

# **Corporate Tax Reform in Switzerland – GGI ITPG Global Tax Summit**

Frankfurt, 2020

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# 1. History

- 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 debate
- 19.05.2019 Referendum / Vote: YES
- 01.01.2020 Entry into force

## 2. Overview on measures taken

- Patent box
- Super deduction for research and development
- Notional interest deduction (only in Zurich)
- Transitional regulations for abolishing cantonal tax privileges (step-up)
- Upper limit of total relief (70% of profits before offsetting losses)
- Reduction of the corporate wealth tax for holding companies
- Wider application of exit taxation
- Adjustments on the tax credits for foreign withholding taxes
- Adjustment on the Capital contribution principle
- Adjustment on the Transposition rule
- Reduction of the cantonal corporate income tax rates (at about 11 – 15%)
- Increase of the taxation on dividend payments (Cantonal level: privilege of max. 50% / Federal level: privilege of 40%)
- Increase of Social security contributions from 10.25% to 10.55% for employees / from 9.5% to 9.95% (max.) for Self employed

## 3. Patent box

### Preconditions

- Legal persons (corporations...) and self employed
- Qualifying patents:
  - a) Patents according to the European Patent Convention
  - b) Patents according to the Swiss Patent Law
  - c) Foreign patents, corresponding to letter a oder b
- Qualifying comparable rights:
  - a) Supplementary Protection Certificates according to the Swiss Patent Law
  - b) Protected topographies according to the Swiss Topographies Act
  - c) Varieties of plants according to the Swiss Variety Protection Law
  - d) Protected documents according to the Swiss Law on Therapeutic Products
  - e) Protected reports according the implementing provisions to the Swiss Agriculture Law
  - f) Foreign rights corresponding to letter a to e

## 3. Patent box

### Preconditions

- Non-qualifying property rights:
  - Patent applications
  - Trade marks
  - Designs
  - Business secrets
  - Copy rights
- Substance required (nexus-approach according to OECD standard)

### Buy-in at the beginning of the patent box

- R & D costs relating to qualifying IP are taxed at the beginning (on cantonal level)
- Taxed hidden reserve to be depreciated in the tax declaration
- No buy-in, if the Cantonal tax foresees a comparable taxation within five years

### 3. Patent box

	Qualifying expenditures incurred to develop IP asset	<ul style="list-style-type: none"> <li>• Expenditures for R&amp;D carried out by the taxpayer</li> <li>• Expenditures from R&amp;D outsourcing to related parties in Switzerland</li> <li>• Expenditures from outsourcing to third parties in Switzerland and abroad</li> </ul>	+ Uplift: up to 30% of the qualifying expenditures
Nexus ratio	=	<hr/>	
	Overall expenditures incurred to acquire to develop IP asset	<ul style="list-style-type: none"> <li>• Qualifying expenditures incurred to develop IP asset</li> <li>• Non-qualifying expenditures incurred to acquire the IP asset</li> <li>• Non-qualifying expenditures from R&amp;d outsourcing to related parties abroad</li> </ul>	

## 3. Patent box

### Mechanism

- Residual method 1 (product based):  
Net income from products with qualifying patents or comparable rights (before taxes)  
./. 6% of the costs allocated to the product(s)  
./. Income for trade mark allocated to the product  
= Total of qualifying income
- Residual method 2 (Total of income):  
Taxable corporate income  
./. Financial Income  
./. Real estate Income  
./. Income from participations  
./. Net income from non-qualifying products (without patents or comparable rights)  
= Total of qualifying income



## 3. Patent box

Taxation (Cantonal tax):

- Up to 90% of the profit from qualifying patents are tax free (extend of the tax exemption will be chosen by every canton)

No privilege on the Federal tax level

## 4. Super deduction for R&D

No privilege on the Federal tax level

Taxation (Cantonal tax):

- Overall deduction up to 150% of the qualifying R&D costs (extend of the super deduction will be chosen by every canton)
- Qualifying R&D costs:  
R&D according to art. 2 of the Federal Law on Research and Innovation / OECD Frascati Manual  
=> Filing of written R&D concept required
- Calculation
  - a) Personnel expenditures for R&D, plus 35% (limited on the Total of costs)
  - b) 80% of the R&D expenditures done by a third party in Switzerland

## 5. Transitional regulations (step-up)

### Step-up for former domiciled and mixed companies

#### 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 (5 or 10 year, according to the Cantonal practice).
- Hidden reserves (incl. goodwill) are part of the taxable capital

#### Alternative 2: step-up according to CTR

- Determination of the hidden reserves (incl. goodwill) as per 31 December 2019 (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)

Application for a step-up with the tax return 2019 at the latest!

