mobilising a large number of capital providers which regularly only contribute a small share towards the total amount. They are typically mobilised via internet platforms. Manifestations of crowdfunding are designed in very different manners, and can be roughly broken down into four categories:

- a) Crowd donating: The capital provider expects neither repayment, nor consideration (donator model). This form of crowdfunding is particularly suited for projects with an ideational purpose.
- b) Crowd supporting: The capital providers waive a repayment of the contributed amount; however, they receive a consideration of ideational of very small material nature (e.g. mention in a film's credits or admission to the opening night).
- c) Crowd lending: Here, capital providers expect both a repayment of the contributed funds, and regularly also an adequate compensation.
- d) Crowd investing: This is a type of corporate financing. The consideration is provided in the form of participation rights and, if applicable, a share in the profits. The investee is provided with equity.

Capital providers in the first two categories expect no repayment of the funds provided. Under private law, these are gifts. With regard to the financial market, these forms are usually unproblematic, as the payments are processed exclusively between investees and capital providers, and not through a platform. Below, this report will primarily deal with crowd lending and crowd investing.

¹³³ [Press release of the Federal Council from 13 February 2016: "Joint declaration for the financing of start-ups"](#)

9.5.2 Figures on Crowdfunding

Crowdfunding is growing exponentially. In the period from 2009-2013, the average annual growth rate of the funding volume was approximately 76 percent, with an estimated total volume of USD 5.1 billion in 2013.¹³⁴ From a geographical perspective, North America was the biggest crowdfunding market. In the USA, the country of origin of the crowdfunding concept, 60.35 percent of the total market volume was invested, followed by Europe with 35.51 percent.

A study of the Institute for Financial Services Zug IFZ of Lucerne University on crowdfunding¹³⁵ shows that in the United States, crowdfunding campaigns totalling CHF 12.5 billion in 2015. In view of the structure of the US American market, a dominance of the crowd lending platforms is apparent. Within Europe, the UK is by far the most developed crowdfunding market. The total market volume grew by over 160 percent between 2013 and 2014, and by another 84 percent between 2014 and 2015. In 2015, it stood at CHF 4.7 billion. Similar to the USA, crowd lending in the corporate sector accounts for the greatest share of the alternative financing market in the UK with a volume of just under CHF 2.1 billion.

Crowd investing is the smallest category of the crowdfunding sector, accounting for four percent of the total volume in 2012. At present, Europe is the leading market for this financing model, as the development of crowd investing is severely restricted in the USA due to legal obstacles. In 2012, crowd lending accounted for the worldwide greatest share of the total industry with 44 percent, followed by crowd donating (37 percent), crowd supporting (14 percent) and crowd investing.

In Switzerland, crowdfunding is in an early-stage. The first crowdfunding platform in Switzerland, *Cashare*, was founded in 2008. In the meantime, the market has experienced strong growth, and as at April 2016, approximately 40 platforms with a physical presence in Switzerland are active. A large number of diverse platforms have been established which offer different types of crowdfunding.

In Switzerland, CHF 27.3 million were arranged through crowdfunding for 1,342 campaigns, which represents an increase of 73 previous year as compared to the previous year (CHF 15.8 million). The greatest growth was experienced by the area of crowd investing (+126 percent to CHF 7.9 million), followed by crowd supporting/crowd donating (+60 percent to CHF 12.3 million) and crowd investing (+54 percent to CHF 7.1 million). Thus, the category crowd supporting/crowd donating is the largest segment of the market (45 percent). The volume in the Swiss crowdfunding market is expected to at least double in 2016, primarily driven by SME lending and real estate crowdfunding.

Table 8 below shows that Switzerland ranks ninth in terms of per capita volume of the financed crowdfunding campaign in 2014 as compared to 17 examined European countries. In European comparison, Sweden is in the middle range for crowdfunding, whereby the United Kingdom, Estonia and Sweden lead the comparison group by a wide margin.

¹³⁴ Wilson and Testoni (2014)

¹³⁵ Institute for Financial Services Zug IFZ (2016)

Table 8: Volume of the financed crowdfunding campaign in European countries, 2014

Rank	Countries	Volume per resident (in CHF)	Volume (in CHF million)
1	United Kingdom	43.7	2,838.5
2	Estonia	20.3	26.7
3	Sweden	13.2	130.0
4	Netherlands	5.6	94.7
5	Finland	3.8	20.6
6	France	2.9	187.0
7	Iceland	2.3	0.7
8	Germany	2.1	170.0
9	Switzerland	1.9	15.8
10	Spain	1.6	75.3
11	Austria	0.5	4.4
12	Denmark	0.5	3.0
13	Belgium	0.2	3.0
14	Czech Republic	0.2	2.4
15	Norway	0.2	1.2
16	Slovakia	0.2	1.2
17	Italy	0.1	10.0
18	Poland	0.1	4.9

Source: Lucerne University – Economy, Institute for Financial Services Zug IFZ, 2015

9.5.3 Study on the regulatory need for action in 2013

The study¹³⁶ which was conducted on behalf of SECO by Vischer AG, illustrates regulatory barriers and solution approaches of crowdfunding in Switzerland. In principle, the study concludes that the existing regulation severely compromise crowdfunding, or even prevent individual forms and activities completely.

In 2013, no public publication of the practice of crowdfunding was in place by the Financial Market Supervisory Authority (FINMA) in the area of internet business. There was no judicial practice on crowdfunding platforms, either. The study outlines that legal uncertainty exist in the application of financial market laws to crowdfunding platforms which are reinforced with the various forms of crowdfunding. Small differences in the organisation of a crowdfunding platform can effect far-reaching legal consequences. The authors recommended that the legislator and FINMA examine the new possibilities of the internet in general, and rethink various financial services regulations as part of the draft of the financial services law.

The study identified the following need for action to promote crowdfunding in Switzerland:

- a. Clarification of the legal understanding of FINMA: Publication of a Message pursuant to Art. 22 para. 1 FINMAG¹³⁷ which contains the legal understanding of FINMA for typical questions associated with crowdfunding.
- b. Release from due diligence obligations for low asset volumes: Ordinance of a comprehensive implementation regulation of Art 7a GwG¹³⁸ to replace the current selective regulations. Pursuant to Art, 7a GwG, a financial intermediary may waive compliance with due diligence obligations if the business relationship only involves low asset values, and no indications for potential money laundering or financing of terrorism exist. The application of this exemption would mean significant simplification for platforms geared towards private persons.

¹³⁶ Vischer (2013)

¹³⁷ Federal Law on the Swiss Financial Market Authority from 22 June 2007 (FINMAG SR956.1)

¹³⁸National Law on Combating Money Laundering and the Financing of Terrorism in the Financial Sector from 10 October 1997 (GwG SR 955.0)

- c. Limitation of the term deposit at liability¹³⁹: The creditor should be assured that the deposit is repaid. The authors of the study recommend establishing a corresponding definition in the Ordinance on Banks and Savings Banks, so that the term deposit is adjusted to the investor's understanding.
- d. Review of the definition of the term collective investment: Publication of a Circular or a Message on the applicable criteria with regard to the demarcation of operational companies. Pursuant to Art. 2 para. 2 lit. d CISA¹⁴⁰, a collective investment is not in place if related to operational companies engaging in entrepreneurial activity.
- e. Exemption for accepting or channelling funds: Extension of the exemptions from Art. 3a para. 3 lit a and b BankVO to payments made to third parties (currently Art. 5 para 3 lit. a and b BankV¹⁴¹). The authors of the study recommend that these exemptions also apply for payments to third parties, so that money transferred to platform operators is not classed as a deposit.

In general, the recommendations of the study are not geared towards releasing crowdfunding from the provisions of the financial market laws, because the investors' need for protection exists, and these are largely private persons in this area. The objective is to reduce legal uncertainty in the application of the financial market laws to crowdfunding platforms, whereby their business activities should be enabled or not prevented through high regulatory barriers.

9.5.4 Regulatory developments since the 2013 study

9.5.4.1 Clarification of FINMA's legal understanding of crowdfunding

Since 2014, FINMA has been in well-established dialogue with the FinTech sector in relation to barriers to market entry, and several steps in the recommended direction have been taken. In 2014, FINMA published a fact sheet¹⁴² on crowdfunding which illustrates the platform operators' and project developers' licence requirements in relation to crowdfunding activities. With this Message, the need for clarification of FINMA's legal understanding should be met.

FINMA states that the operator of a crowdfunding platform must check the necessity of a banking license if funds of project financiers flow via accounts of the platform. If the operator of a crowdfunding platform operators not only briefly accepts the funds for quick transfer to the project developer, but these remain on the account of the platform operator for some time, and this is a commercial activity, a banking license is generally required first. Pursuant to current practice of FINMA, 'briefly' means 7 days.

If funds flow via accounts of the platform operator, its activity is usually also subject to money laundering provisions if carried out as a professional activity, as it provides a service subject to license requirements in the area of transactions. If the platform operator requires no banking license, it must therefore apply to FINMA for a license as a directly subordinated financial intermediary before commencing its activity, or become a member of a self-regulation organisation accepted by FINMA.

Project developers, i.e. start-ups seeking investors, may also require a banking license for the commencement of business activities in certain circumstances; in particular, if the project developers accept funds of the project financiers on their own accounts on a commercial basis. This applies if the funds are accepted as debt capital, e.g. as a loan under crowd lending. In such cases, the accepted assets should be qualified as deposits from the public. Even the advertisement for the acceptance of deposits from the public may be qualified as an activity requiring a license under the banking law (comp. discussions under Point 9.5.4.2 below). Start-ups which realise projects under crowd donating or crowd supporting models,

¹³⁹ Within the meaning of the Federal Law on Banks and Savings Banks from 08 November 1934 (BankG SR **952.0**)

¹⁴⁰ Swiss Collective Investment Schemes Act (CISA) from 23 June 2006 (CISA SR **956.1**)

¹⁴¹ Ordinance on Banks and Savings Banks from 30 November 2014 (BankV SR **952.02**)

¹⁴² FINMA (2014)

and launch these via a corresponding platform, generally need no banking license, because these assets do not qualify as deposits.

In 2016, FINMA published a Circular on the subject of video and online identification for the interpretation of due diligence obligations under the money laundering law and its implementation rules in the context of digital provision of financial services¹⁴³. With this Circular, FINMA equates video identification with a personal meeting if the listed conditions are met. In addition, the permissibility of online identification (entering into the business relation by correspondence) is regulated. The Circular also applies, in particular, for financial intermediaries pursuant to Art. 2 para. 3 GwG, especially also crowdfunding platform operators who accept third-party assets (e.g. loan amounts for financing crowdfunding projects) to transfer these to third parties (e.g. start-ups seeking capital).

9.5.4.2 Facilitations for crowd lending in FIDLEG

In 2015, the Federal Council issued the Message on the Financial Services Act (FIDLEG) and the Law on Financial Institutions (FINIG)¹⁴⁴. The Federal Council noted that the crowdfunding phenomenon is not specifically regulated in law. Consequently, different standards of private and financial market law exist which apply according to the individual arrangement. This primarily relates to crowd lending consequences under private and financial market laws.

Under private law, crowd lending can be achieved through conclusion of individual loan agreements between capital providers and borrowers¹⁴⁵. However, with this form of debt financing, account must be taken of the fact that loan liabilities constitute deposits from the public under financial market laws¹⁴⁶. In particular, the prohibition of accepting deposits from the public on a commercial basis under bank law must be observed¹⁴⁷. Since commercial activity is already suspected after 20 deposits (the '20-rule')¹⁴⁸, it is possible that the crowd lending borrower is governed by BankG. Both the platform operator and the project developer (start-up) may therefore require a banking license. Moreover, the loan agreements concluded in crowd lending can also be classed as consumer credit agreements, wherefore the provisions of KKG¹⁴⁹ must also be fulfilled.

