TLS

Corporate Tax Reform III

The Swiss Federal Parliament's final decision on 17 June 2016

Welcome to our webinar!

22 June 2016

pwc

Your presenters today

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Contents

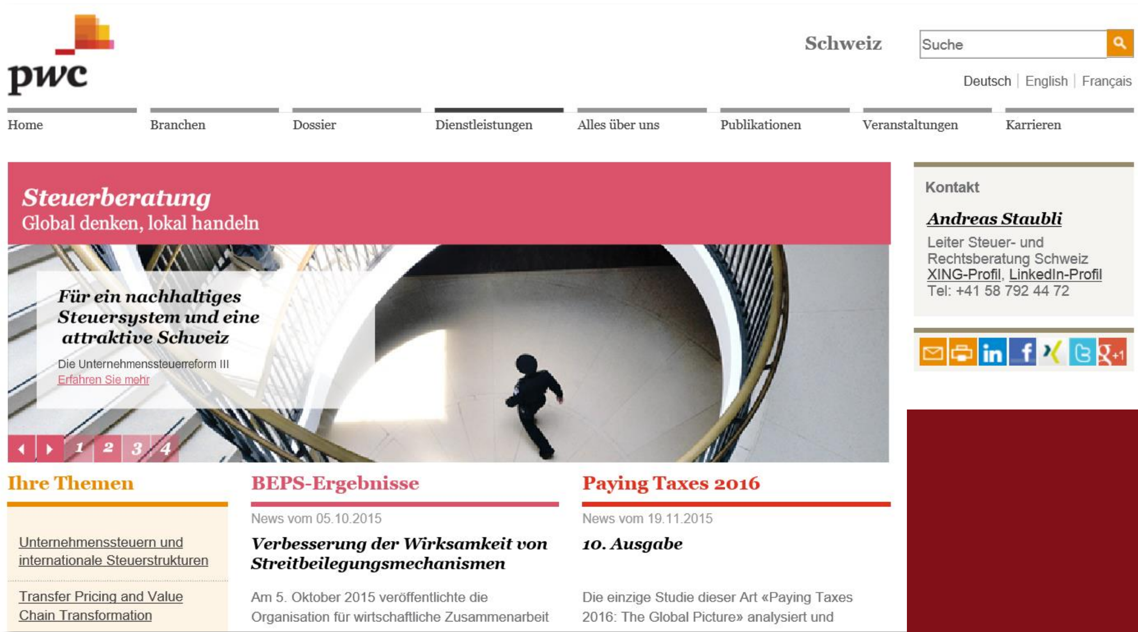
Corporate Tax Reform III in a nutshell

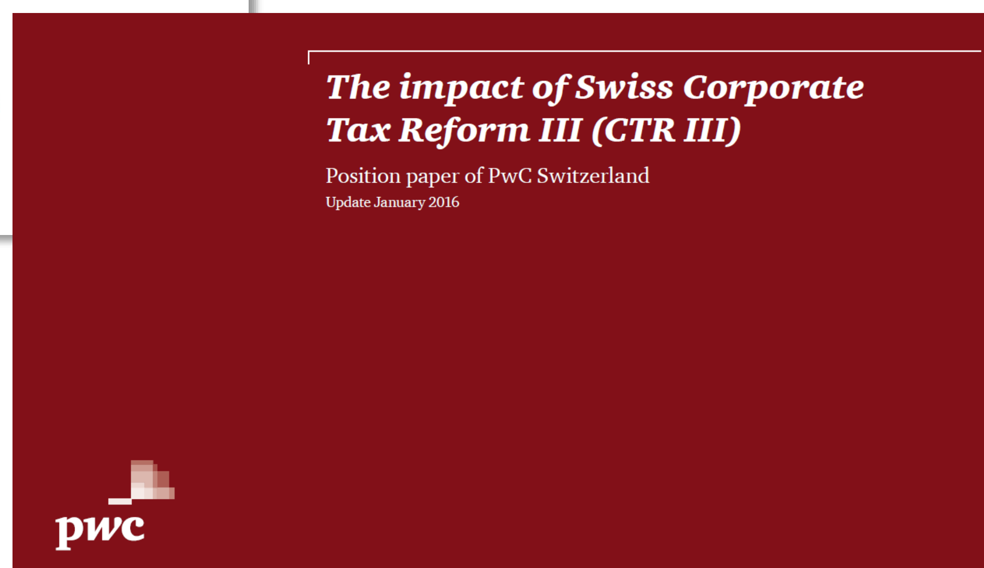
Abolishment of current special tax regimes and introduction of new, internationally accepted measures. Goal of tax reform is to maintain Switzerland an attractive and competitive business and tax location. Replacement with a modular set of measures at Federal and in particular at Cantonal level setting certain key parameters, but giving cantons a high degree of freedom to adapt measures to their specific cantonal economic and fiscal needs.

Corporate tax reform on federal level could become effective as early as 1 January 2017. But referendum has been announced by socialist party. Once federal referendum vote at Federal level is successfully passed, cantons need to implement the reform elements into their cantonal law. Target date for entry into force is 1 January 2019.

Cantonal tax authorities announced tax rate reductions as additional element to the Corporate Tax Reform III measures with resulting overall (combined federal and cantonal) effective income tax rate of 12%-14% in many cantons.

PwC heavily involved





Slogan

"Maintaining a competitive Swiss tax system and Switzerland's position as an attractive business location"

Vast knowledge available for you

Political floor

- Actively shaping content as member or leader of technical working groups
- Providing technical arguments to political players e.g. parliamentarians

Internal training

- Spreading knowledge and insights to all client teams
- Developed tools to calculate/assess reform impacts

External education

- Discussions with journalists and media
- Publish news alerts and thought leadership articles
- Speaking at seminars e.g. IFF, ISIS

Core Team

Andreas Staubli – Lobbying/ NID
Armin Marti – Lobbying/ Step-up
Benjamin Koch – Lobbying/ R&D incentives
Remo Küttel – NID
Laurenz Schneider – Step-up
Daniel Gremaud – Lobbying West
Claude-Alain Barke – Measures West

Particularly impacted

Not only …

Businesses with existing tax privileges

- Holding, mixed and domiciliary companies
- Principal companies
- Finance companies and branches with a special tax status

but also

All companies (even without tax privileges)

- Businesses with a high level of equity capital as well as group financing activities
- Businesses with a high level of investment activity in the area of research and development
- Businesses planning investments in Switzerland

PwC Recommendation

1. Perform impact analysis
2. Lobbying for "right" implementation in cantons
3. Execute planning to optimise effect of reform on your business

Overview of the CTR III measures

CTR III

Federal income tax

- Notoinal interest deduction on excess equity
- Step-up of hidden reserves

Cantonal harmonisation law

- Cantonal patent box
- R&D Super deduction
- Notional Interest Deduction, conditional to partial taxation of 60%
- Adaption of cantonal capital tax
- Transitional rules for formerly tax free hidden reserves
- Maximum limitation of all tax reliefs of 80%

Other measures

- Increase cantonal share in direct federal tax revenues
- Lump sum tax credit for branches
- Adjustment resource potential in finance & tax equalization act

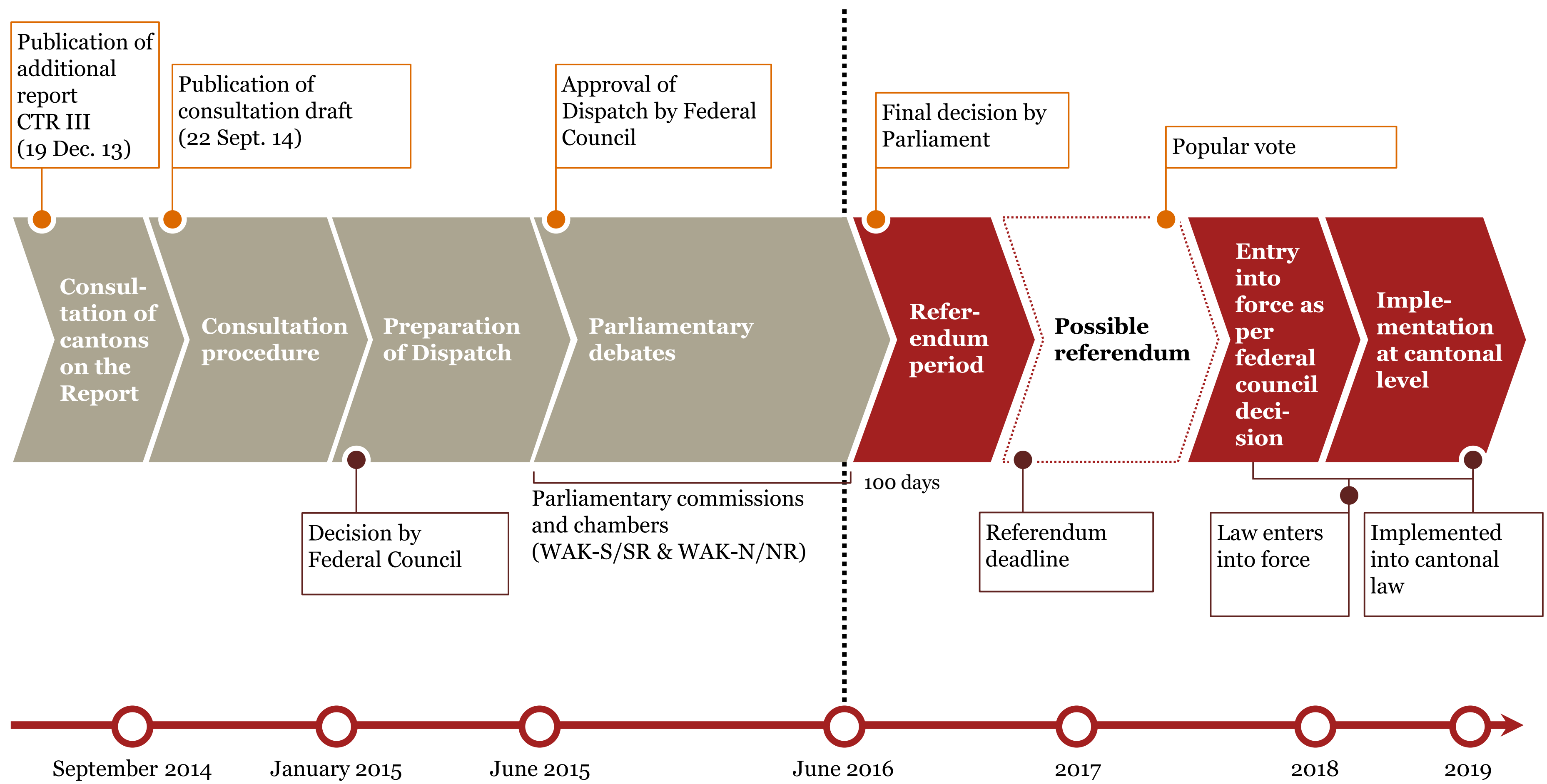
Issuance stamp tax & Tonnage tax, carve out of CTR III package and subject to separate bill pursued separately

