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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 Zug

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 Zug government council. The referendum deadline expired unused on 3 September 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 Zug therefore introduced the full range (except for notional interest deduction) of the internationally recognised replacement measures 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 %. In addition, the income tax rate (effective tax rate combined) was reduced to 11.91 %.

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

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 legislative changes with their effects on corporate taxation in Zug

Adjustment of capital tax base

For all legal entities, a uniform capital tax rate of 0.5 % applies (to be multiplied by tax units of the municipality). The tax base for the taxable capital will be reduced by 98 % to the extent of qualifying participations, intangible assets qualifying for the patent box and intercompany loans.

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. Upon request, earlier R&D expenses can be offset against patent box income for 5 years upon joining the patent box. This alternative prevents an immediate outflow of liquidity and leads to a delayed effect of the patent box relief.

Transitional rules / Step-up

The realisation 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 0.8 % – 1.6% (increase of 0.2 % p.a., 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 2020 tax return at the latest.

Notional interest deduction (NID)

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

Adjustment of corporate income tax rate

The statutory profit tax rate in the canton of Zug was adjusted from max. 5.75 % to a uniform rate of 3.5 %, resulting in an effective tax burden (direct federal tax and cantonal tax for the municipality of Zug) of 11.91 %.

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 Zug 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 % may be granted on qualifying Swiss-sourced R&D expenses.