As an alternative to arranging regular loans, financing through crowd lending can also be carried by issuing bonds. The applicable law in this case requires the publication of a prospectus¹⁵⁰. From a financial market perspective, if a prospectus is prepared, issuance of bonds is not classed as a deposit business under BankG, and therefore, no banking license would be required¹⁵¹. According to the Message on FIDLEG, the prospectus obligation under the Law of Obligations should be replaced for bonds. According to Art. 37 of the Message on FIDLEG, anyone who makes a public offer to acquire securities in Switzerland must first publish a prospectus. This obligation also applies to bonds, insofar as these securities can be qualified pursuant to Art. 3 lit. c of the Message on FIDLEG¹⁵². If a prospectus obligation exists, it should be reviewed in the specific case, if an exemption applies. In particular, no prospectus publication is required if the public offer does not exceed a total value of CHF 100,000 over a period of 12 months¹⁵³, or if securities are issued by institutions with an

¹⁴³ FINMA (2016)

¹⁴⁴ Federal Council (2015b)

¹⁴⁵ Art. 312 et seq. Swiss Code of Obligations (OR) (SR 220)

¹⁴⁶ acc. to BankG (SR 952.0)

¹⁴⁷ Art. 46 para. 1 lit. a BankG (SR 952.0)

¹⁴⁸ Art. 6 BankV (SR 952.02)

¹⁴⁹ Federal Law on Consumer Credit from 23 March 2001 (KKG SR 221.214.1)

¹⁵⁰ Art. 1156 Swiss Code of Obligations (OR) (SR 220)

¹⁵¹ Art. 5 para. 3 lit. b BankV (SR 952.02)

¹⁵² "Securities: harmonised securities, uncertificated securities, derivatives and book entry securities suitable for mass trade."

¹⁵³ Art. 38 para. 1 lit. e of the Message on FIDLEG

ideational purpose to raise funds for non-commercial objectives¹⁵⁴. However, if bonds are not arranged as securities, the prospectus obligation falls away. However, a basic information sheet should be prepared for bonds in any case, as these are financial instruments¹⁵⁵. For crowdfunding activities, the basic information sheet must contain the key information on the financial instrument, i.e. the costs and risks. It should provide the necessary transparency; in particular, in view of the risk that the capital providers may lose their input or the bond amount. The suggested regulation in FIDLEG to process crowd lending via bonds with a simple basic information sheet should meet the sector's need for legal certainty.

In relation to crowd investing, equity securities (shares, non-voting equity securities, participation certificates) usually constitute the securities¹⁵⁶, wherefore a prospectus pursuant to Art. 37 of the Message on FIDLEG must be published when a public offer is made.

9.5.4.3 Relief for crowdfunding in relation to accepting or channelling funds:

On 20 April 2016, the Federal Council has commissioned various m] for the benefit of innovative financial technologies (FinTech).¹⁵⁷ These help to meet the need for action identified in the 2013 study regarding the exemption for accepting or channelling funds.

In its press release, the Federal Council noted that FinTech companies may fall under the exemption of Art. 5 para. 3 lit. c Swiss Banking Ordinance¹⁵⁸, and are exempt from the scope of the Banking Law if they accept third-party funds solely for the purpose of transfer without paying an interest, and the processing (transfer to a beneficiary specified in advance, or return transfer to the capital providers) is specified in advance. This regularly applies to crowdfunding platforms. The applicable statutory provisions for the processing of financial transactions without a license also apply to services provided by FinTech companies.

On 02 November 2016, the Federal Council instructed the Federal Department of Finance (EFD) to prepare a consultation report by early 2017, to reduce barriers to market entry for providers in the FinTech segment, and increase the overall legal certainty in the sector. The adjustments comprise three complementary elements:

1. Specification of an explicit 60-day time limit for holding funds in settlement accounts in the Swiss Banking Ordinance. This helps to simplify fundraising for crowdfunding projects.
2. Extension of activity free from license requirements through creation of an innovation space ("sandbox"). In this space, a provider can accept an unlimited amount of deposits from the public up to a total value of CHF 1 million without requiring a FINMA license. However, this fact must be disclosed. Furthermore, applicable money laundering provisions apply to the "sandbox".
3. Creation of a new license category (FinTech license) in the Banking Law (BankG) for institutes which limit themselves to the deposit-taking business (acceptance of deposits from the public), and are not involved in any lending business with maturity transformation. Lower regulatory requirements should apply for this category than for classical banks. Thus, participation in the depositor protection system is not planned. Deposits from the public accepted by providers with a FinTech license must not exceed a total value of CHF 100 million. If the protection of the individual clients is guaranteed through special constraints, FINMA may also permit a higher threshold.

In addition to the development of a consultation draft, the Federal Council has instructed the EFD to cooperate with interested authorities to conduct additional evaluations for a reduction

¹⁵⁴ Art. 39 lit. i of the Message on FIDLEG

¹⁵⁵ Art. 60 of the Message on FIDLEG

¹⁵⁶ Art. 3 lit. c of the Message on FIDLEG

¹⁵⁷ Federal Council (2016)

¹⁵⁸ SR **952.02**

of further barriers to market entry for FinTech companies, i.e. outside of financial market law (e.g. legal treatment of virtual assets and currencies).

9.5.5 International comparison of regulatory developments

Specific crowdfunding regulations differ between jurisdictions in their progress or existence. The platform operators have differing adjustment needs to local market circumstances and legal framework conditions. Thus, the objective of this comparison is not to provide comprehensive information on relevant regulations in individual countries, but to convey a general overview over the direction of regulatory motions in key crowdfunding markets outside of Switzerland, whereby no claim to completeness is made.

USA

The *Jumpstart Our Business Startups Act* (JOBS Act) adopted on 05 April 2012 created the formal foundation for simplified borrowing through crowdfunding and a corresponding adjustment of the *Securities Act of 1933*. This facilitated the use of the internet portals approved by the *Securities and Exchange Commission* (SEC) for private placements, which had been severely limited under the previous law. The general provisions relating to crowdfunding entered into force on 16 May 2016¹⁵⁹.

The new regulation allows issuers to borrow up to a total of USD 1 million per year without being required to register with the SEC or publish a prospectus. However, issuers must provide the SEC, as well as the platform and the investors, with a series of information (e.g. ownership and capital structure, legal form, registered offices, financial statements). Apart from this, the platforms must not perform any investment consultancy, or advertise individual investment options on their platform, but only the platform as a whole. According to the applicable law, crowdfunding platforms must not accept or hold any investor funds, unless the provider is registered with the *Financial Industry Regulatory Authority* (FINRA).

The investor is subject to an annual investment ceiling of USD 2,000 at a maximum of 5 percent of the income or net assets if this annual income or the net assets amount to less than USD 100,000. Otherwise, the annual ceiling is 10 percent of the income or net assets; however no more than USD 100,000. Moreover, there are restrictions on the sale of these securities within the first year¹⁶⁰.

For crowd lending platforms, the general statutory provisions for the issuance of credits, as well as relevant license requirements apply, i.e. there is no specific regulatory relief as compared to other actors in the credit business.

On 04 April 2016, the American Financial Crimes Enforcement Network (FinCEN) published a regulation recommendation for money laundering provisions which stipulates that crowdfunding portals should be subject to the same money laundering laws as other securities traders¹⁶¹.

United Kingdom

The British law maker follows the approach of regulating crowdfunding as a business model under existing regulation with targeted adjustments. The first consultation on consultation was held in October crowdfunding¹⁶². The proposed measures strive for an improvement of investor protection under a *light touch* regulation. Since 01 April 2014, the *Financial Conduct Authority* (FCA) regulates both crowd lending and crowd investing; however not crowd

¹⁵⁹ SEC: "[The Securities and Exchange Commission is adopting new Regulation Crowdfunding – Final Rule](#)"

¹⁶⁰ SEC; Investor Bulletin; [Crowdfunding for Investors](#); 16 Feb. 2016

¹⁶¹ Financial Services Regulation Tomorrow: "[FinCEN proposes subjecting crowdfunding portals to AML requirements](#)"; 04 Apr. 2016

¹⁶² FCA; Consultation Paper: "[The FCA's regulatory approach to crowdfunding and similar activities](#)"; October 2013

donating or *prepayment* or *reward-based* crowdfunding¹⁶³. In this context, the FCA stipulates less severe regulation for crowd lending activities than for crowd investing activities, as it considers its risks to be lower.

In 2014, a new regulation for *operating an electronic system in relation to lending* was introduced. The new provisions for crowd lending platform include restrictions in canvassing customers, placement test regarding investors' risk assessment capacity, and broader reporting obligations to the FCA (e.g. in relation to the platform's financial position, customer deposits, customer complaints)¹⁶⁴. There are also minimum capital requirements for crowd lending platforms. These currently stand at GBP 20,000 (or GBP 50,000 from 01 April 2017), or a volume-based percentage graduated in four steps for all credits granted via the platform if it exceeds the fixed minimum capital of GBP 20,000 – starting at 0.2 percent on the first GBP 50 million to 0.05 percent of the credits above a total of GBP 500 million.

Activities, such as advertising of securities and facilitation of fundraising through the sale of share certificates, obligations or collective investments, which are typically object of a crowd investing model, were already regulated by the FCA; however, this body introduced newer regulations for *non-readily realisable securities*. These are primarily equity securities not traded on regulated exchanges subject to substantial risk. The provisions include special restrictions and constraints for advertising to different types of investors, depending on their financial position and level of experience. In principle, individual investors must not invest more than 10 percent of their net assets in non-tradeable securities. Further obligation to provide complete, transparent and objective information. According to the *Financial Services and Markets Act 2000*, there is an exemption from the prospectus obligation of publicly offered and transferred securities up to a threshold of EUR 5 million per issuer and year.

Otherwise, crowdfunding platforms do not fall under the *Financial Services Compensation Scheme* (FSCS), i.e. there is no protection in terms of deposit security or investor compensation¹⁶⁵.

France

In France, a specific regulation for crowdfunding (*financement participatif*) via internet platforms entered into force on 01 Oct. 2014¹⁶⁶. As part of the law reform, crowdfunding platforms were subjected to supervision and strict standards were applied to their activities. For instance, two specific regulatory frameworks for crowdfunding platforms were created: the status of a “participative investment consultant” (*conseil en investissement participatif / CIP*) which facilitates crowd investing projects to be offered on its internet platform; and the role of “participative investment intermediary” (*intermédiaire en financement participatif / IFP*), which facilitates interest-bearing or interest-free crowd lending to be offered on its internet platform. Otherwise, platform operators can also register as an investment services provider (*prestataire de services d'investissement* (PSI)) or a financial institution, which provides greater business freedom, but also involves higher requirements.

The issuance of securities as part of crowd investing is also expressly excluded from the provisions on the public offering of securities since the amendment of the law *ode monétaire et financier*, and also released from the prospectus obligation. Despite the prospectus obligation falling away, the issuer must make certain disclosures, such as: description of the project, organisation chart of the company management, existing annual financial statements, etc. Moreover, CIPs must not accept funds from investors.

A pure crowd investing platform may only present such offers, where the issuers intend to issue ordinary and unlisted shares (*actions ordinaires*) or corporate bonds with a fixed interest rate (*obligations taux fixe*). For the approval as participative investment consultant,

¹⁶³ FCA: “[Crowdfunding](#)” 19 January 2016

¹⁶⁴ FCA: “[The FCA's regulatory approach to crowdfunding over the internet: Feedback to CP13/13 and final rules](#)”

¹⁶⁵ Nabarro Briefing: “[FCA reviews crowdfunding regulation regime](#)”; 24 Mar. 2015

¹⁶⁶ Banque de France; Agréments et autorisations: [Le financement participatif \(Crowdfunding\)](#)

no minimum capital is required; however, they must always be legal entities under French law. Due to the national supervisory law, the activity may only cover France. Moreover, participative investment consultants are bound by laws on combating money laundering and the financing of terrorism. They must be entered into a special register for financial intermediaries (ORIAS¹⁶⁷), and their activity is supervised by the *Autorité des marchés financiers* (AMF). Participative investment consultants may receive a fee from the issuer which is subject to disclosure obligations. However, they are prohibited from acquiring shares themselves which are offered on their platform. While foreign companies may be accepted as issuers in a crowd investing project, the French National Bank *Banque de France* and the AMF discourage this due to legal difficulties¹⁶⁸.

