September 2017

Tax Newsletter

Switzerland: Swiss Government publishes new detailed draft for a corporate tax reform («Tax Proposal 17»)

As announced in June, the Swiss Government has published a new detailed draft for a corporate tax reform on 6 September 2017. The purpose of this new draft is to set the basis for new rules on Swiss corporate taxation (the last proposal having been rejected in a nationwide referendum in February 2017) and to secure Switzerland's overall attractiveness as a business location.

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Switzerland: «Tax Proposal 17»

Under the new draft, Switzerland will repeal the current special corporate tax regimes (finance branch, mixed, domiciliary, principal and holding company). The draft further includes several measures that were already discussed in the past, but it also addresses the criticism that contributed to the rejection in the February referendum. The measures included in the Tax Proposal 17 are the following:

By Maurus Winzap
lic. iur., LL.M., Attorney at Law
Certified Tax Expert
Telephone +41 58 658 56 05
maurus.winzap@walderwyss.com

and Robert Desax
lic. iur., LL.M. (tax), Attorney at Law
Certified Tax Expert
Telephone +41 58 658 52 77
robert.desax@walderwyss.com

- Transitional rules for companies that have been benefitting from cantonal tax regimes: such companies may release existing hidden reserves (including goodwill) in a tax-privileged way
- Introduction of a patent box in accordance with the OECD standard on a cantonal level
- Introduction of a 150% super deduction for R&D costs incurred in Switzerland on a cantonal level (based on R&D salary costs plus a mark-up)
- Introduction of a maximum relief limitation: The combined tax relief from the aforementioned measures may not exceed 70% (i.e. they may not reduce the taxable income to less than 30%)
- The cantons may introduce relief on the capital tax levied annually on equity capital
- Statutory provisions in relation to the tax consequences of companies entering (i.e. full tax-free step-up) or exiting Switzerland

Compared with the last bill (that was rejected in February), there are some notable differences:

- The Notional Interest Deduction (NID) was dropped altogether, even though notably the Canton of Zurich has repeatedly requested that such a measure be retained in the proposal
- The maximum relief limitation was brought down from 80% to 70%
- There is a now a clear definition of the R&D super deduction
- The cantonal share in the Federal tax revenues (currently 17%) will be increased to 20.5% rather than 21.2%

As expected, the new bill also includes further measures which are meant to cross-finance the reform or to gain wider political support:

- Harmonization and increase of minimal taxation of qualifying dividends (ownership of 10% or more): at least 70% of the dividend will be subject to income taxation
- Tightening of the rules regarding transpositions (which apply in private restructurings involving transfers of securities to personally controlled holding companies)
- Increase of family allowances for employees

The cantons are still free to reduce their corporate income and capital tax rates. Although not formally part of the Tax Package 17, most cantons still envisage more or less significant reductions of the cantonal corporate income tax rates as part of their cantonal (implementation) projects.

The consultation procedure is open until 6 December 2017. A formal proposal from Government to Parliament and the first subsequent parliamentary deliberations may be expected in the course of the first half of 2018. The corporate tax reform might be enacted in 2020 (after a potential referendum in 2019).

In the meantime, we closely monitor the changing tax environment against the background of the Tax Package 17 and other international developments (such as corporate transparency initiatives, EU blacklisting, implementation of BEPS, mandatory CFC rules in the EU, exchange of information, etc.) and develop tailor-made strategies for our clients. We suggest you carefully review the impact of those changes on your structures to ensure a smooth and tax-efficient transition to a changed (post-2020) tax landscape.

The Walder Wyss Newsletter provides comments on new developments and significant issues of Swiss law. These comments are not intended to provide legal advice. Before taking action or relying on the comments and the information given, addressees of this Newsletter should seek specific advice on the matters which concern them.

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Contacts

Martin Busenhart
Partner, Zurich
Phone +41 58 658 55 80
martin.busenhart@walderwyss.com

Samuel Dürr
Partner, Berne
Phone +41 58 658 29 02
samuel.duerr@walderwyss.com

Thomas Meister
Partner, Zurich
Phone +41 58 658 55 73
thomas.meister@walderwyss.com

Stephan Neidhardt
Partner, Zurich
Phone +41 58 658 55 70
stephan.neidhardt@walderwyss.com

Maurus Winzap
Partner, Zurich
Phone +41 58 658 56 05
maurus.winzap@walderwyss.com

Janine Corti
Counsel, Zurich
Phone +41 58 658 56 49
janine.corti@walderwyss.com

Marcus Desax
Counsel, Zurich
Phone +41 58 658 55 05
marcus.desax@walderwyss.com

Robert Desax
Managing Associate, Zurich
Phone +41 58 658 52 77
robert.desax@walderwyss.com

Walder Wyss Ltd.
Attorneys at Law

Phone + 41 58 658 58 58
Fax + 41 58 658 59 59
reception@walderwyss.com

www.walderwyss.com
Zurich, Geneva, Basel, Berne, Lausanne, Lugano