Sustainable effects for Switzerland
High competitiveness
Attractive jobs
International acceptance
Legal certainty & security of investment
Economic benefit for everyone

Modular structure of CTR III:
Options for cantons

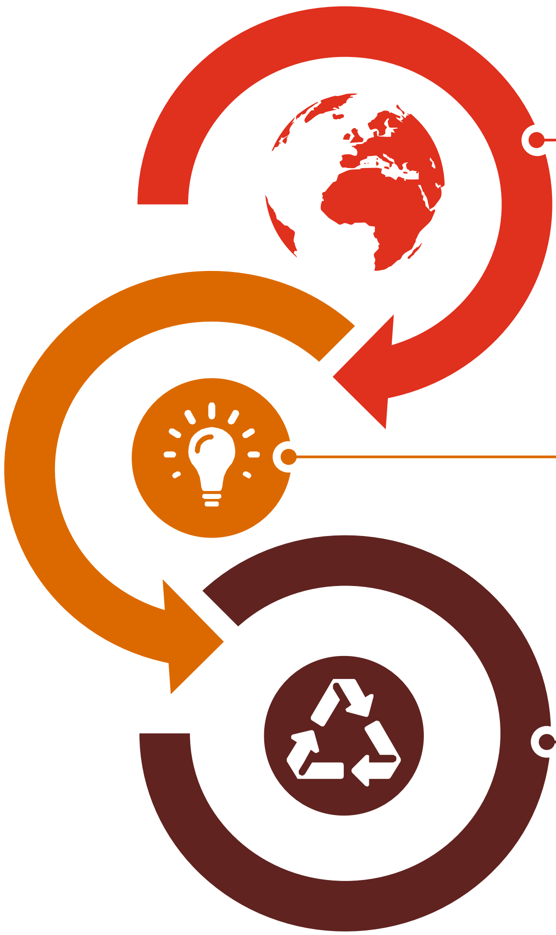
Measures	**Appraisal of PwC**	**Mandatory for cantons?**	**Scope of Action**
Cantonal patent box on patent income	Very important	Yes	Determination of maximum reduction
Cantonal R&D tax credit	Very important	No	Introduction of measure, determination of maximum deduction (up to 150%) of domestic R&D expenditures
Notional interest deduction	Very important	No	Introduction of measure, subject to partial taxation of dividend income of 60%
Transitional rules concerning formerly tax free hidden reserves	Very important	Yes	Determination of tax practice and of special tax rate
Overall limitation of tax reliefs	Very important	Yes	Overall limitation of tax relief (max. 80%) (arising from all reliefs above including early step-up)
Adaption of cantonal capital tax	Very important	No	Reduction for participations, patents/ equivalent rights and intercompany loans
Tonnage tax	*Not part of CTR III*	n/a	Subject to separate bill
Abolition of issuance stamp tax	*Not part of CTR III*	n/a	Subject to separate bill and ordinary consultation
Cantonal share on the DFT	Very important	Yes	Increase from 17.% to 21.2% (approx. CHF 1.1 bn)
Cantonal tax rate reduction	Very important	No	Decrease depending on cantonal tax strategy and financial strength of canton

Remaining legislative steps and timing of enactment



Cantonal Patent Box and R&D input promotion

Structure of the presentation

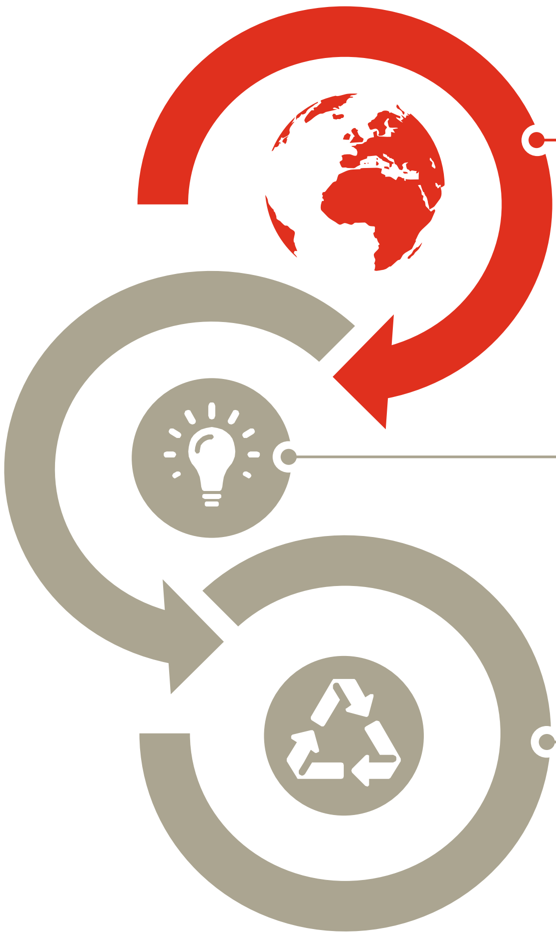


Patent Box

Tax incentives

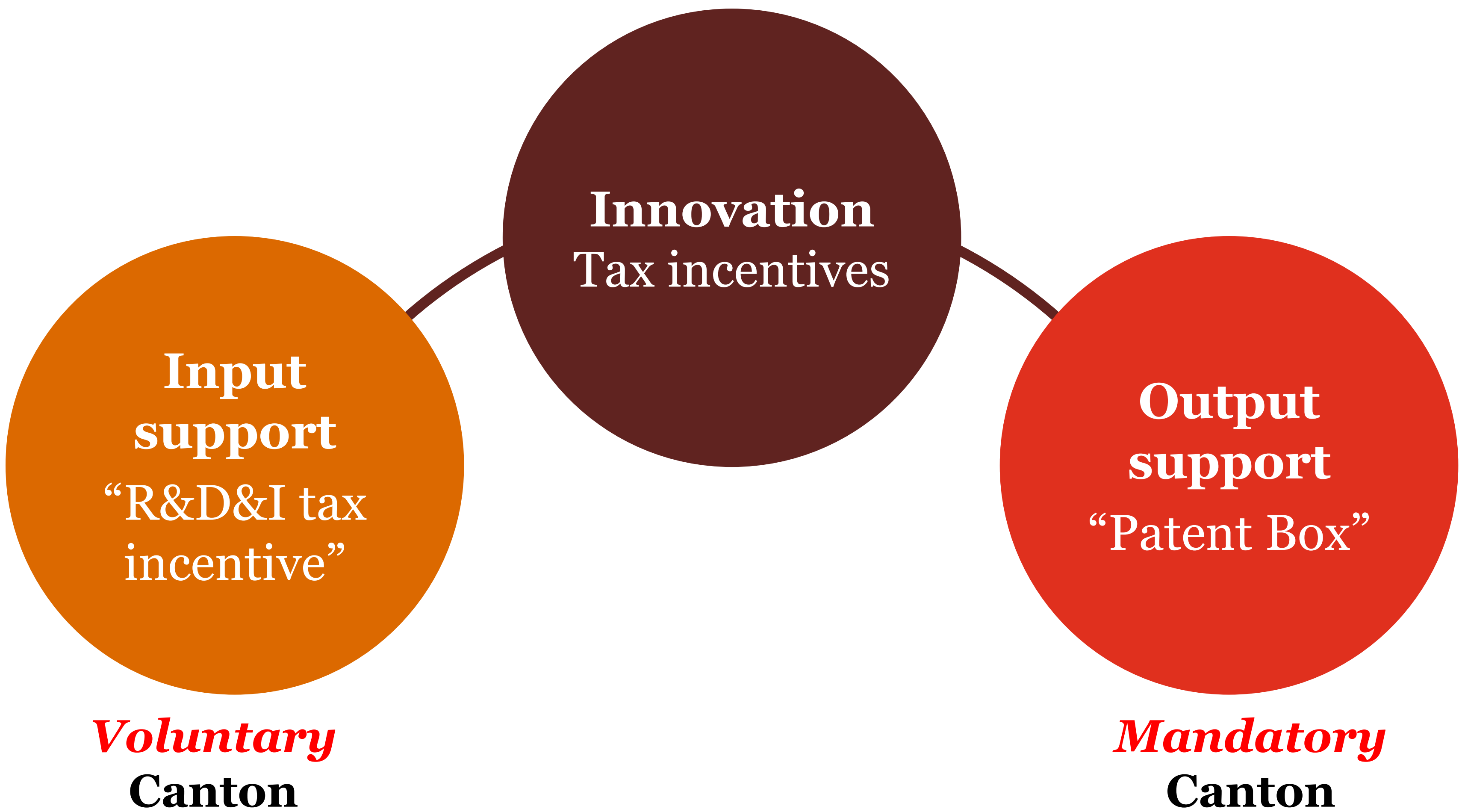
Summary – Way forward

Patent Box



- *Patent Box*
- *Tax incentives*
- *Summary – Way forward*

Overview


Innovation
Tax incentives
Input support
“R&D&I tax incentive”
Output support
“Patent Box”
Voluntary
Canton
Mandatory
Canton

