

Tax Notes

Our business - your insight

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In the vote on Sunday, May 19th, 2019, Swiss voters adopted the “Tax reform and AHV financing” bill. The Federal Council and Parliament thus address two important political issues: on the one hand, ensuring a competitive, internationally compliant tax system and on the other hand, securing adequate AHV pensions in the future.

1. What does the adoption of the vote mean for Swiss companies?

Abolition of cantonal tax statuses / reduction of profit tax rates

The most significant reform is the abolition of cantonal tax privileges or tax regimes, which is expected to take effect on January 1st, 2020. Companies that have so far benefited from such privileges, i.e. in particular holding and domicile companies, have been able to benefit from a complete or extensive exemption from cantonal income taxes and a greatly reduced capital tax rate, depending on the extent of the privileges. The abolition means an additional tax burden for previously privileged companies. In order to compensate for these negative consequences, various replacement measures are planned, whereby these are not only applicable to currently privileged companies. While only individual measures are implemented at the federal level, the cantons have a relatively large scope of action. Some measures can be introduced by the cantons on an optional basis; in the case of other mandatory measures, the cantons themselves can determine the tax reductions to be effectively granted within a certain framework. For this reason, some cantons have not yet definitively determined the tax relief to be granted. However, almost all cantons have planned to reduce profit and capital tax rates.

Participation exemption / Promotion of Research & Development

The concept of participation exemption, whereby investment income is not taxed in the result, is still adhered to. In addition, some cantons will introduce a participation exemption for capital tax, whereby the portion of equity capital attributable to participations, patents and similar rights will be taxed at a reduced rate. Thus, companies with shareholdings and income from shareholdings, i.e. in particular today's pure holding companies, can still benefit from tax relief.

This also applies to companies that focus on research and development. They also benefit from new special regulations. On the one hand, as mentioned above, some reductions in capital tax are granted. On the other hand, the cantons and municipalities must tax income from intellectual property, e.g. income from patents, at a reduced rate with cantonal and communal taxes. The amount of the reduction varies from canton to canton, with reductions of up to 90%. On request, domestic research and development expenses may be deducted by a maximum of 50% over and above the commercially justified research and development expenses.

Privileged taxation of hidden reserves – «Step up»

The transitional measures are intended to reduce the taxation of hidden reserves that have arisen during the claiming of a cantonal tax privilege. The measures applicable here can be divided into the so-called step-up on the occasion of the change of status (also old legal step-up) and the so-called special rate solution as a transitional measure.

The step-up under old law aims at the effective (generally tax-free) disclosure of the hidden reserves accumulated under the tax privilege in the tax balance sheet. Subsequently, the assets revalued in this way or the „taxed“ hidden reserves can be written off, which reduces the taxable profit generated after the change of status.

Under the special rate solution, that part of the profit based on the realisation of hidden reserves existing when the STAF comes into force will be taxed separately in the following five years to the extent to which the reserves have not previously been taxed. This means that companies can benefit from a lower tax rate for a maximum of five years.

Flat-rate tax credits

Swiss permanent establishments of foreign companies will in future be able to claim flat-rate tax credit on dividends, interest and licence fees.

Notional interest deduction

The last measure that could be relevant for companies is the deduction of a notional interest deduction on equity. However, this deduction may only be granted by cantons in which the effective tax burden in the cantonal capital is at least 18.03%. In all probability, this will only be the case in the Canton of Zurich.

Upper limit of relief

It should be noted that the benefits granted as a result of the replacement measures may not exceed tax relief amounting to more than 70% of the ordinary taxes that would normally be due, i.e. without replacement measures.

2. What does the adoption of the vote mean for shareholders?

Increase the basis for privileged dividend taxation

Since the enactment of the Corporate Tax Reform II, holders of a qualified participation benefit from a reduction of the economic dual tax burden. Previously, the company's distributed profits were either included in the tax base at 40-60% only or the applicable tax rate was reduced by 40-60%. Now 70% of dividends are taxed at federal level and at least 50% at cantonal level. This means, in particular, that those cantons that currently reduce the applicable tax rate will in future be obliged to change the taxation method.

Restrictions on distributions from capital contribution reserves (KER)

In addition, for companies listed on the Swiss stock exchange, KER can only be reimbursed to shareholders tax-free if the company also distributes taxable dividends to the same extent. Similarly, a company that repurchases its own shares must nullify the retained earnings to the same extent as it nullifies KER.

Stricter transposition situation

The transposition situation will be tightened up in the future. To date, at least a 5% shareholding has been required. This 5% limit will be abolished in the future. This means that any transfer of a shareholding to a self-controlled company is subject to income tax if the proceeds exceed the nominal value.

Current cantonal implementation status

Implementation has progressed differently in the various cantons. While most cantons plan to hold cantonal votes in 2019, in about 10 cantons a vote will not take place until 2020. The Federal Council will determine the date of entry into force of the new federal law. The cantons must adapt their legislation to the same date.

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