

End to rulings on Swiss principal companies and finance branches

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Principal companies

Finance branches

TRAF

On 15 November 2018 – in the context of the bill on the Federal Act on Tax Reform and AHV Financing (TRAF) (formerly referred to as 'Tax Proposal 17') – the Swiss Federal Tax Administration (SFTA) announced that, as of 1 January 2019, it will abstain from granting rulings which safeguard the federal tax privileges of new principal companies and finance branches. Existing rulings for these regimes will no longer be valid after 1 January 2020 as part of the overall Swiss tax reform.

Principal companies

Companies operating globally often group their structures into larger units and centralise group functions, responsibilities and risks in so-called 'principal companies'. Under the current regime, if a principal company is located in Switzerland, some of the net profit is exempt from taxation in Switzerland (international tax allocation).

Finance branches

'Finance branches' are financial permanent establishments of foreign companies which act as lenders within foreign groups. Under the current regime, a notional interest is calculated on the capital made available to the Swiss permanent establishment that leads to a reduced taxable net profit of the Swiss finance branch in Switzerland.

TRAF

As opposed to the cantonal tax rules concerning mixed, domiciliary and holding companies, the abolition of federal tax privileges is not subject to any legislative amendment. Therefore, as a first step, the SFTA has asserted that federal tax benefits regarding principal companies and finance branches will no longer be available to new companies from January 2019. On the enactment of TRAF – likely at the beginning of 2020 – the current federal tax incentives for existing principal companies and Swiss finance branches will be eliminated.

On 28 September 2018 the Swiss Parliament approved the bill on TRAF. In line with Swiss legislative procedures, the final bill is subject to an optional referendum. In the event that such a referendum is called, which is widely expected, a popular vote will be scheduled for 19 May 2019. If no referendum is requested or TRAF is passed by a voting majority, the Federal Council will enact the bill, which will put an end to all special tax regimes as of 1 January 2020.

Companies should therefore review their structures and the effects of the proposed bill and take appropriate steps to assure a seamless and tax-efficient transition to the post-tax reform environment.

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