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Implementation of Tax proposal 17 in Zurich

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International acceptance of Swiss corporate taxation is intended to be achieved through Tax Proposal 17 ("TP17"). The changes will particularly affect the Federal Act on Direct Federal Tax ("DBG") as well as the Tax Harmonization Act (StHG), and include the abolition of the cantonal tax status (privileged taxation as holding company, mixed company, domicile company) and the introduction of internationally recognized replacement measures.

At the federal level, the National Council and the Council of States have debated the proposal and the aligned position has been finally voted by the United Federal Assembly on 28 September 2018. On 24 September 2018, the Zurich Cantonal government presented the planned implementation of TP17 in the Canton 0f Zurich.

The tax rate in the Canton of Zurich is – especially compared to neighboring Cantons such as Schaffhausen or Zug – on the higher end. Therefore, the Canton of Zurich plans to introduce all the replacement measures that are available based on the Federal Harmonization law in order to retain its competitiveness and to avoid migrations towards lower taxed Cantons and/or states. The replacement measures the Canton of Zurich intends to implement include in particular a notional interest deduction on excess equity amounts, an increased R&D deduction and a patent box with a maximum relief of 90%. In addition, the tax rate shall be reduced from currently 21.15% to 19.70% (as of 2021) respectively 18.19% (as of 2023)[1].

For the Canton of Zurich, it is very important that the cantonal implementation enters into legal force simultaneously with the tax reform proposal at federal level, planned to be effective on 1 January 2020. Given the relatively short period to complete the cantonal legislative process, the Zurich cantonal government refrains from a consultation procedure.

The following page provides an overview of the most important planned legislative changes with their effects on corporate taxation in Zurich. In addition to the measures with respect to corporate taxation, the proposal also contains various relief measures for individuals.

If you have any questions, please contact your usual contact at PwC or one of the following TP17 experts at PwC Zurich.

1 Percentages indicate effective tax rate in the City of Zurich including Swiss Federal as well as Zurich cantonal and communal income tax for the city of Zurich. Rates may somewhat vary for different communes in the canton of Zurich.

Reduction of capital tax base

The tax base for the taxable capital will be reduced by 90% to the extent of qualifying participations, intangible assets qualifying for the patent box and intercompany loans.

Reduction of corporate income tax rate

As of 1 January 2021, a reduction from currently 21.15% to 19.70% is planned. As of 1 January 2023, a further reduction to 18.19%*) shall become effective and will be subject to a separate legislative proposal.

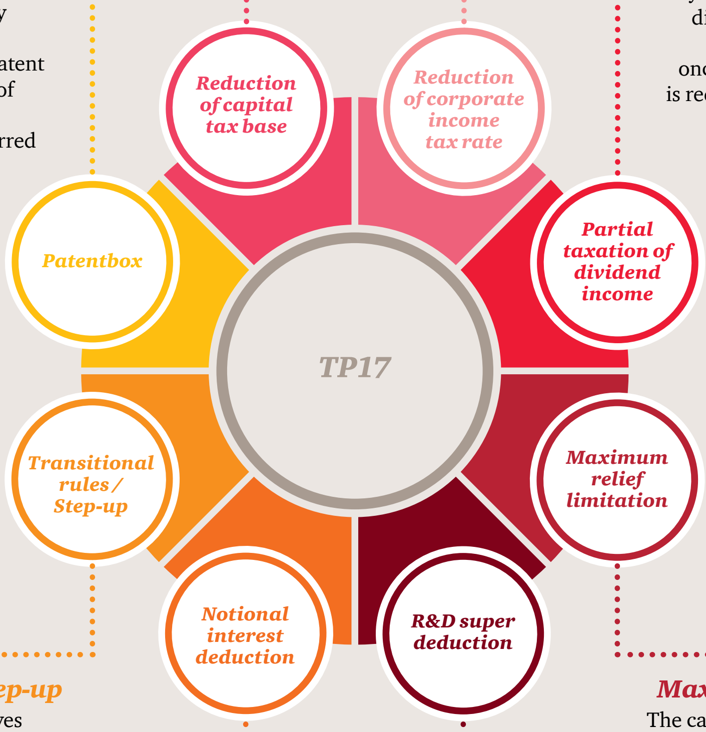
*) Combined income tax rate in city of Zurich

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 90%. Upon entry into patent box, previous R&D expenses are credited against patent box profits for a limited period of 5 years avoiding a up-front tax cash out and resulting in a deferred phase-in into the box benefits.

Partial taxation of dividend income

If individuals hold participations of more than 10%, the tax rate on dividends is currently reduced by 50%. This system will be replaced by a partial taxation, i.e. qualifying dividends will be considered only partially (50%, increase to 60% once the corporate income tax rate is reduced to 18.19%) for the assessment of the tax base.



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 ~1.14% for a limited period of 5 years. Alternatively, based on current practice a voluntary disclosure and subsequent depreciation of hidden reserves for a limited period of up to 10 years remains available until the TP17 enters into force.

Maximum relief limitation

The cantons are obliged to introduce a limitation for the relief from all TP17 measures combined. In order to remain competitive, the Canton of Zurich sets the respective limitation at 70% which is the highest permissible rate. In other words, a quota of only 30% of the taxable income will remain ordinarily taxed.

Notional interest deduction (NID)

A notional interest deduction on excess equity will be introduced. The NID rate on such excess equity will generally be based on the 10-year Swiss government bond rate. To the extent it relates to intercompany loans, an arm's length rate can be applied.

R&D super deduction

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

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