The relaxation of the banking monopoly anchored in the *Code monétaire et financier* for the benefit of crowd lending is another important novation. Variable-rate loans are still not allowed in crowd lending. However, it is now possible to raise fixed-rate loans from legal entities and natural persons who follow a commercial purpose or seek to finance training. The term of such a loan is limited to a maximum of seven years, and the maximum amount an individual loan provider may grant per project is EUR 1,000. The maximum amount an issuer may raise per project is EUR 1 million. The role of the participative investment intermediary remains limited to the pure function of bringing the stakeholders together: It is not allowed to accept funds in connection with payments between the issuer and the investor. Otherwise it would have to apply for an additional license as a payment provider under supervisory law.

Donations made in crowd donation are not subject to any restrictions in terms of amount or frequency. Moreover, pure crowd donation platforms do not fall under the general licensing provisions, and the French legislator does not differentiate between crowd donation projects with or without consideration¹⁶⁹.

Germany

If a crowdfunding platform facilitates the offering of securities, investments or shares in investment assets, it performs financial services within the meaning of the German Banking Act, and is subject to a license obligation through the Federal Financial Supervisory Authority (BaFin). Yet, most of the German crowdfunding platforms offer shareholder loans, subordinated loans or silent participations which are exempt from the licensing obligation if they fulfil certain conditions, and only require a license under the Industrial Code¹⁷⁰.

The Law on the Protection of Small Investors adopted by the German Parliament on 23 April 2015 contains the first specific crowdfunding regulations in Germany. The law¹⁷¹ *stipulates a far-reaching exemption of shareholder loans and subordinated loans from the duties of the German Investment Act which are exclusively arranged via an internet service platform, if these do not exceed a total issue volume of EUR 2.5 million*¹⁷². *For instance, while the issuer is exempt from the prospectus obligation, an information sheet must be distributed. Furthermore, ceilings apply to the volume of investors' participations: The total investment amount acquired from one natural person must not exceed EUR 1,000 or double their monthly salary – up to a ceiling of EUR 10,000. Investors who state in a self-disclosure that they freely dispose of assets of a minimum of EUR 100,000, the same ceiling of EUR 10,000 applies. Stock corporations are completely exempt from compliance with these ceilings. The investor has a right of revocation of two weeks, which cannot be excluded by contract.*

¹⁶⁷ Website: <https://www.orias.fr/espace-professionnel>

¹⁶⁸ Banque de France: "S'informer sur le nouveau cadre applicable au financement participatif"; 30 Sep. 2014

¹⁶⁹ Law of the International Economy; Booklet 6/2015 Clasen; "Crowdfunding in France"

¹⁷⁰ European Crowdfunding Network: "[Review of Crowdfunding Regulation 2014](#)"; 12 Dec. 2014

¹⁷¹ Federal Ministry of Finance: "[Fragen zum Kleinanlegerschutz \(Questions on the Protection of Small Investors\)](#)"; 18 May 2015

¹⁷² [German Investment Act](#): Section 2a Exemption for crowd financing"

Furthermore, the Law on the Protection of Small Investors extends the authorisations of BaFin in relation to the prohibition of distribution or advertising of certain products¹⁷³.

Supranational regulatory developments

On EU level, there is currently no specific crowdfunding regulation. However, various studies and consultations were conducted to determine the potential and risk of crowdfunding¹⁷⁴.

In view of the inherent cross-border potential of internet-based financial services, the European Banking Authority (EBA) states in a position paper¹⁷⁵ that a converging supervision practice within the EU would be desirable to avoid regulatory arbitrage, guarantee equal opportunities, and strengthen the confidence of the market participants. The EBA also mentions that the convergence in the current stage of development should be based on existing EU law, and that the European legislator should primarily focus on creating clarity in relation to the interpretation of law.

On 21 December 2015, the International Organization of Securities Commissions (IOSCO) published a statement on the regulation of crowdfunding based on a survey of its 23 members¹⁷⁶. In view of the fact that the most regulatory regimes for crowdfunding have only been implemented recently, the IOSCO considers it too early to recommend an international supervisory and regulatory approach for crowdfunding activities. However, IOSCO encourages the national regulators to consider cross-border implications, such as risks in connection with customer protection, the high default probability of start-ups, and money laundering and financing of terrorism in the arrangement of their national regimes. Specifically, IOSCO encourages the consideration of the following measures on this basis: Standardised registration and approval procedures, disclosure and reporting obligations, restriction of the approved business areas, investment ceilings per investor within a certain period, requirement to keep investor capital in the asset manager's custody.

9.5.6 Parliamentary motions

Enterprise financing without the involvement of established financial intermediaries is the object of several parliamentary motions. These are not mentioned in Annex 10. Selected motions are briefly described below.

In fulfilment of Postulate 13.4237 "For a better Development of Innovative Start-ups", the Federal Council furnishes Parliament with this report on the development of innovative start-up in Switzerland.

Postulate 14.4296 "Participative Economy". Stimulating, outlining framework conditions, being prepared for future challenges" aims for stimulation of the participative economy. The Federal Council requests its acceptance. The Postulate was accepted by the National Council.

Motion 14.4300 "Promoting Crowdfunding and Simplifying Investments in SMEs" strives to promote crowdfunding and simplify investments in SMEs. In its statement, the Federal Council referred to the intended treatment of the crowdfunding market in Switzerland is already planned as part of this report in fulfilment of Postulate 13.4237, and requests the rejection of the motion. The National Council had not yet discussed the motion as at June 2016.

Interpellation 15.3917 "Crowdfunding. In the area of tension of economic innovation and investor protection" is interested in crowdfunding in the area of tension between economic

¹⁷³ BaFin: Law on Small Investors: [Neues Gesetz tritt in Kraft \(New Law enter into Force\)](#); 10 July 2015

¹⁷⁴ European Commission: http://ec.europa.eu/finance/general-policy/crowdfunding/index_de.htm

¹⁷⁵ EBA: "[Opinion of the European Banking Authority on lending-based crowdfunding](#)"; 26 Feb. 2015

¹⁷⁶ IOSCO: "[Statement on Addressing Regulation of Crowdfunding](#)"; December 2015

innovation and investor protection. The Federal Council has already discussed the various types of crowdfunding, risks to the investors, as well as the statutory provisions.

The Postulate 15.4086 “For a competitiveness financial centre in the area of new financial technologies” was submitted by the Committee for Economic Affairs and Taxes of the National Council in November 2015, and relates to the improvement of the competitiveness of the financial centre in the area of financial technologies. The Federal Council is instructed to review measures which strengthen the sector, and therefore the financial centre of Switzerland in international competition. The Federal Council requests the acceptance of the Postulate. At present, the Postulate is still pending.

9.5.7 Conclusion

The Federal Council and FINMA have identified the potential of FinTech in general and crowdfunding in this case for the innovation in the financial market and the financing of start-ups and SMEs.

With the FINMA fact sheet on crowdfunding, its legal understanding was outlined in a transparent manner. Measures for the reduction or removal of regulatory barriers were created. The Message on FIDLEG stipulates a release from the general prospectus obligation for crowdfunding or crowd lending in the form of corporate bonds, and introduces a simple basic information sheet.

In a press release, the Federal Council has affirmed the applicability of the valid statutory provisions for the processing of financial transactions without a license to services provided by FinTech companies. In other words, crowdfunding platforms can fall under the relevant exemption provision of the Swiss Banking Ordinance, and be excluded from the scope of the Swiss Banking Law.

The Federal Council further instructed the Federal Department of Finance (EFD) to prepare a consultation report by early 2017, to reduce barriers to market entry for providers in the FinTech segment, and increase the overall legal certainty in the sector. This includes the specification of a 60-day time limit for holding funds in settlement accounts in the Swiss Banking Ordinance and the extension of occupations exempt from permits. Furthermore, a new permit category for FinTech companies should be created.

9.6 Facilitation of company creation

9.6.1 Abolition of the obligation of official recording before a notary for companies with simple structures

Official recording is a mandatory requirement for the formation of an incorporated firm (Swiss Code of Obligations (OR) Art. 629 para. 1, Art. 777 para. 1 and Art. 830). For the company in formation, this results in higher costs. Moreover, a formation in Switzerland requires more time than in other countries. The latter is one of the reasons why Switzerland only ranked in 69th place in the partial indicator “Starting a Business” of the World Bank’s 2016 Doing Business Indicator.¹⁷⁷

In the consultation draft on the amendment of the Swiss Code of Obligations (OR) from 19 December 2012¹⁷⁸, the Swiss Federal Department of Justice and Police (FDJP) proposed simplifications in the formation and dissolution of stock corporations. The objective that stock corporations with simple structures can be established, dissolved and liquidated without involving third parties. Thus, the requirement of official recording should be unnecessary if the statutes of a public limited company or GmbH exclusively contain the content required in law, and contributions are made in cash. In connection with the modernisation of the

¹⁷⁷ World Bank (2016)

¹⁷⁸ <https://www.bj.admin.ch/dam/data/bj/wirtschaft/gesetzgebung/handelsregister/vn-ber-d.pdf>

Commercial Register, the foundation for the formation of such an incorporated firm should be laid within one business day.

The proposal was rejected in the consultation for various reasons.¹⁷⁹ Due to the tense economic situation of Switzerland, the Federal Council has decided to include the provisions on the abolishment of the formal official recording requirement as stipulated in the Preliminary Draft on the Modernisation of the Commercial Register from 19 December 2012 in the ongoing revision of company law. The Federal Council presented Parliament with the corresponding Message on the Amendment of the Swiss Code of Obligations (OR) on 23 November 2016. The abolishment of the official recording for simple circumstances would result a significant simplification and sot saving for the enterprises. Given the strong Swiss franc and the current economic situation, this appears particularly important.

9.6.2 Review of free movement of notarial services

As part of the report on easing the administrative burden of enterprises¹⁸⁰, the Federal Council instructed the Federal Department of Economic Affairs, Education and Research (SECO) to review to what extent notarial services could be further liberalised, and which measures could result in a reduced burden of the enterprises. The focus is on the assessment of the free movement of services across cantonal borders.

9.7 eGovernment offers for start-ups

eGovernment is a means for reducing the administrative burden of enterprises. Especially for start-ups, it is crucial that they can use their time for activities that create value, and the development of their enterprises, and that they are burdened as little as possible with administrative or regulatory activities. The objective is to design the administration activities as citizen-centred and efficient as possible with the assistance of information and communication technology. The simplification of permit, application and registration procedures is key. The following offer of the Confederation are amongst those that contribute to this objective:

a. SME portal

The website www.kmu.admin.ch is designed as a central contact point for SMEs. This website has been operated since 2001, and is continuously developed. The objective of the portal is to provide practical information and tools for small to medium-sized enterprises – from formation to successorship. The online services of the authorities are also referred to.

b. StartBiz.ch

The online counter for company formations (www.StartBiz.ch) is a transaction-oriented platform. The objective is to support and simplify new venture creation in Switzerland. A dialogue system guides the user through the registration process for the Commercial Register, value added tax, Swiss Old-Age and Survivors' Insurance and accident insurance. This platform has been operated since 2004, and is continuously developed. For instance, a fully electronic Commercial Register registration for individual businesses has been possible via SuisseID since 2014. Moreover, the fully electronic data transmission to SUVA in structured form has been realised. The planned one-stop-shop (see below) will replace StartBiz.ch.

c. Permit database

The website www.bewilligungen.admin.ch offers a central overview over all permits required for performing a professional activity in Switzerland. The objective is to offer a central database where working persons can check authorisation requirements.

