

April 2020

Your contacts

Markus Anderrüthi

Partner Corporate Tax, Zug +41 58 792 68 81 markus.anderruethi@ ch.pwc.com

Remo Küttel

Partner Corporate Tax, Zug +41 58 792 68 69 remo.kuettel@ch.pwc.com

Marcel Wyrsch

Director Corporate Tax, Zug +41 58 792 68 26 marcel.wyrsch@ch.pwc.com

Shane Sibler

Senior Manager Corporate Tax, Zug +41 58 792 46 93 shane.sibler@ch.pwc.com

Implementation of Tax Reform and AHV Financing in the canton of Schwyz

With the Swiss tax reform, the international acceptance of the Swiss corporate tax system will be ensured and Switzerland's attractiveness as a business location will be maintained. The changes particularly affect the Federal Act on Direct Federal Tax (DBG) as well as the Tax Harmonization Act (StHG) and its implementation into cantonal tax law. The reform includes the abolition of the cantonal tax regimes (for holding, mixed and domiciliary companies at cantonal level, as well as for principal companies and finance branch taxation at Swiss Federal level) and the introduction of internationally recognised replacement measures.

On 19 May 2019, the Swiss electorate passed the tax package with a 66.4% majority of the votes. It entered into force on 1 January 2020. No referendum was held against the tax law revision decided by the Schwyz cantonal parliament. The referendum deadline expired unused on 30 July 2019. The legislative amendments entered into force on 1 January 2020.

In order to retain its competitiveness and to avoid potential migration towards cantons and/or states with lower tax burdens, the canton of Schwyz has introduced the following internationally recognised alternative measures, which are provided for in the StHG. In particular, the following measures are included:

An additional R&D super deduction of maximum 50 % and a patent box with a maximum relief of 90 %. The income tax burden (effective tax rate combined) of the most tax-attractive municipality of the canton of Schwyz is 11.77 % as of 1 January 2020.

The following page provides an overview of the most important changes with their effects on corporate taxation in the canton of Schwyz.

If you have any questions, please contact your usual contact at PwC or one of the following experts at PwC Zug.



Overview of the most important planned legislative changes with their effects on corporate taxation in Schwyz

Adjustment

of capital tax

base

Notional

interest

deduction

Patent box

Transitional

rules/

Step-up

Adjustment

of corporate

income

tax rate

R&D

super

deduction

TRAF

Partial

taxation of

dividend

income

Maximum

relief

limitation

Adjustment of capital tax base

For legal entities, the minimum tax rate (capital tax) is reduced to 0.03 % (to be multiplied by the tax units of the municipality). The income tax continues to count towards the minimum tax (capital tax).

Patent box

The proportion of income from patents and similar rights to the extent it is based on qualifying research and development expenses (R&D), is included in the calculation of taxable net income with a relief of up to 90%. Upon entry into the patent box, one-time prior R&D expenses already recognised in prior tax periods are added to net taxable income. To the extent of the taxable add-back, a taxed hidden reserve has to be made/declared.

Transitional rules / Step-up

The realization of hidden reserves and self-generated goodwill of companies which were taxed under a privileged regime before will be taxed separately at a rate of 0.4 % (to be multiplied by tax units of the municipality) for a limited period of 5 years. Alternatively, based on previous practice, a voluntary disclosure (old law step-up) with a subsequent depreciation of tax-free hidden reserves over 5 years is possible and must be filed with the 2019 tax return at the latest.

Notional interest deduction (NID)

A notional interest deduction on excess equity was **not** introduced in the canton of Schwyz because of the low ordinary tax rate.

Adjustment of corporate income tax rate

The statutory profit tax rate in the canton of Schwyz was adjusted from 2.25 % to a rate of 1.95 %, resulting in an effective tax burden (direct federal tax and cantonal tax for the municipality of Wollerau) of 11.77 %.

Partial taxation of dividend income

If individuals hold participations of more than 10% as business assets or private assets, the dividends will remain only partially considered (i.e. 50%) for the assessment of the tax base.

Maximum relief limitation

It is mandatory for the cantons to introduce a limitation for the relief of all TRAF measures combined. In order to remain competitive, the canton of Schwyz has set the respective limitation at 70 %, which is the highest permissible rate. In other words, a quota of 30 % of the taxable income will remain ordinarily taxed in any case.

R&D super deduction

Upon request by the taxpayer, an additional deduction of 50 % maybe granted on qualifying Swiss-sourced R&D expenses.

