

Corporate Tax Reform III in Switzerland – GGI ITPG Meeting

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1. Actual Situation – Tax privileges (1)

Holding companies (cantonal tax privilege)

Corporate entities whose purpose and principal function comprises the long-term administration of participations, and which do not exercise any business activities in Switzerland.

Taxation:

- all kind of income is exempt from the cantonal taxes
- the Federal tax is due on all kind of income at the ordinary tax rate of 8.5% (with participation deduction)
- reduced capital tax

Holding company test:

- at least two thirds of its assets consist of financial participations in subsidiaries (min. 10%), or
- at least two thirds of its total earnings derive from such participations.

1. Actual Situation – Tax privileges (2)

Administrative companies (cantonal tax privilege)

Corporate entities which perform an administrative function, but no business activity in Switzerland and which moreover do not have any employees, nor own offices in Switzerland.

Taxation:

- income from participations is exempt from the cantonal taxes
- 0% - 30% of non-domestic income is taxed at ordinary cantonal rates (according to the specific cantonal tax law)
- other income derived from Switzerland is subject to ordinary cantonal taxation
- the Federal tax is due on all kind of income at the ordinary tax rate of 8.5% (with participation deduction)
- Reduced capital tax applies.

1. Actual Situation – Tax privileges (3)

Mixed companies (cantonal tax privilege)

Corporate entities whose business activities have a largely non-domestic focus and which do not exercise a substantial business activity in Switzerland.

Taxation:

- 1% - 30% of non-domestic income is taxed at ordinary cantonal rates (according to the specific cantonal tax law)
- other income derived from Switzerland is subject to ordinary cantonal taxation
- the Federal tax is due on all kind of income at the ordinary tax rate of 8.5% (with participation deduction)
- reduced capital tax applies.

Mixed company test:

- At least 80 % of gross earnings must derive from non-domestic sources, **and**
- At least 80 % of expenses must be incurred abroad.

1. Actual Situation – Tax privileges (4)

Principal companies (federal tax privilege)

Main companies of a group, whose functions, responsibilities and risks (purchase of goods, planning of R&D, planning and management of the production, marketing and sales, treasury and finance, administration etc.) are centralised in the principal company

Assumption that the principal company has representative's PE's according to art. 5 (5) OECD model convention

Taxation (federal tax):

- 50% of the income from trading business is tax free (deemed to be taxed outside of Switzerland)
- 70% of the total income is deemed being income from trading business

1. Actual Situation – Tax privileges (5)

Finance branche (federal tax privilege)

Notional interest deduction on deemed borrowing capital

Taxation (federal tax):

- 90% of the total of the balance sheet are deemed to be borrowing capital (with interest deduction)

Finance branche test:

- Assets of at least CHF 100 mio.
- At least 75% financial income and financial assets

2. Overview on measures taken

Corporate tax measures

- Patent box
- Super deduction up to 150% for research and development costs
- (Notional interest deduction)
- Transitional regulations for abolishing cantonal tax privileges (step-up)
- Upper limit of total relief (80% of profits before offsetting losses)
- Reduction of the corporate wealth tax for holding companies
- Wider application of exit taxation
- Adjustments to tax credits for foreign withholding taxes
- Reduction of the cantonal corporate income tax rates (at about 11 – 15%)
- Increase of the taxation on dividend payments (privilege of max. 40%, if the canton introduces the notional interest deduction)

3. Transitional regulations (step-up)

Alternative 1: step-up according to the actual law

- Upvaluation of the tax free part (eg. 85%) of hidden reserves (incl. goodwill) on cantonal level at privileged tax rate in the last year of the privilege
- Depreciation of the taxed hidden reserves in the subsequent years

Alternative 2: step-up according to CTR III

- Determination of the hidden reserves (incl. goodwill) as per the beginning of the new taxation (no taxation)
- Taxation at a separate (reduced) tax rate on cantonal level, when realised within the first years (two tax rates-model / three tax rates, if the patent box is applicable)

4. Corporate tax reform III / Timetable

19.09.2014	Law proposal from the Federal Council
31.01.2015	End of consultation with the political parties, cantonal governments and associations of interests
2015	Federal council's despatch to the parliament (but not before the publication of the relevant BEPS reports)
2015-2016	Parliamentary debate
Feb. 2017	Referendum / Vote: NO
Dec. 2017	New governmental proposal
2018	Parliamentary debat
2020 - 2021	Entry into force

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