Patent Box – Tax harmonization law

Qualifying intellectual property

- Patents and equivalent rights, protection certificates
- Copyrighted software
- "Patentable" (for companies with less than EUR 50 million group-wide turnover and less than EUR 7.5 million IP revenues)

Substance

- Modified Nexus approach

Mechanism

- Top-down, residual approach
- Compensation for routine activities and trademark
- Buy-in costs – legacy R&D costs of qualifying IP / Taxation over 5 years

Base reduction

- Maximum 90 %. Cantons may further reduce the applicable discount.
- Additional Art. 25b – all regimes (Patent Box, R&D promotion, step-up and NID) should not exceed 80 % of pre-tax profits.

Patent Box Mechanism

Qualifying Profit

Step 1

Qualifying Profit

- Total Profit
- ./. Finance result
- ./. Result from non-qualifying assets and services
- ./. routine functions
- ./. trademarks

X

Nexus Ratio

Step 2

Nexus Ratio

$$\frac{\text{Qualifying expenditures (plus an uplift of max. 30 \%) to develop IP}}{\text{Overall expenditures to develop IP}}$$

X

Base Reduction

Step 3

Base reduction

- Not more than 90 %
- Cantons may reduce base reduction further

=

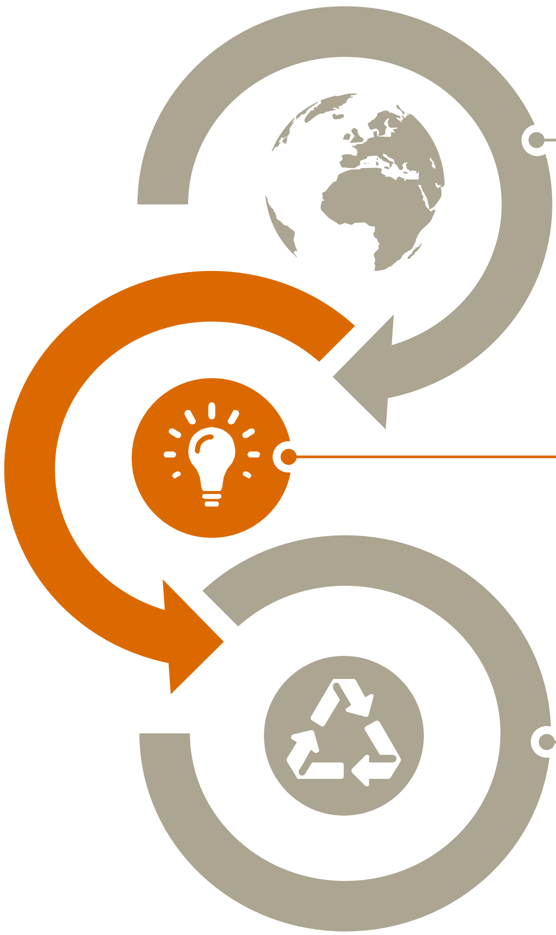
Patent Box Profit

Result 4

Patent Box Profit

Part of Total Profit which will not be taxed

Tax incentives on R&D



Patent Box

Tax incentives

Summary – Way forward

R&D incentives – Tax harmonization law

Innovation

- No definition
- Product / Process / Marketing / Organizational innovation (Oslo Manual)?

Cost base

- No definition
- Large or narrow?

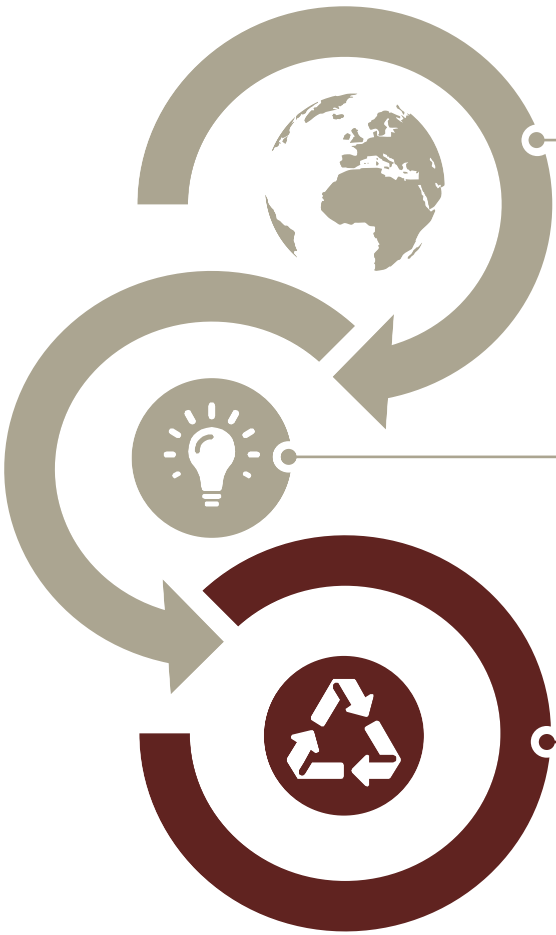
Mechanism

- Super deduction
- Only R&D expenses within Switzerland and max. 150 %
- Principal and not contractor

Base reduction

- Additional Art. 25b – all regimes (Patent Box, R&D promotion, step-up and NID) should not exceed 80 % of pre-tax profits before offsetting losses

Summary – Next steps

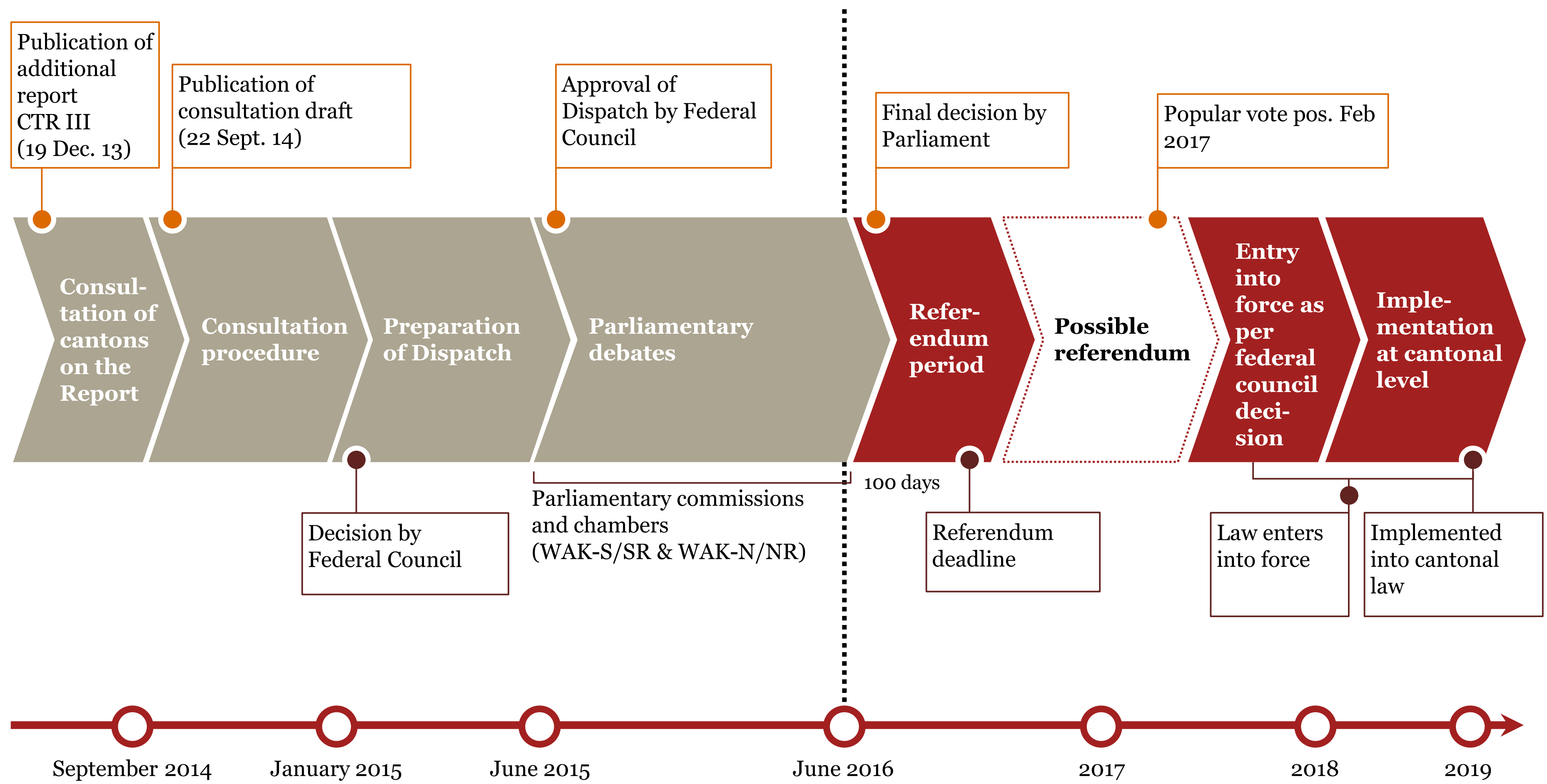


Patent Box

Tax incentives

Summary – Way forward

Legislative process



Key message

Who can benefit from the Patent Box and R&D super deduction?

