BUCHER TAX

Steuervorlage 17 / TRAF

Lucerne, March 2019

Contents

Status Quo

Ordinary taxation (legal persons)

- Actual tax burden on federal, cantonal and municipal level currently varies between **12** % **and 24**%, depending on the canton.

Taxation status companies

- Holding companies, mixed companies and principal companies are deemed status companies. These companies are tax privileged.
- The tax status solely applies to cantonal taxes.
- Holding companies do not pay profit taxes on cantonal level, except on income from Swiss real estate.
- Management companies (mixed companies) pay a reduced profit tax on cantonal level.
- Actual tax burden depending on constellation between **7.8 % and 11 %.**

History CTR III and SV17 / TRAF

After a long political process and a fiercely fought campaign, the CTR III bill was rejected at the ballot box by the Swiss people on 12th February 2017. Because the need for reform was undisputed, the Federal Council has instructed the Federal Department of Finance to develop a new bill shortly after the vote. This new bill now bears the name Steuervorlage 17 (SV17). In the SV17, the compensation- and reciprocal financing measures are being rolled out onto the political stage and discussed once again. The abolition of tax privileges still remains the undisputed centrepiece within the framework of the SV17.

In June 2018, the Steuervorlage 17 was renamed the "Federal Act on Tax Reform and AHV Financing" (TRAF) due to being linked to the AHV restructuring.

History CTR III and SV17 / TRAF

The rejection of the CTR III caused irritations abroad. Switzerland has to campaign for the political process abroad and find the balance between foreign pressure and the domestic decision making process. The goal must be that the search for a new solution for Switzerland is seen a sign of strength and that the SV17 / TRAF leads to a sustainable and broadly supported reform in the end.

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Need for reform

- The special tax status for status companies in Switzerland has long since come under criticism by the OECD, the G20 and the EU because it does not comply with the internationally accepted standards.
- International acceptance of Switzerland as a business location is crumbling, the bilateral treaties with the EU are in danger.
- Through the people's rejection of the Corporate Tax Reform III on 12th February 2017, Switzerland has come under even more pressure to implement the international agreements regarding the abolition of status companies.

Goals of the SV17 / TRAF

- Boost attractiveness of the location Switzerland.
- Restoration of the international acceptance.
- Securing the financial yield of the profit tax for the federal government, cantons and municipalities.
- New special regulations regarding tax shall be designed restrictively.
- Interests of cities and municipalities shall be given more weight.

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Consequences of the SV17 / TRAF

- **Tax status is dropped:** Holding-, management- and mixed companies will be taxed ordinarily in future.
- Profit- and capital tax will drop in different degrees on cantonal level.

  → read our blog on the implementation of the SV17 / TRAF in the individual cantons.
- Status companies must disclose hidden reserves.

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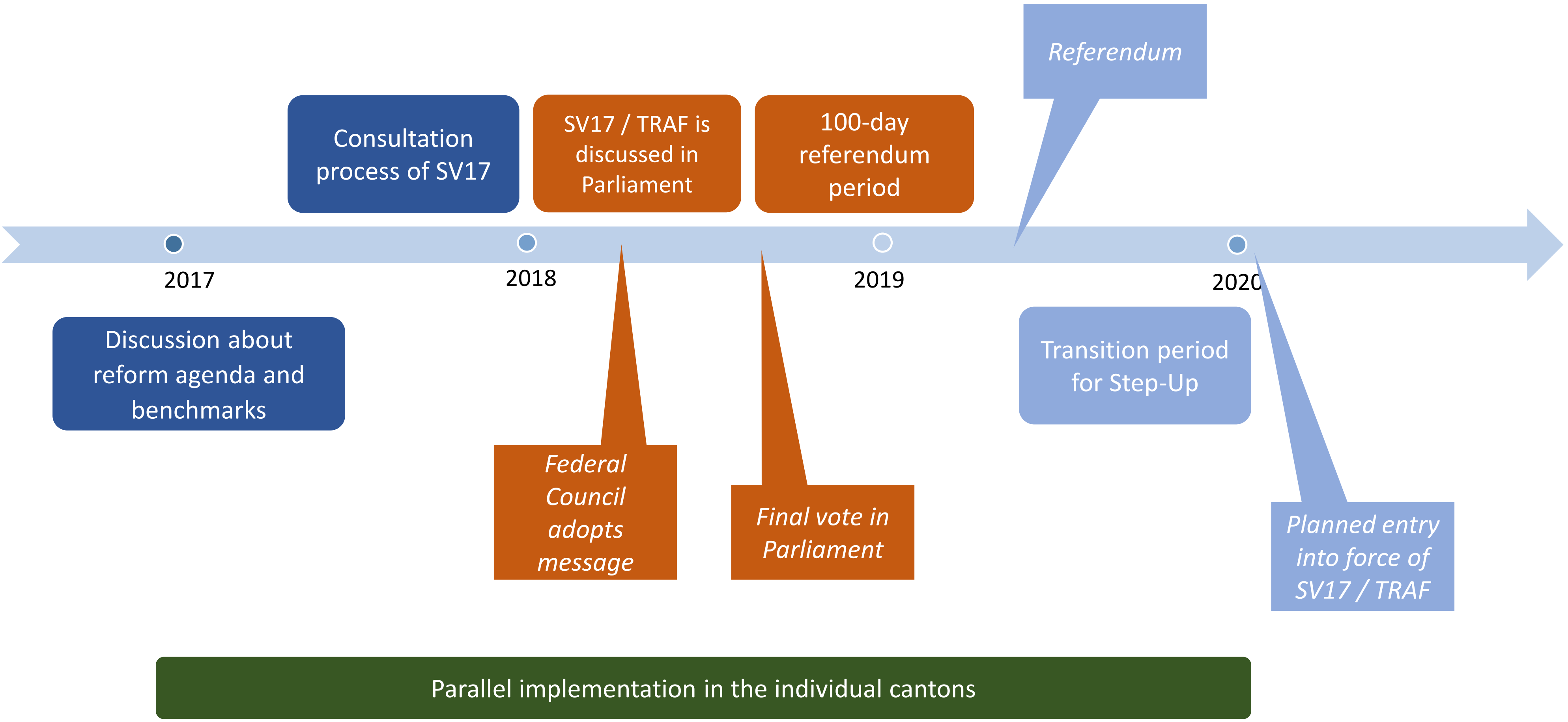
Time schedule