¹⁷⁹ Federal Office of Justice (2013)

¹⁸⁰ Federal Council (2015a), p. 92

d. One-Stop Shop

StartBiz will be replaced by the one-stop-shop by the end of 2017. The latter should contain various bureaucratic procedures without discontinuity of media on federal, cantonal and communal level. Once the project is completed at the end of the legislative period, the one-stop-shop should be continuously developed. Such a one-stop-shop should be available to the enterprises 24/7 all year, and be fitted with an electronic identity or relevant access rights. It is crucial for this approach that it builds on the services offered electronically by individual authorities, and links these via a virtual one-stop shop. The competences between the authorities, as well as between the federal levels, therefore remain unaffected.

9.8 Conclusions regarding selected regulatory framework conditions for start-up funding in Switzerland

In international comparison, Switzerland is positioned good to excellent for the attractiveness of the location in general, as well as the administrative burden. The overall economic framework conditions in Switzerland are amongst the best in the world. The challenge is in the continuous alignment of the framework conditions to the dynamics of the economy and the technological development.

To this end, the Federal Council adopted the report on the framework conditions of the digital economy (“Rahmenbedingungen der digitalen Wirtschaft”) on 11 January 2017, and issued assessment mandates in the process, including for measures for the improvement of the framework conditions in the areas of accommodation services, competition law, mobility services, as well as education and research.

The Federal Council will assess further improvements to the framework conditions in the report on abandonment of the Graber Motion (13.4184). The objective includes facilitating pension fund investments in start-ups.

It has also acknowledged a regulatory need for action for the promotion of FinTech. The Federal Council therefore instructed the Federal Department of Finance (EFD) to prepare a consultation report by early 2017, to reduce barriers to market entry for providers in the FinTech segment, and increase the overall legal certainty in the sector. This includes the specification of a 60-day time limit for holding funds in settlement accounts in the Swiss Banking Ordinance, the extension of occupations exempt from permits, and the introduction of a new permit category for FinTech companies.

The Federal Council also seeks simplifications of the foundation of companies. It thus recommends that Parliament include provisions on the abolishment of the formal official recording requirement for the formation and dissolution of stock corporations with simple structures in the ongoing revision of company law. In addition, the free movement of notarial services across cantonal borders should be reviewed.

eGovernment offer also help to ensure that start-ups can focus on the development of their enterprises, and that they are burdened as little as possible with administrative or regulatory activities. To this end, offers, such as the SME portal, StartBiz or the permit database are continuously developed and extended. The planned one-stop-shop will simplify the exchange between the authorities and companies further, and ease the administrative burden for businesses.

10 Consultancy, training and infrastructure

10.1 Cantonal offers

10.1.1 Consultancy offers

All cantons have at least one consultancy which start-ups can approach for support in the development and realisation of a project. In most cases, company founders receive a free initial consultation. A list of the cantonal consultancy offer is included in Annex 3. It includes a

range of offers which are itemised under three categories in Table 9. Individuals seeking to start their own company are supported in various stages of the formation.

Table 9: Cantonal consultancy offers

Consultancy and support up to project realisation	Coaching	Networks
Individual consultation and support	Professional coaching	Networking
Business plan consultancy	Innovation coaching	Technology network
Business model development	Mentoring	Competency network
Start-up consultancy	Sponsorship	Network support
Provision of basic information about business creation	Expert advice and active assistance	Arrangement of contacts to Experts, authorities and networks
Project support	Provision of Specialists	Information exchange and knowledge transfer
Advice on innovation projects	Vouchers for service providers	Facilitation
Support in the development of business activities		Assistance in finding premises or operating facilities
Assistance with conducting preliminary studies, feasibility studies and market research		
Analysis and consultancy before start-up		
Support after the launch		
Business management and development support		
Public relations support		
Support with specialist subjects		
Support of patent rights and IP strategies		

Source: Annex 3: Overview of cantonal consultancy offers, status date: 01 Feb. 2016

Some of these programmes are implemented jointly by several cantons, not least, because the federal government's New Regional Policy (NRP) provides incentives for the cantons to improve the coordination of their activities in regional innovation systems (RIS), and harness synergies. Examples include BaselArea.swiss, the Startfeld initiative, the programme "zentralschweiz innovativ" or the innovation platform platinn. The core task of BaselArea.swiss is to promote the strengths of the business location of Northwestern Switzerland, and support domestic and foreign company founders and enterprises in the realisation of their innovation and business ventures in the region. BaselArea.swiss is supported by the Cantons of Basel-Landschaft, Basel-Stadt and Jura, as well as other organisations based in Basel. Startfeld was established for the promotion of innovation and young entrepreneurship in Eastern Switzerland. The Cantons of Appenzell Ausserrhoden and St. Gallen are sponsoring members, while Appenzell Innerrhoden is an associate member. 'zentralschweiz innovativ' is the joint programme of the six Cantons of Central Switzerland (Lucerne, Nidwalden, Obwalden, Schwyz, Uri and Zug) for providing support to enterprises in the realisation of innovative ideas and projects. Platinn supports start-ups and SMEs in their business innovation venture. This support is provided through a network of accredited coaches. The coaching model has been adopted from an SME instrument of the EU.¹⁸¹ Six Cantons of Western Switzerland (Fribourg, Geneva, Jura, Neuchâtel, Vaud and Valais) have a cantonal antenna of the platform which coordinates the services in the canton.

10.1.2 Training offers

In the area of training, there are also numerous cantonal offers. 17 Swiss cantons (Aargau, Appenzell Ausserrhoden, Appenzell Innerrhoden, Basel-Landschaft, Basel-Stadt, Berne, Geneva, Graubünden, Lucerne, Neuchâtel, Schaffhausen, Solothurn, St. Gallen, Ticino, Thurgau, Vaud and Valais) support institutes or structures which offer training and professional development to start-ups. The cantonal training offers are illustrated in Annex 4,

¹⁸¹ <https://ec.europa.eu/easme/en/coaching-under-sme-instrument>

and include courses on self-employment, start-up, entrepreneurship and company formation, specialist training, seminars and specific workshops.

The Institute for start-ups (IFJ - Startup Support) has entered into performance agreements in relation to courses on company formation with the Canton of Aargau, BaselArea, Lucerne Business Development and the Canton of Solothurn. The Startfeld initiative offers courses in entrepreneurship in the Cantons of Appenzell Ausserrhoden, Appenzell Innerrhoden and St. Gallen which are coordinated with the Commission for Technology and Innovation (CTI). The structure i-net innovation networks offer courses in entrepreneurship for technology-oriented start-ups in the Cantons of Basel-Landschaft and Basel-Stadt. The various antennae of the Genilem Association in Geneva, Vaud and Valais offer specialist training for company founders.

The Cantons of Berne, Graubünden, Schaffhausen, Ticino, Thurgau and Valais have their own cantonal organisations (innoBE and BaseCamp4HighTech, Graubünden SME Centre, SME Economic Forum Schaffhausen and Industry and Technology Centre Schaffhausen (ITS), Fondounipresa.ch, Network 'Startnetzwerk Thurgau' and The Ark Foundation) to offer courses, seminars and workshops to start-ups. Further training offers of the Cantons of Aargau, Lucerne, Neuchâtel, St. Gallen and Vaud are listed in Annex 4.

In 9 Swiss cantons (Fribourg, Glarus, Jura, Nidwalden, Obwalden, Schwyz, Uri, Zug and Zürich), there are no cantonal training offers for start-ups.

10.1.3 Infrastructure offers

With regard to the infrastructure for start-ups, the cantonal offer is diverse. In 18 Swiss cantons (Aargau, Basel-Landschaft, Basel-Stadt, Berne, Fribourg, Geneva, Graubünden, Jura, Lucerne, Neuchâtel, Obwalden, Schwyz, Solothurn, Ticino, Vaud, Valais, Zug and Zürich), structures have been established – again, in part supported by the regional policy – which provide enterprises with premises, mostly at favourable rates. Technology parks, business parks, incubators and foundations offer infrastructures to enterprises and start-ups in the aforementioned cantons. The infrastructure offers financed by the cantons are described in Annex 5, and include furnished individual or group working space, offices, laboratories, studios, technical facilities, production facilities, meeting zones, meeting rooms, conference rooms, seminar rooms, function rooms, event rooms, rehearsal spaces, auditoriums, open plan rooms, co-working spaces, platforms, commercial premises and industrial halls.

In 8 Swiss cantons (Appenzell Ausserrhoden, Appenzell Innerrhoden, Glarus, Nidwalden, Schaffhausen, St. Gallen, Thurgau and Uri) there are no cantonal infrastructure offer for start-ups.

10.2 Offers of the Confederation

10.2.1 Start-up and KTT promotion by CTI/Innosuisse and NRP

The Commission for Technology and Innovation (CTI, will become Innosuisse) is the Confederation's funding agency for knowledge-based innovation. In order to support and accelerate innovation processes, it acts as a catalyst by bringing together practice and research institutes through innovation projects. Its remit also includes supporting knowledge-based entrepreneurship, and the formation and development of knowledge-based enterprises. Moreover, CTI supports knowledge utilisation and knowledge and technology transfer between research, business and society. The responsibilities of the CTI are specified in the Federal Act from 14 December 2012¹⁸² on the Promotion of Research and Innovation (RIPA)

¹⁸² SR 420.1

The current CTI will be transformed into an institution of the Swiss Confederation under public law with a separate legal personality under the name of “Swiss Innovation Promotion Agency (Innosuisse)”. The new Federal Agency should be better equipped for the challenges in innovation promotion in the interest of the Swiss economy. The Federal Assembly adopted the Swiss Innovation Promotion Agency Act (Innosuisse Act) on 17 June 2016¹⁸³. The draft specifies the organisation of Innosuisse, and assigns it the current responsibilities of the CTI. This includes supporting programme and initiatives across Switzerland to sensitise potential entrepreneurs and train and educate young entrepreneurs before and after company formation in order to support knowledge-based entrepreneurship, and the formation and development of knowledge-based enterprises. On the other hand, professional coaching is offered for young entrepreneurs. The objective is to convey the necessary practical knowledge and methodology and arrange financing partners.

Complementary accompanying measures are offered which offer the required support with enterprise financing, or finding national and international venture capital providers and other networks. Specifically for this purpose, a partnership has been established with the external BFI network ‘CTI Market Entry Camps’, as well as selective cooperation with Swiss Global Enterprise (in relation to ‘Swiss Pavilions’ at selected trade fairs). In addition, the platform provides the opportunity to present business idea to a broad audience of business angels, as well as national and international venture capital firms. Between 2003 and 2014, approx. 400 start-ups from all over Switzerland have benefited from this offer.

Furthermore, a new programme is planned for Innosuisse: The Take-off Programme. This programme is primarily geared towards knowledge-based start-ups which exhibit a high growth potential and actively strive to achieve this growth. In order to support these start-ups in taking full advantage of the growth potential, the programme offers specific models on the subjects of scaling, market exploitation, team and organisational development and growth financing. Other key elements include networking, access to mentors and coaches, mutual peer learning, case studies, interaction with industry, as well as international outreach through the established CTI Market Campus.

CTI re-aligned its support of knowledge and technology transfer in 2013. The objective is to efficiently network enterprises – especially SMEs – and public research institutions, creating new innovation partnerships. KTT support is understood as an instrument for innovation promotion which brings together business and research for continuous dialogue and knowledge and technology exchange in addition to promoting and generating innovation projects. The strategy of KTT support comprises three pillars for promotion: National thematic networks (NTN), innovation mentors, and platforms in the form of themed professional events and a web-based innovation map.

CTI promotion is geared towards those 10-15 percent of Swiss SMEs which want to realise knowledge and research-based innovation projects. On the other hand, this is complemented by the cooperative support of the federal government's regional policy (NRP) and the cantons for a broader SME target group in the regions with the realisation of their business innovations. Promoting regional KTT is only one possible approach besides cluster activities, coaching, and technology parks and start-up centres.¹⁸⁴ Moreover, measures for the promotion of entrepreneurship and innovation in the education sector can be supported, whereby harnessing synergies with proven programmes is paramount (e.g. the company programme of Young Enterprise Switzerland YES, which is considered good practice, both nationally and internationally).