- Companies with patents, copyrighted software or patentable technology
- Companies that have a large part of R&D expenses incurred in Switzerland
- All companies, independent of their size or industry they are working in

What can you start doing right now?

- Assess the impact of the Patent Box and R&D super deduction for your company
- Simulate the future effective tax rate under the new Patent Box regime
- Discuss the R&D strategy within the firm to assess how you can best qualify and benefit from the Patent Box and R&D super deduction
- Apply a holistic view - optimize various CTR III measures (step-up, Patent Box, NID, input R&D)

Appendices

Modified Nexus Ratio

Modified Nexus ratio

$$\frac{Qualifying\ expenditures\ incurred\ to\ develop\ IP\ asset\ * (1 + 30\%)}{Overall\ expenditures\ incurred\ to\ develop\ IP\ asset}$$

Definitions

1) Qualifying expenditures incurred to develop IP asset:

- Own R&D costs incurred by taxpayer in Switzerland
- Third party R&D costs (Swiss and foreign) borne by taxpayer

2) Overall expenditures incurred to develop IP asset:

- Own R&D costs incurred by taxpayer in Switzerland
- Third party R&D costs (Swiss and foreign) borne by taxpayer
- IP acquisition costs
- Foreign related-party contract R&D costs

Nexus approach – Example

The taxpayer develops a new intangible (IP A), which is patented. The development is based on an intangible, that was acquired, and which had to be further developed to be "patentable".

The costs of the development comprise own R&D costs as well as third party costs and related party costs under a contract R&D set-up.

The total costs amount to 130 and can be split as follows:

	IPA
• Own development	25
• Contract R&D	35
• Third party development costs	30
• IP Acquisition costs	40

Nexus Ratio:

$$\frac{(25 + 30) * (1 + 30\,\%)}{25 + 30 + 35 + 40} = \mathbf{55\,\%}$$

Income from patents (Art. 24a)

Art. 24a Erfolg aus Patenten und vergleichbaren Rechten

1 Der Anteil des Erfolgs aus Patenten und vergleichbaren Rechten, der auf den Forschungs- und Entwicklungsaufwendungen der steuerpflichtigen Person beruht, wird mit einer Ermässigung von 90 Prozent in die Berechnung des steuerbaren Reingewinns einbezogen. Die Kantone können eine geringere Ermässigung vorsehen.

2 Wird die Steuer auf dem Erfolg aus Rechten nach Absatz 1 erstmals ermässigt, so werden die diesen Rechten zurechenbaren, in vergangenen Steuerperioden bereits berücksichtigen Forschungs- und Entwicklungsaufwendungen sowie ein allfälliger Abzug nach Artikel 25a zum steuerbaren Reingewinn hinzugerechnet. Im Umfang des hinzugerechneten Betrags ist eine versteuerte stille Reserve zu bilden.

3 Auf die Abrechnung nach Absatz 2 im Zeitpunkt der erstmaligen Besteuerung nach Absatz 1 kann verzichtet werden, wenn die Kantone sicherstellen, dass die Besteuerung innert fünf Jahren nach der erstmaligen Besteuerung auf andere Weise erfolgt.

4 Der Bundesrat erlässt die Ausführungsbestimmungen, insbesondere zur Definition der vergleichbaren Rechte, zur Berechnung des qualifizierenden Erfolgs aus Patenten und vergleichbaren Rechten sowie zu den Dokumentationspflichten der steuerpflichtigen Person, welche die Ermässigung beantragt. Als vergleichbare Rechte kann der Bundesrat namentlich nicht patentgeschützte Erfindungen von kleinen und mittleren Unternehmen sowie Software definieren. Er stellt dabei eine wettbewerbsfähige Besteuerung von Erträgen aus Patenten und vergleichbaren Rechten sicher. Die Ausführungsbestimmungen werden periodisch überprüft und bei Bedarf angepasst.

Deduction of R&D costs (Art. 25a)

Art. 25a Abzug von Forschungs- und Entwicklungsaufwendungen

1 Die Kantone können Forschungs- und Entwicklungsaufwendungen über den geschäftsmässig begründeten Aufwand hinaus bis höchstens 150 Prozent zum Abzug zulassen.

2 Abziehbar sind die Forschungs- und Entwicklungsaufwendungen, soweit diese der steuerpflichtigen Person unmittelbar selbst oder mittelbar durch Dritte im Inland entstanden sind.

3 Ist der Auftraggeber der Forschung und Entwicklung abzugsberechtigt, so steht dem Auftragnehmer dafür kein Abzug zu.

4 Der Bundesrat definiert in den Ausführungsbestimmungen die Forschungs- und Entwicklungsaufwendungen.

Limitation of the tax deduction from the Patent box und Input incentive (Art. 25b)

Art. 25b Entlastungsbegrenzung

Die gesamte steuerliche Ermässigung nach den Artikeln 24a, 25 Absatz 1 Buchstabe f und 25a darf 80 Prozent des steuerbaren Gewinns vor Verlustverrechnung, unter Ausklammerung des Nettobeteiligungsertrages gemäss Artikel 28 Absätze 1 und 1bis und vor Abzug der vorgenannten Ermässigungen nicht ersteigen. Aus den Ermässigungen dürfen zudem keine Verlustvorträge resultieren. Die Kantone können eine geringere Ermässigung vorsehen.

Interest-adjusted profit tax – Notional Interest Deduction (NID)

It's been a long way… NID has finally made it

What were the objectives set?

- Retention of highly mobile financing functions and relocation of new financing activities to Switzerland
- Replacement measure for financing out of auxiliary companies, holdings and finance branches

Is the NID internationally accepted?

- NID currently **not** classified as **harmful** by the EU / OECD
- NID-mechanism already known in other European countries (BE, FL, IT). Similar solutions available as well in UK, Lux, NL, IR
- BEPS demands "**consolidation**" of mobile corporate activities; NID fosters such consolidation processes