- 9 June 2017: The Federal Council approved the basic parameters of the Steuervorlage 17 (SV17).
- September – December 2017: Consultation process of the SV17.
- 21 March 2018: The Federal Council approves the message on SV17 for the attention of parliament.
- May 2018: EATC-S proposes the linking of the SV17 with the AHV-reform.
- 7 June 2018: The Council of States approves the draft and the amendments to SV17 proposed by the EATC-S.
- August/September 2018: EATC-N deliberates on SV17 / TRAF.
- 12 September 2018: The National Council approves SV17 / TRAF. Differences remain only regarding the municipal article and the capital contribution principle.

Time schedule

- 7 September 2018: The Council of States concedes within the framework of the settlement of differences and approves the National Council's draft.
- 28 September 2018: SV17 / TRAF is adopted in the final vote of the National Council and the Council of States.
- Until mid-January: 100-day referendum period.
- 19 May 2019: Referendum.
- 1 January 2020: Planned entry into force of the «Federal Act on Tax Reform and AHV Financing».
- The cantons should push ahead with their cantonal implementation projects parallel to the federal proposal.

Overview timetable SV17 / TRAF



Benchmarks of the reform

For the preservation of Switzerland's tax-attractiveness – even without regulation for status companies – the reform intends to implement various measures that shall help to keep the taxable profit as low as possible. But the measures have to stand in a balanced relation to each other, otherwise the reform faces the same verdict as the CTR III.
The following benchmarks form the core of SV17 / TRAF:

- Patent box
- Favouring process for disclosure of hidden reserves
- Deductions for research and development costs
- Increase of dividend taxation
- AHV-financing
- Increase of family benefits
- Cantonal share on direct federal tax
- Deduction for self-financing (NID)
- Relief limit
- Capital contribution principle

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Benchmarks of the reform

Patent box

- Introduction of a mandatory patent box on cantonal level according to OECD-standard.
- Income from intellectual property rights and similar rights will be separated from the remaining income and taxed lower → come into the «box».
- The box is only allowed to collect the income that can be traced back to research and development activities → Nexus Approach.
- The patent box shall be introduced mandatorily on cantonal level in Switzerland.
- The extent of the reduction lies with the cantons. However, the reduction may not exceed 90 %.

Benchmarks of the reform

Favouring process for the disclosure of hidden reserves

- The tax reform entails a higher tax rate for hidden reserves upon their disclosure.
- But - thanks to a special arrangement – they can be gradually disclosed at a privileged tax rate during five years from the moment of the reform's implementation.
- However, this arrangement only applies to those hidden reserves that have been created during the time as a status company, that is, during a privileged taxation.
- After the expiration of the five years, the hidden reserves that have been created during the time as a status company lapse.
- The rates for the privileged taxation during the first five years are also determined by the cantons.

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Benchmarks of the reform

Deductions for research & development costs

- The introduction of these deductions is optional for the cantons.
- 150 % of research and development expenditure in Switzerland can be deducted from taxes.

Increase in dividend taxation

- Dividends on holdings of at least 10 % of the share or nominal capital of a corporation or cooperative are at least 70 % on federal level and at least 50 % on cantonal level. This applies to holdings in private and business assets.

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Benchmarks of the reform

AHV-financing

- As social equalisation.
- AHV is to receive an additional CHF 2 billion per year, financed by increasing the wage percentage by 0.15 % each, allocating the VAT demographic percentage and increasing the federal contribution to AHV from 19.55 to 20.2 %.

Cantonal share of direct federal tax

- Increase of the cantonal share of the direct federal tax from 17 % to 21.2 %, so that the cantons have more leeway for lowering the profit tax rates.

Benchmarks of the reform

Deduction for self-financing (NID)

- High tax cantons (with tax rate of ≥ 13.5 % for cantonal and municipal tax) may allow the deduction of a fictitious interest on excess equity.
- It is expected that only the Canton of Zurich will be able to benefit from this.

Relief limit

- The total relief through interest deduction, patent box, R&D deductions and separate taxation of hidden reserves is limited to 70 %.

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Benchmarks of the reform

Capital contribution principle

- For listed companies, the capital contribution principle is restricted to the extent that a tax-free distribution of paid-in capital is only permissible if taxable dividends of the same amount are paid out at the same time.
- For non-listed companies, the previous regulation remains in force.

Important for status companies:

- Affected companies should confront the changes early on: e.g. innovation becomes more important from a tax point of view.
- The planning of the disclosure of the hidden reserves should be carried out thoroughly and carefully: The consequences upon disclosure should be calculated.
- Check if a patent box is possible.
- Check effects on R & D costs and on interest on equity capital.

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Do you have questions?

We would gladly help you with the implementation of the new regulations of the Steuervorlage 17 / TRAF with regard to your tax situation.

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