¹⁸³ BBI 2016 4947

¹⁸⁴ Comp. SR 901.0, Art. 4 and BBI 2015 2381

10.2.2 Swiss Innovation Park

The Federal Assembly has created the legal foundations for the Confederation's support for a Swiss innovation park with the complete revision of the Federal Act on the Promotion of Research and Innovation (RIPA)¹⁸⁵ in 2012.

In spring 2015, private groups, the participating cantons and the universities have jointly established the foundation "Switzerland Innovation" as a national sponsor of the Swiss innovation park.

In the autumn session of 2015, the Federal Assembly has approved two federal decrees on the support of the Confederation for the Swiss innovation park. In these decrees, a global credit is granted for the provision of guarantees for earmarked loans¹⁸⁶ and the release of land of the Confederation in building laws for the purposes of the innovation park¹⁸⁷ specified in principle.

With the global credit of CHF 350 million for the provision of guarantees for earmarked loans, the foundation can raise debt capital from private providers or on the financial market at preferential rates, and use these funds to grant loans to its locations for pre-financing research infrastructures (machines, facilities). Their use for the construction of buildings is not permissible. The Confederation's guarantee is time limited and earmarked; it is released in stages by the Federal Council.

The Swiss innovation park is realised by the canton of the location, the private sector and the universities involved. The Confederation assumes no sponsorship responsibility.

While the innovation park is geared towards established research and development units of larger transnational groups as its key target group, experience suggests that successfully established companies attract additional suppliers and SMEs. Furthermore, it can be expected that specific offers relating to start-ups and spin-offs will emerge sooner or later.

10.2.3 Support of college and university spin-offs

Universities support the formation of companies based on research findings to drive the realisation of such results as marketable products, and thereby the creation of new jobs.

For instance, the Federal Institute of Technology of Zürich (ETH Zürich) started the Pioneer Fellowships in 2010, and complemented this with the launch of the Innovation and Entrepreneurship Labs (ieLabs) in 2012. With this initiative, young entrepreneurs at the Federal Institute of Technology of Zürich receive stronger support.

Since 2009, between 20 and 24 start-ups have been formed each year at ETH Zürich. In 2015, the institute counted 25 spin-offs. A study has examined ETH Zürich's 252 spin-offs since 1979. After five years, their survival rate averaged 92 percent, which is around 40 percentage points above the survival rate of the remaining new venture creations in Switzerland. According to a survey, 122 spin-offs have created almost 2,500 jobs since their formation, and generated revenues of CHF 586 million in 2013.¹⁸⁸ Investments in ETH spin-offs totalled CHF 80 million in 2013.

The number of spin-offs of the EPFL in Lausanne has doubled to 24 in 2014 as compared to the previous year. In the same year, investments in EPFL start-ups achieved a new record with CHF 220 million. This also represents double the previous year's figure.¹⁸⁹ CHF 185 million went to spin-offs which develop discoveries or inventions from the EPFL laboratory further. The remaining CHF 35 million benefit start-ups which are not developing any

¹⁸⁵ SR 420.1

¹⁸⁶ BBI 2015 7401

¹⁸⁷ BBI 2015 7403

¹⁸⁸ Comp. Pinter (2015)

¹⁸⁹ Comp. Press release EPFL from 17 Dec. 2014 (<http://actu.epfl.ch/news/record-investment-in-epfl-start-ups>)

technologies invented at the EPFL, but are based in the innovation park on the university campus.

Since 2005, a third of the EPFL start-ups were formed thanks to the Innogrant programme. These grants allowed the students or employees of EPFL to progress their projects with financial support for one year.

Spin-offs are also becoming for popular at universities. Between 2009 and 2015, 69 start-ups were founded from the Universities of Basel, Berne and Zürich. Spin-offs of these three universities have a high average 5-year survival rate of 95 percent. More than 85 percent of all spin-offs founded since 1999 are still operational, either independently, or as a business unit of a larger company following a take-over or merger.¹⁹⁰

10.2.4 Export promotion through Switzerland Global Enterprise (S-GE)

The cost and time investment required for internationalisation, market exploitation and development, and the promotion of their products far exceeds the possibilities of start-ups involved in export. TO facilitate quick internationalisation, it is absolutely crucial to be very familiar with the opportunities and risks in each export market.

To support exporting Swiss SMEs including start-ups, the Confederation has commissioned the private association Switzerland Global Enterprise (S-GE). Based on the Export Promotion Act from 06 October 2000¹⁹¹ and a performance mandate from SECO specified for four years at a time, the former Osec offers enterprises support with the identification and realisation of sales possibilities abroad, and with their international positioning as a competitive (niche) provider.

S-GE's portfolio of responsibilities includes provision of information and arrangement of contacts, market consulting, realising Swiss joint appearances at foreign trade fairs ('Swiss Pavilions'), and coordination with third parties. Furthermore, S-GE act as a broker for commercial services in close cooperation with private specialists and partners.

10.2.5 Swissnex

The swissnex are an important instrument for the implementation of the federal policy for bilateral cooperation in the areas of education, research and innovation between Switzerland and selected partner countries.

Under the leadership of the State Secretariat for Education and Research and Innovation (SERI) in the Federal Department of Economic Affairs, Education and Research (SECO) with the support of the Federal Department of Foreign Affairs (FDFA), swissnex act in partnership with public organisations, such as universities, research and innovation promotion agencies, R&D-intensive enterprises and foundations. The main objective of swissnex is to support the institutions of the Swiss higher educations, research and innovation sector in their internationalisation efforts.

At present, swissnex has a presence at five locations (Boston, San Francisco, Shanghai, Bangalore, Rio de Janeiro). In accordance with its specifications, swissnex is mandated to build a network of close relationships with universities, research institutes and enterprises, and help interested Swiss institutions and individuals to use these networks. In order to raise the level of awareness of the location Switzerland, swissnex hold cultural events geared towards a specific target group, and thereby contribute to the development of new bilateral opportunities for cooperation. In addition, the swissnex establishments provide e.g. temporary office spaces to young enterprises, and act as a contact for them.

¹⁹⁰ Comp. www.unitectra.ch

¹⁹¹ SR 946.14

10.3 Conclusions regarding consultancy, training and infrastructure

In relation to consultancy, training and infrastructure for start-ups, the Swiss cantons and the Confederation provide numerous and excellent offers. Various cantonal and supracantonal consultancy and coaching offers and networks support young enterprises in their start-up phase. In addition, there are numerous cantonal training offers for young entrepreneurs. In 18 Swiss cantons, premises are also provided, mostly at favourable rates.

In addition to the cantonal programmes, various support offers exist on a national level; for instance, those offered by the Commission for Technology and Innovation (KTI, which will become Innosuisse), the regional policy of SECO, or Switzerland Global Enterprise (S-GE). Innosuisse also plans to provide a new programme to support knowledge-based start-ups with the 'Take-off Programme'.

With their decision in autumn 2015, the Federal Assembly has established the foundation for a Swiss innovation park. Even though SMEs and start-ups are not the primary target group of such an innovation park, it can be expected that specific measures relating to start-ups and spin-offs will emerge sooner or later.

The various governmental offers are regularly assessed for effectiveness and optimised as required. This constant review facilitates continuous alignment of the offering to the requirements of the start-ups.

Annex

Annex 1: Entrepreneurial framework conditions (GEM)

Entrepreneurial Framework Conditions (EFCs)

1. Entrepreneurial Finance	The availability of financial resources – equity and debt – for small and medium enterprises (SMEs) (including grants and subsidies).
2. Government Policy	The extent to which public policies support entrepreneurship. This EFC has two components: 2a) Entrepreneurship as a relevant economic issue, and 2b) Taxes or regulations are either size-neutral or encourage new and SMEs.
3. Government Entrepreneurship Programs	The presence and quality of programs directly assisting SMEs at all levels of government (national, regional, municipal).
4. Entrepreneurship Education	The extent to which training in creating or managing SMEs is incorporated within the education and training system at all levels. This EFC has two components: 4a) Entrepreneurship Education at basic school (primary and secondary), and 4b) Entrepreneurship Education at post-secondary levels (higher education such as vocational, college, business schools, etc.).
5. R&D Transfer	The extent to which national research and development will lead to new commercial opportunities and is available to SMEs.
6. Commercial and Legal Infrastructure	The presence of property rights, commercial, accounting and other legal and assessment services and institutions that support or promote SMEs.
7. Entry Regulation	This EFC contains two components: 7a) Market Dynamics: The level of change in markets from year to year, and 7b) Market Openness: The extent to which new firms are free to enter existing markets.
8. Physical Infrastructure	Ease of access to physical resources – communication, utilities, transportation, land or space – at a price that does not discriminate against SMEs.
9. Cultural and Social Norms	The extent to which social and cultural norms encourage or allow actions leading to new business methods or activities that can potentially increase personal wealth and income.

Source: Global Entrepreneurship Monitor 2014 – Report on Switzerland

Annex 2: Overview of cantonal financing offers (status date: 01 February 2016)

Canton of Aargau

Legal foundations

- Law on Location Promotion from 31 March 2009
- Law on University and Innovation Promotion from 03 July 2007
- Decision of the Grand Council from 19 June 2012 on a major loan for the location promotion initiative "High-tech Aargau, An Initiative for the Promotion of the Location Aargau"

Research contributions

- Aargau research fund for innovative projects of universities in cooperation with Aargau companies

Grants for market research

- High-tech Centre Aargau Financing of feasibility studies and market research

Canton of Appenzell Ausserrhoden

Legal foundation

- Law on Business Development from 23 May 2005

Debt financing options

- Foundation for the Promotion of the Appenzell Ausserrhoden Economy: Loans and start-up financing

Canton of Appenzell Innerrhoden

Legal foundation

- Law on the Stimulation of the Economy from 26 April 1981

Interest cost subsidies

- Granting of interest subsidies

Grants for job creation

- Non-repayable grants for job creation

Investment cost subsidies

- Non-repayable grants for investment costs

Grants towards founding SMEs

- Contributions to start-ups

Other support offers

- Acquisition and assignment of property on favourable terms
- Grant of subsidies of the development costs for commercial and industrial sites
- Financing of support measures

Canton of Basel-Stadt

Legal foundation

- Law on Business and Economic Development from 29 June 2006

Debt financing options

- Guarantees

Contribution to rental costs

- Contribution to rental costs young enterprises with specific requirements for rented spaces

Canton of Berne

Legal foundation

- Law on Business Development from 12 March 1997

Debt financing options

- Conditionally repayable contributions to investment costs (interest-free)

Grants for job creation

- Grants for job creation

Investment cost subsidies

- Investment cost subsidies (of sunk costs)

Contribution towards trade fair participation

- Contribution towards trade fair participation

Grants towards founding SMEs

- Grant towards the start-up costs

Other support offers

- Subsidies for export-oriented and innovative projects

Canton of Fribourg

Legal foundations

- Law from 03 October 1996 on Business Development
- Procedural Regulations from 01 October 2009 on Business Development
- Regulations from 02 March 2010 on the Structure for Seed Capital

Debt financing options

- Foundation Seed Capital Fribourg: interest-bearing or interest-free loans

Interest cost subsidies

- Interest cost subsidies

Research contributions

- Innovation promotion measures

Grants for job creation

- Workspace premiums

Equity offers

- Foundation Seed Capital Fribourg: direct investment
- Foundation Venture Capital Fribourg AG: temporary minority shareholdings

Canton of Geneva

Legal foundation

- Law on Business Support from 01 December 2015

Debt financing options

- Fondation Financier Autrement les Entreprises (FAE): full repayment guarantees for trade or leasing credit
- FAE: cash advances

Equity offers

- FAE: minority shareholdings

Other support offers

- FAE: financing of evaluation missions for entrepreneurial projects
- Fondation Ecllosion: financing of necessary experiments for the validation of the potential of innovations

Canton of Glarus

Legal foundation

- Law on Location Promotion from 5 March 2013

Debt financing options

- Repayable and interest-bearing loans
- Guarantees

Interest cost subsidies

- Interest cost subsidies

Grants for job creation

- Grants for job creation

Canton of Graubünden

Legal foundations

- Law on the Stimulation of the Economic Development in Graubünden from 27 April 2015
- Ordinance on the Stimulation of the Economic Development in Graubünden from 22 April 2015