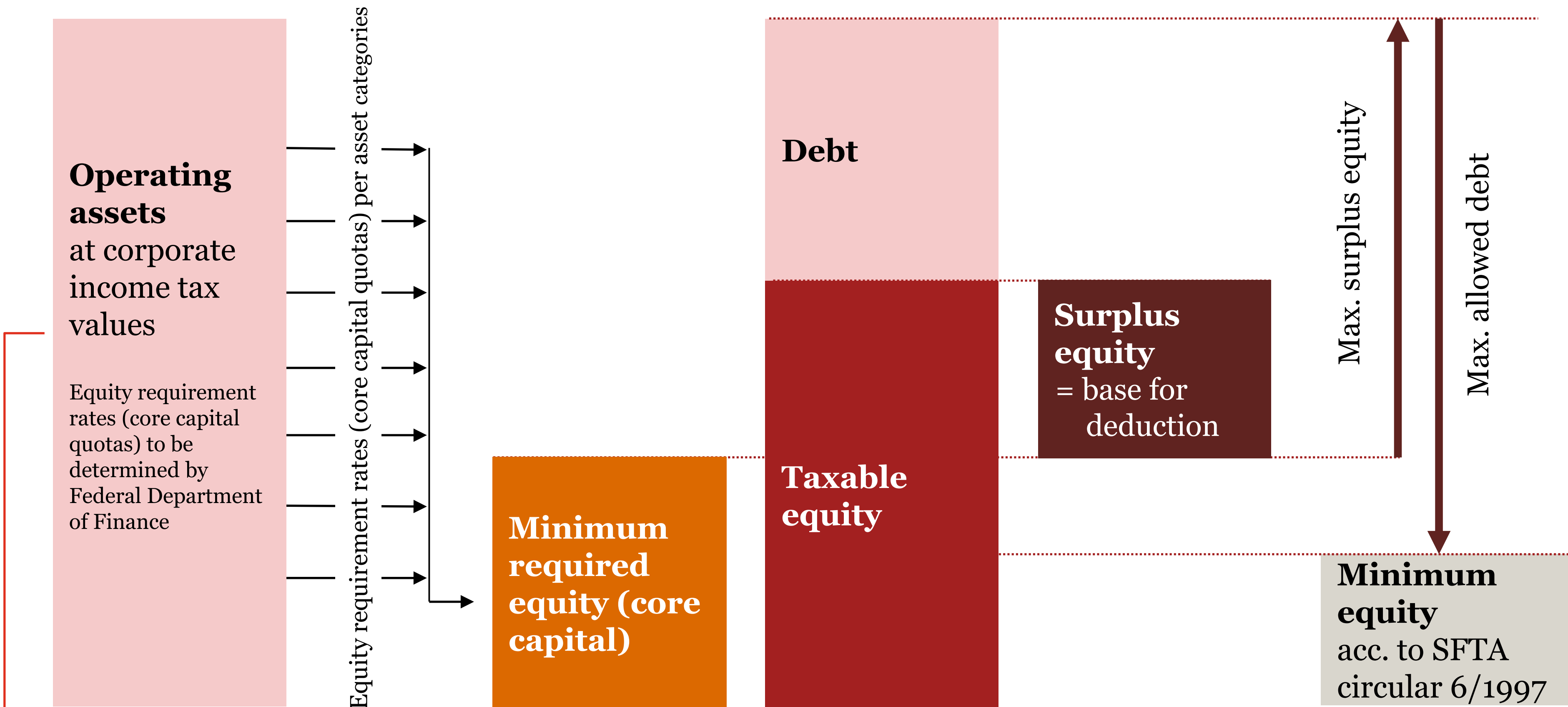
"Swiss" finish

- Optional at cantonal level and linked to the taxation of dividends for individuals
- NID on "surplus equity"
- Resulting ETR for financing activity: likely 3 - 6% for large financing volumes – otherwise 8 - 12%

NID on Surplus Capital – Overview

	Federal level	Cantonal level
Mandatory measure	Yes	No, In case of introduction, cantons must fix the partial taxation threshold for private dividend income to 60%
Equity basis	"Surplus equity", calculated using Equity Requirement Rates graded according to the risk category of the assets.	
– Excluded assets	• Investments • Assets not required for operating purposes • Hidden reserves stepped up	• Dito • Patents for which the patent box applies
NID rate	Based on the yield of ten year Swiss federal bond rate, an arm's length interest rate can be claimed for equity that corresponds to receivables of all kinds from related parties.	
Anti-abuse provision	Yes	
Limitation	N/A	80% overall maximum limitation of benefits from all measures at cantonal level (patent box, NID, step-up, R&D deduction)
Equity tax	N/A	Optional reduction for loans to group entities
Implementation	The Federal Finance Department issues the necessary regulations	

Equity basis determination – Equity Requirement Rates



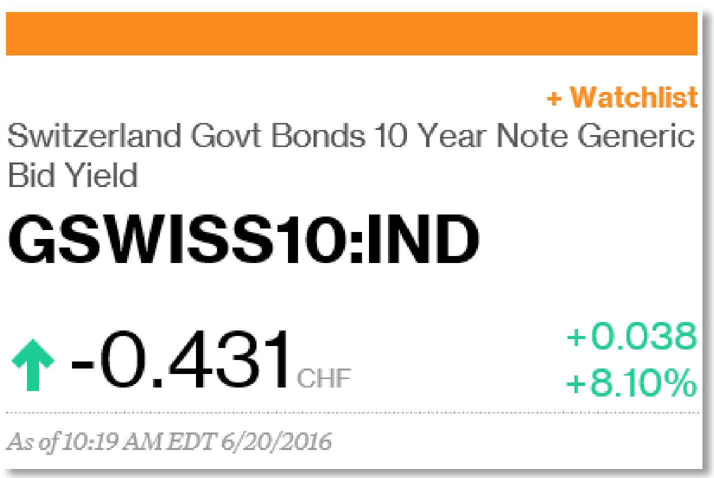
The following assets are excluded:

- *Investments*
- *Assets not required for operating purposes*
- *Hidden reserves stepped up*
- *+ Anti-abuse provision*

NID rate

> 1ter The imputed interest on the **surplus equity** is based on **the yield of ten year federal bond rate. To the extent it relates proportionately to receivables of all kinds from related persons, an arm's length interest rate can be claimed**; Paragraph 1bis, lit. d, is reserved.

- **Basic rate:** 10y federal bond rate
- **Tax payer specific rate:** arm's length rate on surplus equity attributable to "receivables of all kinds from related persons" (intercompany loan receivables → financing activity)
- If two rates apply → this requires an allocation of surplus equity to "receivables of all kind from related person" and other assets
- Important remark: "Anti abuse clause" (Paragraph 1bis, lit. d) applies



Anti abuse provision

[1bis] The surplus equity is equal to that part of the equity per Article 125 Paragraph 3, which exceeds the equity required in the long term for business purposes. It is calculated using equity requirement rates, graded according to the risk category of the assets. Article 52 applies by analogy.

Excluded is imputed interest on:

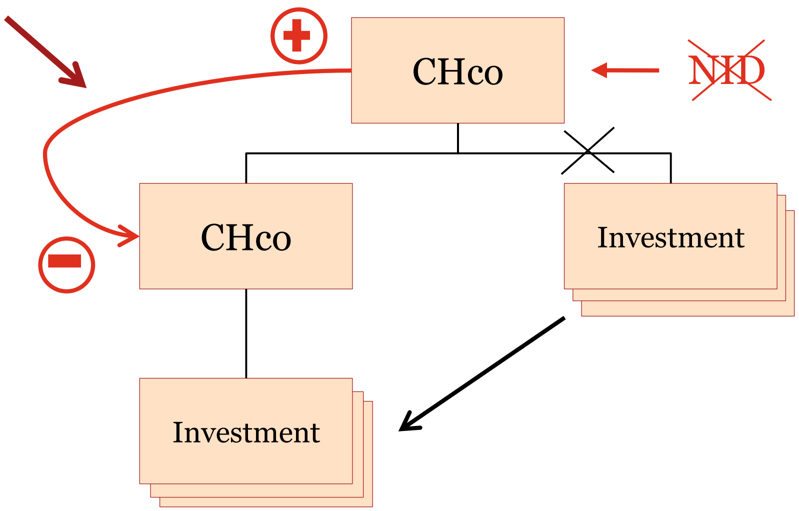
a. investments pursuant to Article 69;

b. assets not required for operating purposes;

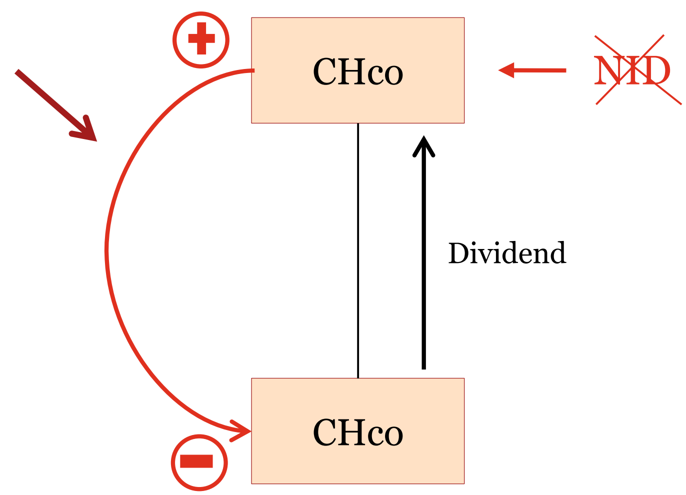
c. hidden reserves stepped up pursuant to Article 61a including self-created added value and comparable untaxed hidden reserves stepped up;

d. **assets in connection with transactions, which effect an unjustified tax saving**, in particular **receivables of all kinds, to the extent that they derive from the disposal of investments pursuant to Article 69 or distributions and are receivable from related parties.**

