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ADB Newsletter
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Swiss VAT rate increase as per 1 January 2024

In the referendum held on 25 September 2022, additional financing for old-age and survivors' insurance (OASI) was secured through the approval of a VAT rate increase. Accordingly, VAT rates will be increased as follows with effect from 1 January 2024:

	Current	**New**
Standard rate	7.7%	8.1%
Reduced rate	2.5%	2.6%
Special rate for accommodation services	3.7%	3.8%

Although we are only in the early summer of 2023, and 2024 still seems a long way off, the VAT rate increase may still be relevant today. In particular, attention should be paid when charging for supplies that relate to several tax periods.

1. Time of provision determines whether the new VAT rates are applied

Neither the date of invoicing nor the date of payment determines whether the new VAT rates are applied. Instead, it is the time or period in which the supply is provided.

The new VAT rates must be applied to all supplies (or partial supplies) provided after 31 December 2023 and this must be settled with the Federal Tax Administration (FTA). Invoices must also show the new VAT rates to ensure that the tax is passed on to the customer in full.

As such, the new VAT rates must be taken into account today when preparing offers or contracts or when invoicing for supplies to be provided after 31 December 2023.

Time of provision determines the VAT rate to be applied in terms of both output and input VAT. Services purchased from abroad that are subject to the reverse charge are thus subject to the reverse charge at the current or new VAT rates depending on the time of the provision of the taxable supply – and not on the invoice date or the date of payment.

2. Supplies relating to several tax periods

For periodic supplies that are partly provided after the increase in VAT rates – such as subscriptions, service and maintenance contracts, license agreements, etc. – fees must be split into the current and new VAT rates on a pro rata basis. The same applies to advance payments for partial supplies provided after 31 December 2023.

For orders that have not been completed by the end of the year, the FTA recommends that a partial invoice is issued at the current VAT rate by the end of 2023 or that supplies already provided are correctly accrued with details in situational budgets so that supplies provided before 1 January 2024 can still be invoiced at the previous VAT rate at a later date. If a pro rata split is not made, the whole service that spans reporting dates will be subject to the new, higher VAT rate.

However, the previous VAT rates are to be applied to fee reductions, returns and sales bonuses for supplies provided prior to 1 January 2024 and this must be settled with the FTA.

3. Contracts that span several years

Particular caution is required for contracts that have long terms. If future supplies have already been invoiced, such invoices may have to be cancelled and reissued, taking into account the new VAT rates and the tax difference subsequently invoiced.

4. Declaring VAT

From the 3rd quarter of 2023, sales can be recorded in the VAT return at both the previous and the new VAT rates. If sales revenues which would be subject to the higher new VAT rate are generated prior to this, this must be declared provisionally at the previous VAT rates in the respective quarterly return as the corresponding form field will not yet be available. These VAT amounts provisionally settled are to be corrected in the return for the 3rd quarter of 2023 or when finalising the tax period 2023 at the latest.

5. Recommendations

- The new VAT rates should be taken into account when preparing offers and contracts for supplies to be provided after 31 December 2023.
- Fees that are invoiced or received for supplies from 1 January 2024 onwards should be accounted for and settled at the new VAT rates (from the 3rd quarter onwards, such transactions can be declared at the new VAT rates; before then, they are to be declared and settled at the previous VAT rates and corrected accordingly in the 3rd quarter).
- Supplies affected by the new VAT rates should be identified early on. The new VAT rates must be implemented in systems so that the supplies to be provided in 2024 can be invoiced, declared and settled correctly today (on a pro rata basis if necessary). It must be ensured that employees receive appropriate training.
- Invoices billed in the past should be reviewed to determine if they include the 2024 period of supply. If necessary, the relevant invoices should be cancelled and reissued, taking into account the new VAT rates.
- The VAT clause in offers and contracts should, therefore, be worded with regard to the time of provision or should be formulated in a neutral way (‘The fee payable is subject to statutory VAT’) in order to ensure that the increase in the VAT rate is passed on to the customer according to civil law. Old contracts that explicitly mention the current VAT rates must be updated for the new VAT rates.

- Input VAT can only be deducted in the amount of the VAT shown on the invoice. Special attention should, therefore, be paid to how expense items are recorded in accounting systems where input VAT is automatically calculated. Companies with input VAT deductions should ensure that input VAT supplies subsequently invoiced in 2024 for 2023 include a pro rata allocation of the fee for the 2023 period of supply, as overstated input VAT is not cost-neutral for these companies.
- If the differentiation between supplies at the current and new VAT rates made by the FTA cannot be implemented in the system, it is recommended that an appropriate solution is found together with the FTA, depending on risk potential.

For further information on the VAT rate increase effective 1 January 2024, please refer to 'VAT Info 19' ('MWST-Info 19') issued by the Swiss Federal Tax Administration.

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