KPMG

Boardroom Questions

Swiss Corporate Tax Reform

Preservation of competitiveness of Switzerland as a business location

The public voted on 19 May 2019 to adopt the Federal Act on Tax Reform and AHV Financing (TRAF), confirming the reform of corporate taxation in Switzerland. The tax reform focuses on legal certainty and investor confidence. The reform should enter into force as early as 1 January 2020. In a next step, it is up to the cantons to implement measures based on the federal framework.

Facts

- **2013:** Reports on CTR III
- **June 2015:** Dispatch of draft legislation
- **June 2016:** CTR III approved by parliament
- **12 February 2017:** Rejection of CTR III by referendum
- **March 2017:** Launch of the new proposal (TP17)
- **September 2018:** TP17/TRAF approved by parliament
- **19 May 2019:** Public vote on TRAF

- **Willingness to discontinue 5 tax regimes**
  - on cantonal level: holding, domicile and mixed company regimes
  - on federal level: principal company regime
  - Swiss finance branch regime
- **New measures in compliance with OECD principles**
- **No retaliatory measures (Black Listing) by EU member states**

Brief overview of main aspects of TRAF

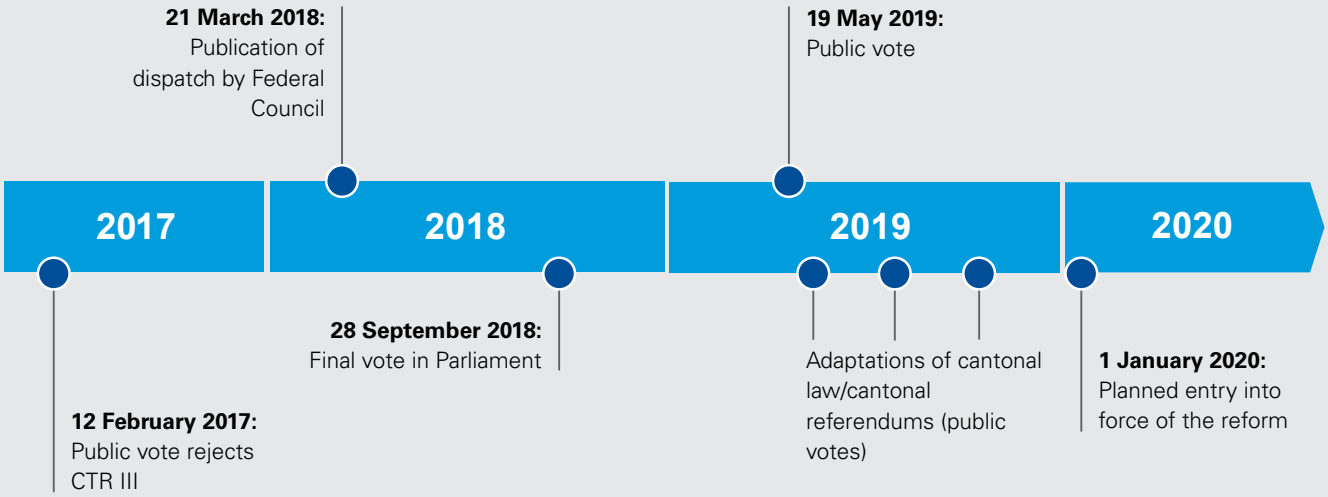
Measures to maintain competitiveness of Swiss tax law with equalization measures

- Abolition of the Cantonal tax statuses for holding, domiciliary and mixed companies with transition measures.

Eliminating internationally criticized tax practices

- General reduction of corporate income tax rates (in the competence of the cantons);
- Introduction of a "Patent Box" with a tax reduction of up to 90%;
- R&D input incentives in the form of a (max. 50%) R&D super deduction (in the discretion of the cantons);
- Introduction of notional interest deduction (basically only in the canton of Zurich);
- Limitation of maximum deductions at cantonal level to 70%;
- Voluntary reduction of capital tax in case of investments, patents and intercompany loan assets;
- Increased partial taxation quotas of qualifying dividends for individuals to 70% at federal level and at least 50% at cantonal level;
- Additional funding of the AHV of approx. 2 billion Swiss francs;
- Introduction of possibility to disclose hidden reserves upon relocation to Switzerland ("step-up").
- Adjustment of capital contribution principle for companies quoted on a Swiss stock exchange.

Time schedule for implementation*



* Future data according to current expectations

The cantons must implement essential elements of the new tax reform through their cantonal tax laws. Some cantons already have completed the legislative process to amend their cantonal tax law. Others are still in the process. Accordingly, the tax rates changes are only to be considered as enacted in some cantons whereby such new rates are to be considered for interim financial statements during the year 2019 for the calculation of deferred taxes. Independently, companies should analyze the specific impact of the reform in order to make use of any planning opportunities.

Action required

- **Timely evaluation of the proposed measures which may apply to** a company in order to allow for an assessment of any potential impact of a reform and to possibly take preparatory action, since for status companies, no "subsequent statuses" should be expected, with the exception of companies that use the "Patent Box" or potentially the notional interest deduction in Zurich.
- **Check** whether **existing tax rulings** are based on a legal basis which will be repealed or amended in terms of the TRAF. In this respect, the spontaneous exchange of information concerning tax rulings must also be taken into account.
- **Assess** whether the **current group structure** will withstand changing conditions in view of other upcoming issues (measures in the context of the OECD's action plan to combat erosion of the tax base and profit shifting to low tax jurisdictions with low or no tax/BEPS).
- **Evaluate the transparency of your company and tax structure,** since the public perception of corporate tax planning has increased considerably and will increase even further – cf. "Luxembourg Leaks", "Panama Papers" and "Paradise Papers" (balancing act between legal and legitimate tax planning).

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