Disposal of investments against a loan



Distribution of a dividend but no payment



Example: ETR calculation for a FinCo

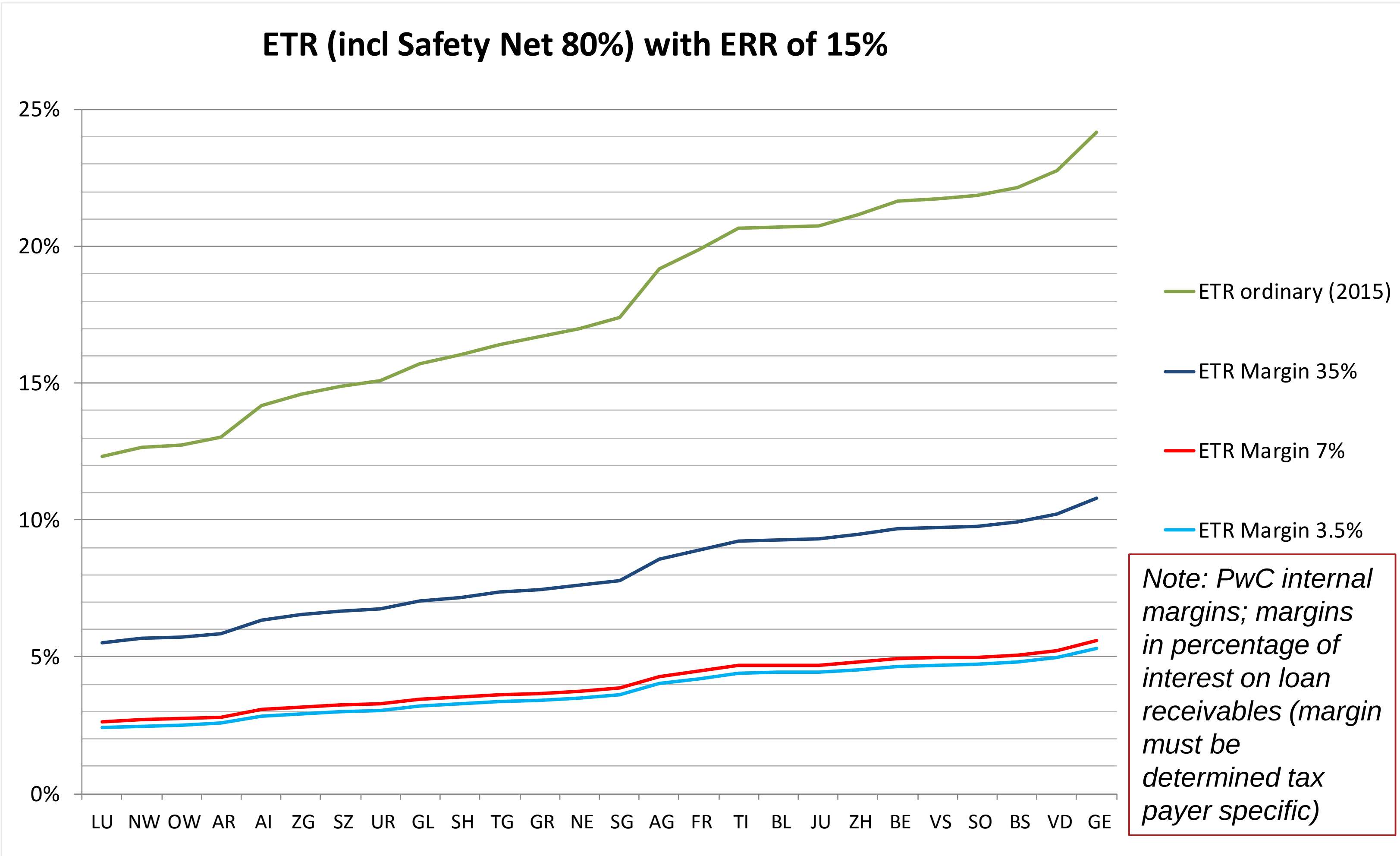
Fully equity financed SwissCo

Balance sheet			
Assets:		Liabilities:	
Loans to related parties	100'000'000	Equity	100'000'000

Equity requirement rate	15%	Profit from interest	5'000'000
Equity	100'000'000	NID at 3.25%	-2'762'500
Core capital	15'000'000		
Surplus equity	85'000'000	Profit before tax	2'237'500
Interest income rate	5%	Taxes at 18%	402'750
Arm's lenght NID rate	3.25%		
Combined effective tax rate in the Canton	18%	Effective tax charge	8%

Example: ETR calculation for a FinCo

What are the resulting ETRs?

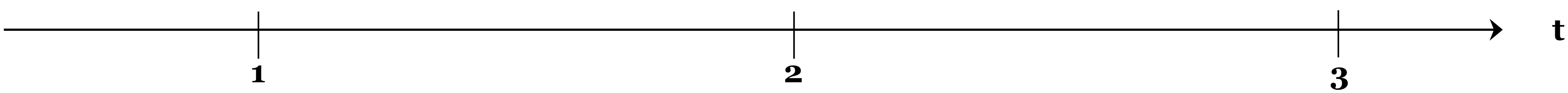


Treatment of hidden reserves – step-up

Treatment of hidden reserves – holistic concept
Overview of cases

General provisions:

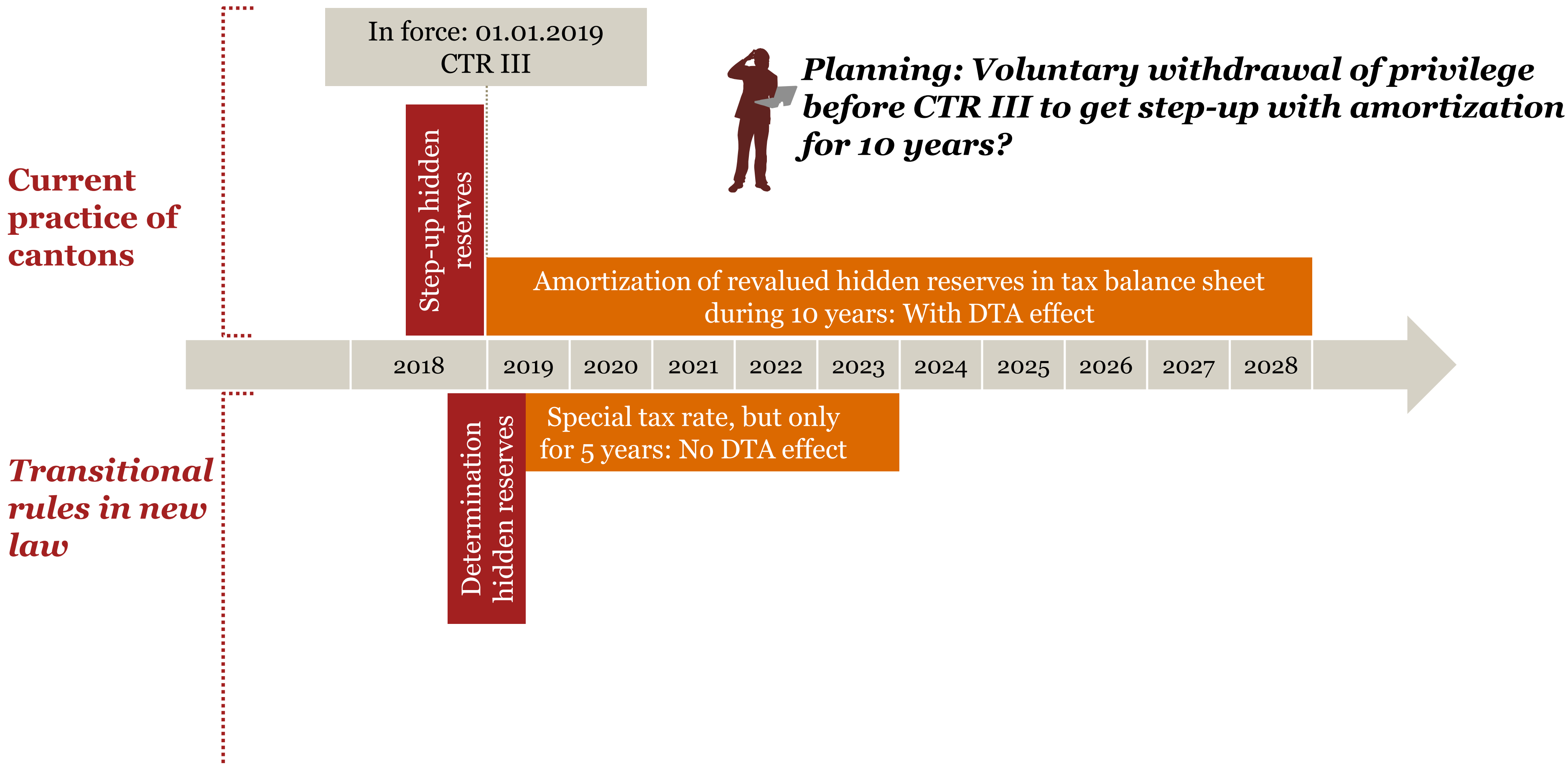
Entry in Swiss corporate tax liability → Step-up (Art. 61a DBG / Art. 24b StHG)	Change of tax residency within Switzerland → No taxation of hidden reserves	End of Swiss corporate tax liability → Exit taxation (Art. 61b DBG / Art. 24c StHG)



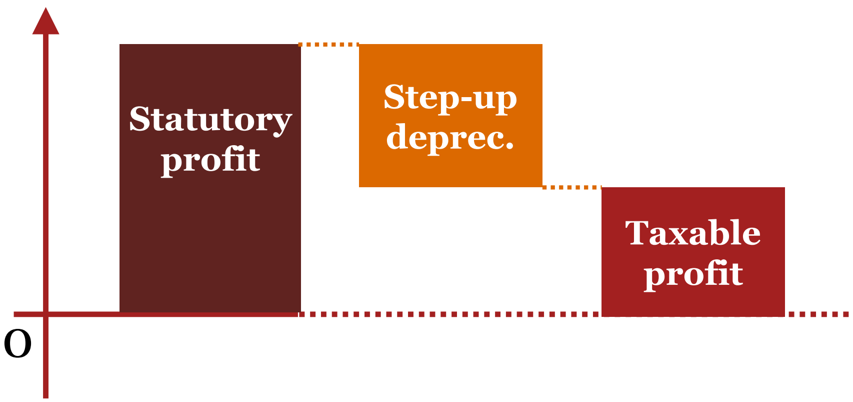
Special provisions:

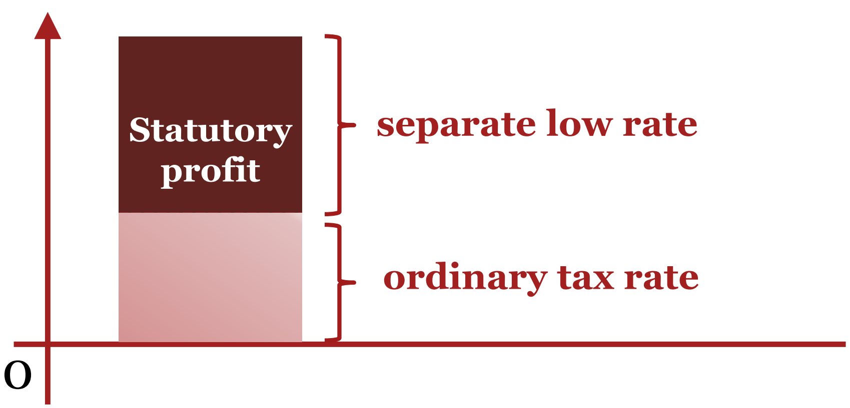
Abolition of Special cantonal tax regimes → Transitional rules (Art. 78g StHG) → Early step-up (according practice)	Entry into Patentbox (Art. 24a StHG)	Exit from Box → No explicit rules

5 years transition: Special taxation for hidden reserves and goodwill that were previously tax free



Separate taxation upon transition vs future general status changes





Example	*Tax balance sheet*
Step-up amount	2'500
./. depreciation y1	<250>
./. depreciation y2	<250>
...	...
./.depreciation y10	<250>
Remaining amount	**0**

	Separate tracking
Step-up potential	*2'500*
./. whereof realized in y1	<250>
./. whereof realized in y2	<300>
./. whereof realized in y3	<400>
./. whereof realized in y4	<250>
./.whereof realized in y5	<350>
Remaining unused amount	**950**

Transitional rule resolving tax accounting problem

Transition rule Art. 78g Draft StHG:

Wurden juristische Personen vor dem Inkrafttreten der Änderung vom … nach Artikel 28 Absätze 2-4 besteuert, so werden die bei Inkrafttreten der Änderung bestehenden stillen Reserven ***[hidden reserves]*** *einschliesslich des selbst geschaffenen Mehrwerts* ***[goodwill]****, soweit diese bisher nicht steuerbar gewesen wären* ***[to the extent not taxable acc. to the current rules]****, im Falle ihrer Realisation innert den nächsten fünf Jahren gesondert besteuert* ***[in case of a realisation within the next 5 years … taxed at a separate rate]****.*

Die Höhe ***[amount]*** *der bei Inkrafttreten dieser Änderung von der juristischen Person geltend gemachten* ***[claimed by the tax payer]*** *stillen Reserven einschliesslich des selbst geschaffenen Mehrwerts ist von der Veranlagungsbehörde mittels Verfügung* ***[to be assessed by the tax authorities]*** *festzusetzen.*

- No negative tax accounting impact
- Mandatory for cantons
- Separate (low) rate to be determined by cantons
- Optional for companies
- Cantons to determine annual amounts of hidden reserves and goodwill to be allocated to separate rate (in line with actual realization)
- Valuation required

Valuation – PPA Approach

Transition according to Art. 78g StHG

Enterprise Value (EV) – Step 1 – *Define EV according to fair value concept*

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Participations – Step 2 – *Less participations at fair market value (no step-up possible)*

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Real Propertie – Step 3 – *Less real properties at fair market value (no step-up possible)*

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Other assets – Step 4 – *Less other tangible and intangible assets at fair market value*

=

Goodwill – Step 5 – *Goodwill as residual amount*

x

Portion that previously was tax free

Entry into CH acc. to Art. 61a Draft DBG

Valuation – Practitioners Method

Method according to Circular No 28 of the SSK dated 28 August 2008 for the valuation of non-quoted securities:

- Formula: $\text{FMV} = \dfrac{(2 \text{ x Yield value}) + (1\text{x Substance value})}{3}$

- Yield value = $\dfrac{(2 \text{ x result of year-1}) \text{ x } (1\text{x result of year-2}) \text{ x } 100\%}{\text{capitalisation rate}}$

- Capitalisation rate: 5 year SWAP-rate plus risk premium = 7% currently
- Substance value: Net equity (including hidden reserves)

→ FMV according to Practitioners Method = ~½ of FMV according to DCF Method!

Harmonised rules for other future tax systematic changes

Entry into Tax Liability *StHG 24b and DGB Art. 61a*

- Step-up upon
  - transfer of seat or place of effective management into Switzerland
  - transfer of assets or functions from abroad into a Swiss trade of branch
  - loss of tax exemption according to StHG Art. 23 para. 1 resp. DFT Art. 56
- Optional for companies
- Step up of all hidden reserves and goodwill except for qualifying participations (of min. 10%)
- Depreciation of stepped-up hidden reserves applying normal tax depreciation rates
- Depreciation of goodwill over 10 years

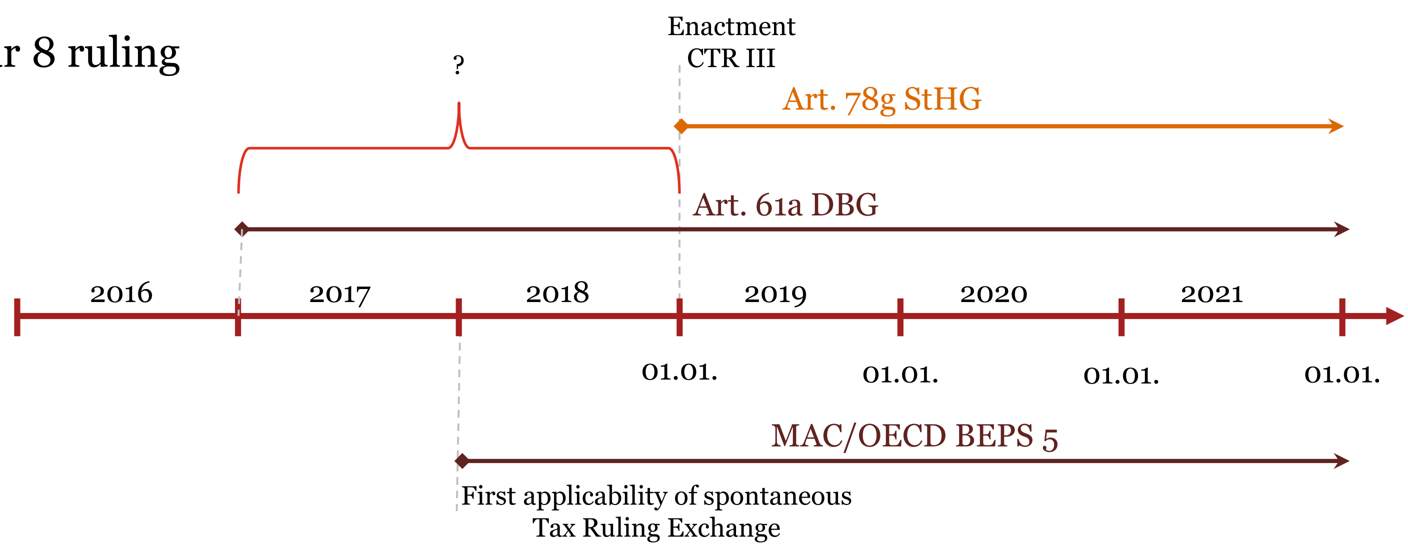
Entry into Patent Box: *StHG 24a*

- Creation of taxed hidden reserve by adding to taxable income in the year of status change
  - prior years' R&D costs relating to the patent rights qualifying for box taxation (if lower than FMV of patent at time of entry), and
  - input R&D incentives received, if any

Step-up for Principal Companies

Withdrawal of Circular 8 by SFTA

- Expected at same time as entry into force of new provisions in cantonal tax laws (1 January 2019)
- Step-up in tax balance sheet of hidden reserves and goodwill to extend of foreign allocation
- No step-up on qualifying participations (of min. 10%)
- Depreciation of stepped-up hidden reserves applying normal tax depreciation rates, depreciation of goodwill over 10 years may be possible
- Tax ruling required
- Transparency of circular 8 ruling



Exit Mixed Co – Quantification of „Step-up“ amount

Step 1

Definition of “Max Step-up”	
Assumption EV (“gross”)	1‘400
./. Interest bearing Debt	-500
FMV Equity	900
./. Taxable Equity	-300
max. «Step-up»	**600**

Step 2

Definition of “Tax Free Quota” of “Max Step-up”	**2019**	**in %**
Profit before tax (Swiss sourced)	10	10%
Profit before tax (foreign sourced)	90	90%
Thereof subject to taxation in Switzerland (15% of foreign sourced profit)	13.5	13.5%
Overall profit before tax subject to taxation in Switzerland	23.5	23.5% ***76.5% non-taxable in Switzerland***
Profit before tax (total)	**100**	**100%**

Step 3

Granted “step-up”					
	BV	**FMV**	**Hidden Reserves**	**Max Amount**	**Granted Step-up**
«Max Step-up» in %					**76.5%**
Current Assets	350	350	0	0	**0**
participations/real estate	450	500	50	0[2)]	**0**
Brand	0	250	250	250	**191**
Goodwill	0	300	300	300	**230**
	800	*1’400*	*600*	*550*	**421**