Debt financing options

- Loans for innovative ventures for the development of new products, processes and services
- Graubünden Foundation for Innovation, Development and Research Loans for outstanding projects with special value creation, innovative strength and sustainability for the canton

Research contributions

- Subsidies for innovative ventures for the development of new products, processes and services
- Graubünden Foundation for Innovation, Development and Research Subsidies for outstanding projects with special value creation, innovative strength and sustainability for the canton

Investment cost subsidies

- Subsidies for innovative ventures for the development of new products, processes and services

Other support offers

- Subsidies for innovative ventures for the development of new products, processes and services

Canton of Jura

Legal foundations

- Law on the Development of the Cantonal Economy from 26 October 1978
- Directives on the granting of financial contributions for promoting the creation, expansion, establishment of industrial enterprises or services as well as the promotion of the commercialisation of products and services for the economy of Jura from 09 June 2015
- Law on new innovative enterprises [‘Loi concernant les nouvelles entreprises innovantes’] from 21 November 2012

Debt financing options

- Cooperative Society for the Development of the Jura Economy (SDEJ): guarantees for bank loans

Interest cost subsidies

- Interest payments / one-off contribution to the investment

Research contributions

- Financial contribution for R&D projects recognised by CTI

Grants for job creation

- Financial contribution for the creation of management positions and the creation of jobs associated with the realisation of new projects

Contribution towards trade fair participation

- Bonus-expo

Grants for patent applications

- Financial contribution for the acquisition of intellectual property right

Grants towards founding SMEs

- Payment for the cost of start-up or spin-off creation

Contribution to rental costs

- Payment for rent

Other support offers

- Stronger support under the economic development for companies holding NEI status (Nouvelle Entreprise Innovante)

Canton of Neuchâtel

Legal foundations

- Law on the Promotion of the Cantonal Economy from 10 October 1978
- Implementation Regulations on the Promotion of the Cantonal Economy from 25 August 1983

Debt financing options

- Fondation Finergence for the initial financing of innovative enterprises: loans (personal and convertible)

Investment cost subsidies

- Financial contribution towards R&D and production investments

Contribution towards trade fair participation

- Financial contribution towards internationalisation (exhibition)

Grants for patent applications

- Financial contribution to patent applications

Grants for market research

- Financial contribution to cover costs

Grants for certifications

- Financial contribution towards certification

Canton of Obwalden

Legal foundation

- Law on Regional Economic Policy from 25 November 1999

Contribution to rental costs

- Micropark Pilatus: Contribution to rental costs for start-ups

Canton of Schaffhausen

Legal foundations

- Law on Business Development from 23 November 1998

- Ordinance to the Law on Business Development from 16 February 1999

Debt financing options

- Loans and guarantees to enterprise activities geared in full or primarily towards a supra-regional market

Interest cost subsidies

- Contribution to interest costs

Grants for job creation

- Grants for job maintenance and creation

Investment cost subsidies

- Investment cost subsidies

Grants towards founding SMEs

- Grants towards founding SMEs

Contribution to rental costs

- Contribution to rental costs

Other support offers

- Non-repayable grants for enterprise activities geared in full or primarily towards a supra-regional market

Canton of Ticino

Legal foundation

- Law on Economic Innovation from 14 December 2015

Debt financing options

- Economic Development Office (USE): cantonal guarantee for investment projects and business transition in collaboration with the guarantee society CFSud
- AGIRE Invest SA: seed financing in the form of convertible loans for innovative start-ups

Research contributions

- USE: non-repayable grants to cover the cost of preparation of and participation in research programmes with national or international application

Investment cost subsidies

- USE: non-repayable grants for material investments to finalise and realise new products, innovate relevant production processes or direct activities in emerging segments or new target markets
- USE: non-repayable grants for obtaining advice in connection with the innovation and the development of the business project

Contribution towards trade fair participation

- USE: non-repayable grants for the participation in trade fairs

Grants for patent applications

- USE: non-repayable grants to meet the cost of research and development activities, prototyping and new product approval

Grants for market research

- USE: subsidies for market research or consultations on internationalisation matters

Grants for certifications

- USE: non-repayable grants to meet the cost of research and development activities, prototyping and new product approval

Equity offers

- AGIRE Invest SA: equity financing for innovative start-ups

Grants towards training costs

- USE: non-repayable grants to finance the cost of education and retraining of staff

Canton of Uri

Legal foundation

- Law on Business Development from 29 November 1998

Debt financing options

- Loans
- Guarantees

Interest cost subsidies

- Interest subsidies

Grants for job creation

- Workspace premiums

Grants towards founding SMEs

- Non-repayable grants

Contribution to rental costs

- Contribution to rental costs

Other support offers

- Non-repayable grants
- Arrangement of premises or operating facilities

Canton of Vaud

Legal foundation

- Law on Economic Development from 12 June 2007

Debt financing options

- Fondation pour l'Innovation Technologique (FIT): loans FIT seeds (interest-free loan, with personal guarantee) and FIT early (interest-bearing loan, without personal guarantee)
- Economic and business development services (SPECo): guarantees for bank loans

Interest cost subsidies

- SPECo: partial payment of bank interest

Research contributions

- SPECo: financial contribution to R&D projects

Contribution towards trade fair participation

- SPECo: financial contribution for the participation in trade fairs

Grants for patent applications

- SPECo: financial contribution for the acquisition of intellectual property right

Grants for market research

- SPECo: financial contribution to cover costs of market research and the investigation of business opportunities

Grants for certifications

- SPECo: financial contribution for obtaining certifications and approvals

Grants towards training costs

- SPECo: financial contribution for technical or scientific staff training and training in sustainable development

Canton of Valais

Legal foundations

- Law on Cantonal Economic Policy from 11 February 2000
- Ordinance on Cantonal Economic Policy from 17 May 2000

Debt financing options

- Centre de Compétences Financières (CCF SA): Guarantees for bank and leasing loans
- CCF SA: Guarantees for advance payment bonds from banks

Interest cost subsidies

- CCF SA: Interest cost subsidies or leasing

Research contributions

- CCF SA: Co-financing of internal development projects

Contribution towards trade fair participation

- CCF SA: Co-financing for trade fair participation

Grants for patent applications

- CCF SA: Co-financing of consultancy costs (measures for the protection of intellectual property)

Grants for market research

- CCF SA: Co-financing of consultancy costs (market research)

Grants for certifications

- CCF SA: Co-financing of Spanish certifications

Equity offers

- CCF SA: Equity investments (seed money, investment funds, nearby fund capital, support fund)

Other support offers

- CCF SA: Co-financing of sale initiatives

Canton of Zürich

Legal foundation

- Excerpts from the minutes of the State Council of the Canton of Zürich from 16 April 2014

Debt financing options

- Association "Go! Ziel selbständig": Granting of microcredits

Annex 3: Overview of cantonal consultancy offers

Canton of Aargau

Location Promotion Aargau Services

- Free contact point for young enterprises and start-ups for all questions relating to company formations
- Networking and business plan advice

High-tech Centre Aargau

- Consultancy relating to technology transfer and innovation
- Support in the development of feasibility studies and market research
- Support of patent rights and IP strategies
- Networking

Genilem Aargau

- Free coaching offer for innovative start-ups

SwissUpStart Challenge FHNW

- Participants in the SwissUpStart Challenge are entitled to individual mentoring/consultancy (coaching)

Technopark Aargau

- Coaching services for young entrepreneurs

Canton of Appenzell Ausserrhoden

Startfeld initiative

- Free initial consultation (advice and support by coaches for information on all aspects of the business creation process and the development of the business model)
- Startfeld support package (project sponsor for mentoring, coordination and networking, young entrepreneur coach for special coaching and cheque book)

Canton of Appenzell Innerrhoden

Startfeld initiative

- Free initial consultation (advice and support by coaches for information on all aspects of the business creation process and the development of the business model)
- Startfeld support package (project sponsor for mentoring, coordination and networking, young entrepreneur coach for special coaching and cheque book)

Canton of Basel-Landschaft

BaselArea¹⁹²

- Consultancy and support in the development of business activities in Basel region
- Provision of basic information about business creation
- Arrangement of contacts to experts, authorities and networks

i-net innovation networks

- Free individual advice
- Information exchange and knowledge transfer

Business Parc Reinach

- Free business creation advice for start-ups
- Business plan coaching
- Support after the launch

Foundation Business Park Laufental & Thierstein

- Free initial consultation and business plan coaching
- Mentoring

Canton of Basel-Stadt

BaselArea¹⁹²

- Consultancy and support in the development of business activities in Basel region
- Provision of basic information about business creation
- Arrangement of contacts to experts, authorities or networks

i-net innovation networks¹⁹²

- Free individual advice
- Information exchange and knowledge transfer

Business Parc Reinach

- Free business creation advice for start-ups
- Business plan coaching
- Support after the launch

Basel Inkubator

- Differentiated coaching (business plan development, support with specialist subjects)

Canton of Berne

innoBE¹⁹³

- Consultancy firm for innovation and new venture creations (consultancy for enterprises is free for up to three days, also coaching for start-ups in the key formation issues)

BaseCamp4HighTech¹⁹³

- Coaching (expert advice and active assistance), voucher for service providers (legal support, trusteeship, marketing and communication) and basecamp sponsorship

CEP (Chamber of Public Economy of the Bernese Jura; Bern)

- Coaching for enterprise founders and/or leaders of economic development projects (advice on creation and support for the first stages of realisation, contact point)

Berne Business Creation Competition

- Participants in the Berne Business Creation Competition receive professional coaching

Canton of Fribourg

Fri Up

- Step-by-step coaching of SMEs and start-ups

Platinn – innovation platform

- Coaching for start-ups and SMEs for business development design

Canton of Geneva

Business development services

- Support and free guidance for start-up and business development projects

Industry and Technology Promotion Office (OPI)

- Free support and guidance (coaching)
- Provision of specialists based on the needs of the enterprise

Genilem Geneva

¹⁹² BaselArea, i-net innovation networks and China Business platform were merged to form BaselArea.swiss in 2016.

¹⁹³ innoBE and BaseCamp4HighTech merged on 01 July 2016 to form be-advanced.

- Analysis and pre-launch advice
- Individual coaching programme of 3 years' duration

FONGIT (Geneva Foundation for Technological Innovation – Innovation Incubator)

- Coaching
- Fongit's Incubation Program: guidance, support, and networking opportunities

Fondation Ecllosion

- Guidance services for project management (support for pre-clinical and clinical, industrial, entrepreneurial and financial competences)

Platinn – innovation platform

- Coaching for start-ups and SMEs for business development design

Canton of Glarus

Glarus Business Development

- Innovation coaching (knowledge and technology transfer, free consultancy and coaching for new and existing entrepreneurs)

Canton of Graubünden

Graubünden Business Development

- Initial individual consultation
- Arrangement of contacts
- Support of companies

Graubünden SME Centre

- Contact point for SMEs from the canton
- Free consultancy services

Canton of Jura

Creapole SA

- Support services: consultancy and coaching for the development of innovative projects or enterprise creation
- Networking

i-net innovation networks¹⁹²

- Personal and free support for the development and realisation of innovative projects
- Information exchange and knowledge transfer

Platinn – innovation platform

- Coaching for start-ups and SMEs for business development design

Canton of Lucerne

Lucerne Business Development

- Free initial consultation through various experts in the areas of finance, marketing and sales

CEWAS

- Consultancy and support for business development in the areas of water, waste water and resource management

Zentralschweiz Innovativ

- Innovation coaching (free and personal consultation)
- Support in the development and realisation of a specific project

Canton of Neuchâtel

Business services

- Partnership during the creation, establishment and development of an enterprise and the establishment of project owners
- Support and personalised follow-up

Neode Technology & Industrial Parc Inc.

