Tax treatment of foreign exchange effects

According to a recent decision by the Swiss federal court of justice, foreign exchange effects resulting from the conversion of financial statements kept in another currency to Swiss francs do not have to be considered for tax purposes.

The Swiss commercial law contains a rule that the financial statements have to be presented in the national currency ("presentation currency"). It is permitted, however, to keep the books in another currency than Swiss francs during the business year ("functional currency"). In such cases, the balance sheet and the profit and loss statements have to be converted to Swiss francs at the end of the business year. According to a recent decision by the Swiss federal court of justice, a gain or loss resulting from this conversion is not tax effective for the direct federal income tax and for the cantonal and communal income taxes.

Based on this decision, it is recommended to review the tax provisions and tax returns of all open tax years and to adjust them to the extent necessary. However, there is no need for action for closed tax years.

In numerous cases, tax rulings have been filed with the relevant tax authorities in the past concerning the treatment of foreign exchange effects. It is possible that such a ruling may be questioned for business years commencing after 1 October 2009 (date of court decision) to the extent that the ruling is contradictory to the court decision.

In this respect, the assistance of a specialized advisor could be useful.

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