Exit Mixed Co – Early step-up before CTR III

Impact of step-up on current and deferred tax charge

Tax Period	Jahr 0	Jahr 1	Jahr 2	…	Jahr 6
Profit before tax depreciation	**100**	**100**	**105**		**120**
– Tax depreciation brand	-	-38.20	-38.20		-
– Tax depreciation goodwill	-	-23.00	-23.00		-23.00
Profit before taxes (for cantonal tax purposes)	23.50	38.80	43.80		97.00
– Direct Federal Tax	-8.00	-8.00	-8.40		-9.60
– Cantonal Profit Tax	-2.35	-3.88	-4.38		-9.70
Current income tax burden	-10.35	-11.88	-12.78		-19.30
Effective current income tax rate	**10.35%**	**11.88%**	**12.17%**		**16.10%**
– deferred tax	42.10	-6.12	-6.12		-2.30
Overall income tax burden	31.75	-18.00	-18.90		-21.60
Effective (total) income tax rate	**-31.75.%**	**18.00%**	**18.00%**		**18.00%**

Comments:

„Step-up“ brand: 191; depreciation period of 5 years; yearly tax depreciation 38.2
„Step-up“ goodwill: 230; depreciation period of 10 years; yearly depreciation 23
Effective income tax rates : 10% canton (ordinary), 8% federal

Comment:

Recording a Deferred Tax Asset for the future tax benefits on the step-up of 421 in «year 0» leads to a one-time deferred tax impact (deferred tax income) of 42.10. The release of this Deferred Tax Asset in the following years leads to a deferred tax expense

Exit Mixed Co – Separate Rate Transitional rules

Impact of on overall income tax charge

Tax periods	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Profit	**100**	**100**	**105**	**110**	**112**	**115**	**120**
– «Basket B profit» taxed at «special rate»	-	75	78.75	82.50	84	86.25	-
– «Basket A profit» taxed ordinarily	-	25	26.25	27.50	28	28.75	120
Income Taxes							
– Direct Federal Tax	-8.00	-8.00	-8.40	-8.80	-8.96	-9.20	-9.60
– Cantonal Taxes at «Special Rate» at Ordinary Rate	 -2.35[1)] 	 -1.50 -2.50	 - 1.58 -2.63	 -1.65 -2.75	 -1.68 -2.80	 -1.73 -2.88	 -9.70
Total Current Income Tax Charge	-10.35	-12.00	-12.61	-13.20	-13.44	-13.81	-19.30
Deferred tax	0	0	0	0	0	0	0
Effective Overall Income Tax Charge	**10.35%**	**12.00%**	**12.01%**	**12.00%**	**12.00%**	**12.00**	**18.00%**

Tracking of "special rate potential"	
Amount at beginning:	421 on the basis of a binding assessment ("Feststellungsverfügung") issued by cantonal tax authorities at the time of the abolition of Art. 28 StHG
After Year 0	421
After Year 1	346 (421 less 75)
After Year 2	267.25 (346 less 78.75)
After Year 3	184.75 (267.25 less 82.50)
After Year 4	100.75 (184.75 less 84)
After Year 5	14.50 (100.75 less 86.25)
	14.50 cannot be used due to the time limitation of the transition period according to Art. 78g Draft StHG.

Cantonal corporate tax rate reductions and other measures to increase attractiveness

Cantonal corporate tax rate reduction

- Reduction of cantonal corporate income tax rates at the discretion of the cantons
- Various cantons announced target tax rates

Canton, e.g.	Effective tax rates 2015	Target tax rates
Bern	21.4%	16.37% or 17.69%
Fribourg	19.9%	13.72%
Geneva	24.2%	~13%
Lucerne	12.3%	No action required
Neuenburg	17.0%	15.6%
Nidwalden	12.7%	12.66%
Schaffhausen	16.0%	12 – 12.5%
St. Gallen	17.4%	Not yet announced
Vaud	22.8%	13.79%
Zug	14.6%	12%
Zurich	21.1%	Initial framework decision before summer break 2016

Funding of the Reform Package

Funding of Reform
Vertical equalization measures

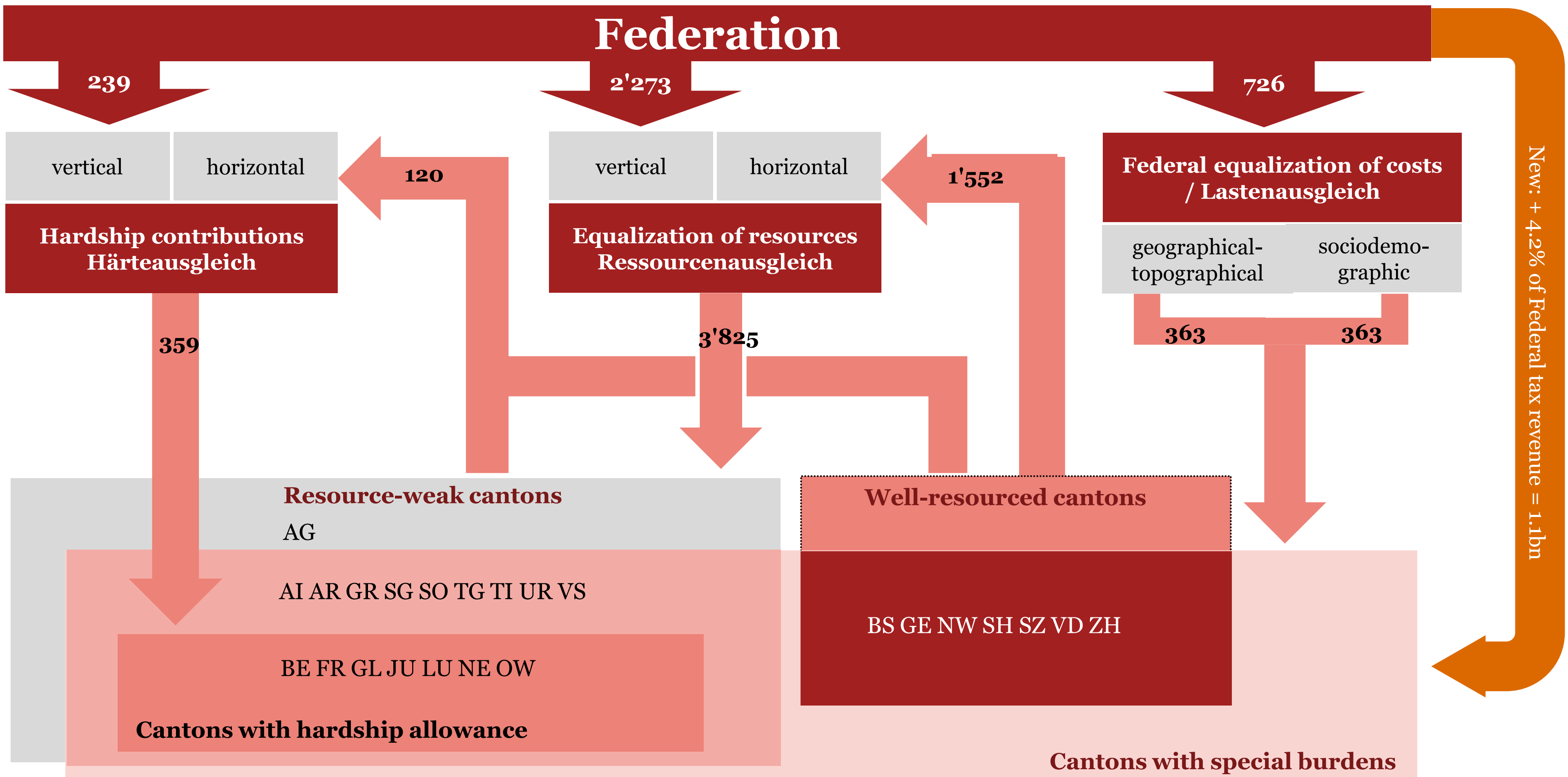
Contribution by Federation to cantons sharing the burden and supporting cantonal tax rate reduction:

- Cantonal portion 17% to 21.2% resulting in CHF 1.1 bn for the cantons
- Adaptation of calculation of resource potential in finance and tax equalization law:
  - Beta factors continue to be used for entities that benefit from early step-up (reduced by one fifth per annum)
  - Avoids that cantons are penalised if they grant the early step-up according to current practice rules

Intercantonal reallocation of tax revenues

Finance flows (2015)

Payments in mCHF



Source: economiesuisse

Recommendations

Recommendations

1	**Revisit future use/benefits of keeping separate holding and mixed companies in group structure** • Combine (merge) them to achieve capital tax savings • Avoiding impact of new overall limitation of reliefs, i.e. reliefs in excess of 80% of taxable profits
2	**Consider benefits of early step-up versus applying transitional rules upon loss of current cantonal tax privilege** • Valuation approach for hidden reserves and goodwill to be stepped-up • Step-up depreciation in line with tax amortization rules (max. 10 years) versus 5 year transitional limitation • Effective current tax charge versus deferred tax effect under IFRS/US GAAP
3	**Consider early withdrawal of existing tax rulings** • Avoid spontaneous international exchange of tax rulings from 2018, and disclosure in Transfer Pricing documentation from 2016 • Continue to apply articles of the cantonal law respectively SFTA circular directly
4	**Plan for utilisation of Patent Box and R&D super-deduction** • Selection of patents to be included in box, assess benefits applying nexus formula • Combination of entry taxation of previously deducted R&D costs and link with potential benefits from step-up
5	**Plan for using NID** • Bundling of group financing activities in one company • Assess level of equity financing and determination of arm's length interest rate to be applied
6	**Substance bundling in the right location** • Bundling of substance to maximize justification of profit allocation to Swiss entity/ies (also to defend BEPS challenges) • Potentially consider advantages of locating activates in different cantons

Questions?

For any questions please contact your usual PwC contact or the members of the PwC CTR III core team below

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