- Management coaching and competency network

Genilem Neuchâtel

- Coaching (analysis of enterprise projects, consultancy and assistance with start-up, networking)
- Professional guidance for 3 years after selection

Platinn – innovation platform

- Coaching for start-ups and SMEs for business development design

Canton of Nidwalden

Canton of Nidwalden Business Development

- Free advice on company creation and arrangement of key contact points

Zentralschweiz Innovativ

- Innovation coaching (free and personal consultation)
- Support in the development and realisation of a specific project

Canton of Obwalden

Location Promotion in Obwalden

- Free initial consultation as support in the development and commercialisation of innovative business ideas, products and services

Micropark Pilatus

- Support and consultancy through innovation coaching and mentoring

Zentralschweiz Innovativ

- Innovation coaching (free and personal consultation)
- Support in the development and realisation of a specific project

Canton of Schaffhausen

Canton of Schaffhausen Business Development

- Free advice and arrangement of key contact points

Industry and Technology Centre Schaffhausen (ITS)

- Support and guidance up to project realisation
- Technology network
- Networking

Canton of Schwyz

Canton of Schwyz Business Development

- Consultancy and support during and after enterprise formation
- Arrangement of network contacts

Schwyz Technology Centre (TZS)

- Free initial and sometimes follow-up consultations
- Innovation coaching
- Network support

Zentralschweiz Innovativ

- Innovation coaching (free and personal consultation)

- Support in the development and realisation of a specific project

Health Tech Cluster Switzerland

- Coaching of start-ups before and during market entry
- Support, mentoring and networking

Canton of Solothurn

Canton of Solothurn Business Incubator

- Free initial meetings and consultation

IFJ - Startup Support

- Support and advice during company creation

Plug & start

- Guidance and support during the start-up and development stage (coaching, networking)

Business Parc Reinach

- Free business creation advice for start-ups
- Business plan coaching
- Support after the launch

Cleantech Start-up – espace Solothurn

- Business coaching (free advice during the preparation of the business plan, or in the start-up stage of company formation)
- Networking

Canton of St. Gallen

Startfeld initiative (contact points in St. Gallen and Rapperswil)

- Free initial consultation (advice and support by coaches for information on all aspects of the business creation process and the development of the business model)
- Startfeld support package (project sponsor for mentoring, coordination and networking, young entrepreneur coach for special coaching and cheque book)
- Network

Centre for Young Entrepreneurs 'Jung-Unternehmer-Zentrum' (contact points in Flawil, Wil, Wattwil and Gossau)

- Free initial consultation
- Guidance, advice and coaching in the formation and development stage
- Network

Canton of Ticino

Fondazione AGIRE

- Independent preliminary analysis and initial review of innovative projects
- Assistance with intellectual property issues
- Identification of technology and finance partners and networking

CP Start-up

- Start-up coaching for university students and graduates

Fondounimpresa.ch

- Training and coaching for enterprise ideas

Canton of Thurgau

Network 'Startnetzwerk Thurgau'

- Support and guidance for start-ups

- Networking and sponsorship

Canton of Uri

Uri business development

- Advice and support when setting up a new company
- Assistance in finding premises or operating facilities
- Facilitation

Zentralschweiz Innovativ

- Innovation coaching (free and personal consultation)
- Support in the development and realisation of a specific project

Genilem Central Switzerland

- 3 years of free coaching
- Professional support by experienced coaches
- Business management and development support
- Public relations support

Canton of Vaud

Innovaud

- Support for innovative projects (guidance, partnerships)

Genilem Vaud

- Analysis and pre-launch advice
- Individual coaching programme of 3 years' duration

Alliance

- Platform for establishing industrial relations between research institutes of Western Switzerland and enterprises

Platinn – innovation platform

- Coaching for start-ups and SMEs for business development design

Canton of Valais

Incubator of The Ark Foundation

- Tailored support for start-ups (coaching)
- Networking, partnerships

Platinn – innovation platform

- Coaching for start-ups and SMEs for business development design

Canton of Zug

Zug Economic Promotion Office

- Free advice on company creation

Zentralschweiz Innovativ

- Innovation coaching (free and personal consultation)
- Support in the development and realisation of a specific project

Canton of Zürich

Cooperative 'Startzentrum Zürich Genossenschaft'

- Free initial personal consultation for young entrepreneurs
- Support through coaching in company creation and development

Gruenden.ch

- Networked and free advice

Annex 4: Overview of cantonal training offers (status date: 01 February 2016)

Canton of Aargau

SwissUpStart Challenge FHNW

- Training and professional development programmes

Start-net GmbH

- Courses in self-employment

IFJ - Startup Support

- Courses in venture creation

Canton of Appenzell Ausserrhoden

Startfeld initiative

- Courses in entrepreneurship

Canton of Appenzell Innerrhoden

Startfeld initiative

- Courses in entrepreneurship

Canton of Basel-Landschaft

IFJ - Startup Support

- Preparatory courses for company creation (in cooperation with BaselArea)

i-net innovation networks

- Courses in entrepreneurship for technology-oriented start-up

Canton of Basel-Stadt

IFJ - Startup Support

- Preparatory courses for company creation (in cooperation with BaselArea¹⁹²)

i-net innovation networks¹⁹²

- Courses in entrepreneurship for technology-oriented start-up

Canton of Berne

innoBE and BaseCamp4HighTech¹⁹³

- Training, professional development and ICT-related seminars

Canton of Geneva

Genilem Vaud-Genève

- Specialist training for entrepreneurs

Canton of Graubünden

Chur University of Applied Sciences / Graubünden SME Centre

- Various courses for start-ups and SMEs

Canton of Lucerne

IFJ - Startup Support

- Preparatory courses for company creation (in cooperation with Lucerne business development)

Startups.ch

- Courses for young entrepreneurs (in cooperation with Lucerne business development)

CEWAS

- Courses for business development in the areas of water, waste water and resource management

Canton of Neuchâtel

Swiss Foundation for Microtechnology Research (FSRM)

- Specialised training in the field of administration/management, product development, organisational structure and on aspects of marketing and commercialisation

Canton of Schaffhausen

SME Economic Forum Schaffhausen

- Training and professional development for SMEs

Industry and Technology Centre Schaffhausen (ITS)

- Seminars for SMEs

Canton of Solothurn

IFJ - Startup Support

- Courses in venture creation

Canton of St. Gallen

Startfeld initiative

- Courses in entrepreneurship

Centre for Young Entrepreneurs 'Jung-Unternehmer-Zentrum'

- Professional development

Canton of Ticino

Fondounimpresa.ch

- Training modules in entrepreneurship

Canton of Thurgau

Network 'Startnetzwerk Thurgau'

- Courses on company creation

Canton of Vaud

Banque Cantonale Vaudoise (BCV)

- Course "Start your own company"

Genilem Vaud-Genève

- Specialist training for entrepreneurs

EPFL Innovation Park

- Course CTI Entrepreneurship

Canton of Valais

Incubator of The Ark Foundation

- Specific workshops

Genilem Valais

- Specialist training for entrepreneurs

Annex 5: Overview of cantonal infrastructure offers (status date: 01 February 2016)

Canton of Aargau

Technopark Aargau

- Office and commercial premises at attractive rates

Canton of Basel-Landschaft

Business Parc Reinach

- Rooms available (meeting room with necessary equipment, fully furnished canteen, copy corner with suitable machines for paper finishing)

Foundation Business Park Laufental & Thierstein

- Office rooms and workspaces at cost-effective market prices

Canton of Basel-Stadt

Basel Technology Park

- Office rooms, laboratories and premises for shared use at interesting rates

Basel Inkubator

- Office and laboratory spaces and at favourable rates

Canton of Berne

CEP (Chamber of Public Economy of the Bernese Jura; Bern)

- Offer of premises at a preferential rate

Innocampus SA

- Provision of premises on favourable terms (offices, co-working spaces, laboratories, technical facilities, production sites built to handle high floor loads, meeting spaces)

Canton of Fribourg

Bluefactory SA

- Technology park welcoming companies and start-ups

Fri Up

- Provision of completely flexible open plan premises comprising independent and pre-wired office spaces (incubators for the North, Centre and South)

Broye Aeropole

- Technology park for aeronautics (infrastructure and fully-equipped sites)

Canton of Geneva

Fondation Ecllosion

- Provision of platforms and specialised laboratories

FONGIT (Geneva Foundation for Technological Innovation – Innovation Incubator)

- Fully-equipped offices and work space

Canton of Graubünden

Chur University of Applied Sciences Entrepreneurship Lab

- Office rooms, laboratories and premises for shared use at interesting rates

INNOZET – Innovation Centre TRUMPF

- Office rooms, commercial premises, opportunities for setting up laboratories and premises for shared use at interesting rates

Canton of Jura

Creapole SA

- Three incubators arranging furnished workspaces and conference rooms

Canton of Lucerne

Technopark Lucerne

- Flexible rental contracts (fully furnished offices, meeting rooms and conference rooms)

Network Neubad Lucerne

- Seminar rooms, studios, office workspaces

Kreativ Fabrik 62 in Sursee

- Fixed and flexible workspaces (co-working spaces), meeting rooms, event rooms

Room Exchange 'Raumbörse Luzern'

- Platform for arranging cost-effective and temporary workspaces, studios, meeting rooms, function rooms and rehearsal spaces

Canton of Neuchâtel

Neode Technology & Industrial Parc Inc.

- Provision of infrastructure on favourable terms (furnished offices, print centres, laboratories, conference rooms)

Canton of Obwalden

Micropark Pilatus

- Office rooms at attractive rates, meeting rooms for shared use

Canton of Schwyz

Schwyz Technology Centre (TZS)

- Office spaces at interesting rental rates

Canton of Solothurn

Canton of Solothurn Business Incubator

- Attractive individual or group working spaces

Canton of Ticino

Fondazione AGIRE

- Tecnopolo Ticino (shared offices on interesting rental terms), central offices in Manno, network office in Chiasso (dedicated to CT), network office in Lugano (dedicated to MedTech)

CP Start-up

- Enterprise incubator for university start-ups

ESASO

- Laboratory space dedicated to ophthalmology

Canton of Vaud

EPFL Innovation Park

- Flexible spaces and shared spaces for enterprises

Y-Parc SA

- Open plan workspaces and private offices, laboratories, studios, shared infrastructures (conference rooms, canteen) for enterprises involved in research and development activities and/or industrial production

Broye Aeropole

- Technology park for aeronautics (infrastructure and fully-equipped sites)

Biopôle SA

- Furnished offices and laboratories for enterprises that create high value in the area of life sciences

Technopôle de l'environnement d'Orbe (TecOrbe)

- Flexible offices and studios, laboratories, conference rooms and industrial halls for SME activities in the areas of energy and environmental technologies

Technopôle Sainte-Croix

- Available premises for the establishment of enterprises in the areas of microwelding and related technologies

Fondation des Ateliers de la Ville de Renens

- Shares furnished offices and spaces at attractive rates for young enterprises in the area of visual communication, graphic design, design or architecture

Startup Hotel – Ecole hôtelière de Lausanne

- Private or shared offices and spaces, furnished meeting rooms for young SMEs who want to develop projects connected to the service industry in the hospitality and tourism sectors

Canton of Valais

The Ark Foundation

- Provision of infrastructure, shared offices and laboratories at 6 technology sites: BioArk Monthey, PhytoArk Conthey and BioArk Visp (life sciences), TechnoArk Sierre and IdeArk Martigny (information and communication sciences), Energypolis Sion (engineering/energy sciences)

Canton of Zug

Zug Business Park

- Cost-effective office rooms and infrastructure for young enterprises and SMEs

Canton of Zürich

Cooperative 'Startzentrum Zürich Genossenschaft'

- Furnished individual workspaces and office rooms for start-ups at attractive rental rates and with short notice periods

Technopark Zürich

- Office rooms and function rooms (auditorium, conference rooms, seminar rooms, meeting rooms)

Technopark Winterthur

- Diverse and attractive premises (offices, meeting rooms, function rooms)

Annex 6: Profit tax rates for legal entities (2015)

Single profit tax rate for legal entities

Source: Federal Tax Administration (FTA) (2016)