## 5. Transitional regulations (step-up)

### Step-up for former Holding companies

Real estate property	No step-up
Portfolio investments (return)	tax free upvaluation to market value (in the tax return)
Other assets	tax free upvaluation to market value (in the tax return)
Participations (at least 10%)	
- market value > initial costs	book value = new initial cost (=> higher participation deduction for future sale or recontributed depreciation)
- market value < initial costs	depreciation on market value

Application for a step-up with the tax return 2019 at the latest!

## 6. Adjustment of Capital contribution principle

- Dividend payments from capital contributions are tax free (withholding tax and private income tax)
- Dividend payments from capital contributions of companies listed at Swiss stock exchange are only tax free, if the company also distributes a dividend in the same extend from the taxable reserves (at least 50%)
- The new rule is applicable to dividend payments as well as for share repurchase programs

## 7. Adjustment of the Transposition rule

- The capital gain on the sale of private security investments is tax free
- New from 2020: The capital gain on the sale of private security investments is taxable, if the acquiring company is controlled by the seller (at least 50%; sole seller or several sellers acting together). The tax base is the difference between the sales price and the nominal share capital (incl. capital contributions).
- Before: Taxable income only, if the sold participation is more than 5%

## 8. Notional interest deduction

- Only the Canton of Zurich is allowed to introduce it (also for the Federal Level)

Taxation (Cantonal tax and Federal tax):

- Notional interest deduction on “excess equity”

Interest rate

- return on 10-years Federal bonds or
- interest rate according to TP study (if the financed assets are intragroup loans)

## 8. Notional interest deduction

<b>Operational assets</b>  Rates for the equity backing according to the risk of asset class	Rates according to the Swiss thin capitalisation rules			Borrowed capital	Effective interest deduction
				<b>Excess equity = Base for the tax deduction</b>	<b>Notional interest deduction</b>
<b>Excluded assets</b> participations, non-operational assets, IP-rights, etc.	100%	Core equity = minimal equity	Taxable equity		No interest deduction



## 9. Overview on the implementation

Cantons	Corporate Income Tax Rates	Reduction Patent box	Super deduction R&D	Notional Interest Deduction	Upper Limit of Total Relief	Reduction of Dividend Taxation
AG	15.1-18.6%	90%	50%	No	70%	50%
AI	12.7%	10%	No	No	50%	50%
AR	13.0%	50%	50%	No	50%	40%
BE	21.05%	90%	50%	No	70%	50%
BL	13.5% (2025)	90%	20%	No	50%	40%
BS	13.0%	90%	No	No	40%	20%
FR	13.7%	90%	50%	No	20%	30%
GE	13.99%	10%	50%	No	9%	30%
GL	12.4%	10%	No	No	10%	30%
GR	14.7%	90%	50%	No	55%	50%
JU	15.0%	90%	50%	No	70%	30%
LU	12.3%	10%	No	No	70%	40%
NE	13.6%	20%	50%	No	40%	40%
NW	11.97%	90%	No	No	70%	50%
OW	12.7%	90%	50%	No	70%	50%
SG	14.5%	50%	40%	No	40%	30%
SH	12.1%	90%	25% (from year 6)	No	70%	40%
SO	16.3%	90%	50%	No	70%	30%
SZ	14.2% / Wollerau 11.7%	90%	50%	No	70%	50%
TG	13.4%	40%	30%	No	70%	40%
TI	17.0%	90%	50%	No	70%	30%
UR	12.6%	30%	No	No	50%	50%
VD	13.8% (2019)	60%	50%	No	50%	30%
VS	11.9-16.98%	90%	50%	No	34%	40%
ZG	11.9%	90%	50%	No	70%	50%
ZH	18.2% (2023)	90%	50%	Yes	70%	50%

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