Confederation / Cantons	A. Proportional tax based on net profit
Confederation ^{1 2}	8.5%
ZH ¹	8%
LU ¹	1.5 % of the taxable net profit
UR ¹	4.2%
SZ ¹	2.25 % of the taxable net profit
OW ^{1 2}	6.1%
NW ^{1 2}	6%
GL ¹	8%
SH ¹	5%
AR ^{1 2 3}	6.5%
AI ¹	8%
SG ¹	3.75%
GR ¹	5.5%
TG ¹	4%
TI ^{1 2}	9%
VD ¹	9%
GE ¹	Max. 10 %
JU ¹	3.56%

Cantons	B. Mixed system with two or three rates, combined according to earnings intensity or amount of profit
BE ¹	<ul style="list-style-type: none"> - 1.55 % on 20 % of the taxable net profit; however, a minimum of CHF 10,000 - 3.1 % on the next CHF 50,000 of net profit - 4.6 % on the remaining net profit
ZG ¹	<ul style="list-style-type: none"> - 3 % for the first CHF 100,000 - 5.75 % for profits in excess of CHF 100,000
FR ¹	<ul style="list-style-type: none"> - 8.5% if profits are not above CHF 50,000 - 4.2 % on the first CHF 25,000 - 12.8 % on the next CHF 25,000
SO ¹	<ul style="list-style-type: none"> - 5 % on the first CHF 100,000 - 8.5 % on the remaining net profit
BS ^{1 2}	<ul style="list-style-type: none"> - 9 % property tax - In addition, as many percent of the taxable net profits as this percentage of taxable capital accounts for at the beginning of the tax period - Max. 20 %
BL ^{1 2}	<ul style="list-style-type: none"> - 6 % on the first CHF 100,000 of net profits - 12 % on the remaining net profit
AG ¹	<ul style="list-style-type: none"> - 6 % on the first CHF 100,000 of taxable net profits - 9 % on the remaining net profit Minimum tax: it is the single amount (100 percent) of state tax - for stock corporations CHF 500

	- for cooperatives CHF 100.
VS ^{1 2}	- 3 % up to an amount of CHF 150,000. - 9.5 % from CHF 150,001.
NE ¹	6%

Notes

- ¹ In the assessment period, paid taxes can be deducted
- ² no annual multiple.
- ³ For stock corporations and cooperatives which have been granted a tax break before 01 January 2008, the single tax is 1.85 % of the taxable net profits for the term of the tax break.
- ⁴ Instead of the profit tax, a minimal tax is setup if it exceeds the calculated profit tax. The minimal tax is assessed on the basis of equity.

Annex 7: Capital tax rates for legal entities (2015)

Simple capital tax approaches for legal entities

Source: Federal Tax Administration (FTA) (2016)

Confederation / Cantons	A. Proportional tax
Confederation	No tax
ZH	0.75 %
BE ¹	0.3 %
LU	0.5 % of taxable capital
UR	max. 2.4 % and min. 0.01 %
SZ	0.4 % of the decisive equity (minimum of CHF 100)
OW ²	2.0 % (minimum of CHF 500)
NW	0.1 % (minimum of CHF 500)
GL	2.0 %
ZG	0.5 %
FR	1.6 %
SO ¹	0.8 % (minimum of CHF 200 for personal or CHF 100 for strictly economic membership)
BS ²	5.25 %
BL ^{1,2}	1.0 %
SH	1.0 %
AR	0.1 % (minimum of CHF 900)
AI ¹	0.5 % (minimum of CHF 500)
SG ^{1,5}	0.2 %
AG ¹	1.25 % (minimum of CHF 500 for stock corporations, minimum of CHF 100 for cooperatives)
TG ¹	0.3 % (minimum of CHF 100)
TI ²	1.5 %
VD ¹	0.3 %
VS ²	1.0 % up to CHF 500,000 2.5 % from CHF 500,001 (minimum of CHF 200)
NE ^{1,2}	2.5 %
GE ³	1.8 % 2.0 % for companies and cooperatives without taxable profits
JU	0.75 %

Canton	B. Progressive tax	
	Minimum rate	Maximum rate
GR ⁴	2.3 %	2.5 %

Notes

- 1 The profit tax is credited against the capital tax.
- 2 no annual multiple.
- 3 The capital tax is deducted from the amount of profit tax. This reduction must not exceed CHF 8,500.
- 4 The Grand Council determines the percentage tax rate of the single cantonal tax annually.
- 5 The stock corporations and cooperatives pay a single minimum tax of CHF 250 from the fifth financial year after formation if the single profit and capital taxes add up to less than this amount.

Annex 8: Tax revenue 2013

Source: Financial statistic of the Federal Finance Administration (FFA)

in CHF 1,000 Canton	Direct taxes for legal entities				Capital tax share in total direct taxes	Capital tax share in profit taxes
	Capital taxes	Profit taxes	other dir. taxes	TOTAL		
AG*	30,600	544,360	-	574,960	5.3%	5.6%
AI*	658	4,250	-	4,908	13.4%	15.5%
AR	2,354	21,445	-	23,799	9.9%	11.0%
BE*	16,122	827,640	-	843,762	1.9%	1.9%
BL*	41,281	243,104	-	284,385	14.5%	17.0%
BS	136,385	543,951	642	680,978	20.0%	25.1%
FR	39,567	185,446	-	225,013	17.6%	21.3%
GE**	398,817	1,418,316	202,099	2,019,232	19.8%	28.1%
GL	1,979	16,007	-	17,986	11.0%	12.4%
GR	47,757	100,687	-	148,444	32.2%	47.4%
JU	10,928	68,691	-	79,619	13.7%	15.9%
LU	29,016	207,395	-	236,411	12.3%	14.0%
NE*	13,867	385,996	-	399,863	3.5%	3.6%
NW	2,156	17,709	-	19,865	10.9%	12.2%
OW	4,064	16,848	2	20,914	19.4%	24.1%
SG*	18,275	347,229	-	365,504	5.0%	5.3%
SH	9,480	77,220	476	87,176	10.9%	12.3%
SO*	47,772	202,501	-	250,273	19.1%	23.6%
SZ	21,764	47,792	-	69,556	31.3%	45.5%
TG*	1,523	150,825	-	152,348	1.0%	1.0%
TI	118,786	362,186	-	480,972	24.7%	32.8%
UR	393	13,749	1,747	15,889	2.5%	2.9%
VD*	157,414	927,316	13,288	1,098,018	14.3%	17.0%
VS	60,959	221,888	-	282,847	21.6%	27.5%
ZG	45,286	329,920	-	375,206	12.1%	13.7%
ZH	359,972	1,834,796	-	2,194,768	16.4%	19.6%
Confederation						
Total CH	1,617,175	9,117,267	218,254	10,952,696	14.8%	17.7%

* The profit tax is credited against the capital tax.

** The capital tax is deducted from the amount of profit tax. The reduction must not exceed CHF 8,500.

Annex 9: Tax treatment of business angels compared to international standards

Canton/State	Type of taxation ¹⁹⁴	Tax by tax types (in CHF)			Total amount of the tax types (in CHF)	Effective tax rate per tax type		
		EST	KST	VST		Income (CHF 221,700)	Capital gain (CHF 2,771,250)	Assets (CHF 2,910,000)
CH/Zug	Ordinary taxation	41,615	0	7,565	49,180	18.77%	0%	0.26%
CH/Basel-Stadt	Ordinary taxation	66,565	0	23,500	90,065	30.02%	0%	0.81%
UK	Privileged taxation (SEIS) ¹⁹⁵ in the year of sale	80,500	0	-	80,500	36.31%	0%	-
UK	Privileged taxation (SEIS) ¹⁹⁵ in the year of investment	11,225	0	-	11,225	5.06%	0%	-
UK	Ordinary taxation	80,500	551,170	-	631,670	36.31%	19.90%	-
Israel	Privileged taxation	41,570	785,650	-	827,220	18.75%	28.35%	-
Israel	Ordinary taxation	110,850	886,800	-	997,650	50%	32%	-
USA/Massachusetts	Privileged taxation	64,290	758,215	-	822,505	29%	27.36%	-
	Ordinary taxation	64,290	1,387,850	-	1,452,140	29%	50.08%	-
USA/California	Privileged taxation	68,725	922,270	-	990,995	31%	33.28%	-
	Ordinary taxation	68,725	1,396,710	-	1,465,435	31%	50.40%	-

Source: Vischer AG, own calculations (2016)

Legend: EST = income tax / KST = capital gains tax / VST = wealth tax

¹⁹⁴ Without further details, this is the taxation in the year the shareholding is sold.

¹⁹⁵ The calculation of the privileged taxation in the UK takes account of an SEIS tax regime (see Chapter 6.5.2).

Annex 10: Parliamentary motions

Carried Interest

- 11.3431 Venture capital Investment promotion (Noser Postulate)
- 08.3559 Uncertainties regarding hedge funds (Interpellation Sommaruga)
- 97.400 Venture capital (Parliament Initiative WAK-N)

Crowdfunding

- 15.4086 For a competitiveness financial centre in the area of new financial technologies (Postulate WAK-N)
- 15.3917 Crowdfunding. In the area of tension of economic innovation and investor protection (Graber Motion)
- Motion 14.4300 Promoting Crowdfunding and Simplifying Investments in SMEs (Derder Motion)
- 13.4237 For a better Development of Innovative Start-ups (Derder Postulate)

Collaborative consumption (sharing economy)

- 14.4296 Participative Economy. Stimulating, outlining framework conditions, being prepared for future challenges (Derder Postulate)
- 14.4269 Equal framework conditions for traditional service businesses and private providers of services via online platforms (Hess Motion)
- 14.3658 Internet platforms for the exchange of services; in particular, in the areas of accommodation and transport. Report on consequences and measures to be taken (Sommaruga Postulate)

Other

- 16,424 Privileged taxation of employee profit participation in start-ups (Parliamentary Initiative of Badran)
- 16.3615 Defining start-ups and offering better support (Béglé Postulate)
- 16.3605 Extending loss carryforwards for tax purposes for knowledge-based start-ups (Derder Motion)
- 16.3415 Promoting the development of a 'FinTech Valley' (Béglé Postulate)
- 16.3342 Harmonising the measurement principles for start-ups to prevent their departure from Switzerland (Interpellation Derder)
- 16.3293 Reasonable taxation of start-ups. Cross-cantonal harmonisation of measurement principles based on an objective model (Derder Motion)
- 16.3272 FinTech as a challenge for Switzerland (Interpellation Schneider-Schneiter)
- 16.3129 Will the Federal Council propose modalities and measures to encourage pension fund investments in the local economy, as requested by Parliament? (Interpellation Derder)
- 15.3780 For an innovation-friendly tax policy (Derder Motion)
- 15.3779 Which tax policy for innovation promotion? (Derder Postulate)

- 14.3267 Incentives for pension funds to invest in the local economic network (Interpellation Derder)
- 13.4237 For a better Development of Innovative Start-ups (Derder Postulate)
- 13.4184 Long-term investments of pension funds in promising technologies and creation of a Swiss future fund (Graber Motion)
- 13.3951 For a precise definition of the term "innovative start-up" (Interpellation Derder)
- 13.3950 The Federal Pension Fund (Publica) should invest in the local economy (Derder Motion)
- 13.3949 Promoting company formations through tax deferral for investors (Motion Derder)
- 12.3598 Fiscal start-up support for young, innovative enterprises (Barthassat Motion)
- 11.3430 Financing of young enterprises. Reducing administrative and tax burden (Noser Postulate)
- 11.3429 Legal certainty for company founders and business angels (Noser Postulate)
- 10.3076 Federal Law on Venture Capital Companies. And now? (Fässler Postulate)
- 09.3936 Promotion of start-ups (Darbellay Motion)
- 09.3935 Tax shortfalls due to tax exemptions for start-ups (Darbellay Postulate)
- 09.3931 Facilitating investment in general financing bottlenecks for the promotion of start-ups (Darbellay Motion)
- 09.3290 Promotion of environmental and innovative economic initiatives (Motion of the Green parliamentary group)

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