

Implementation of Tax Proposal and AHV financing (TRAF) in Basel-Stadt

11 February 2019

On Sunday, 10 February 2019 Basel-Stadt approved the cantonal implementation of the tax proposal in the popular vote by a large majority.

International acceptance of Swiss corporate taxation is intended to be achieved through the Tax Proposal and AHV financing (“TRAF”, previously Tax Proposal 17). 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, domiciliary company) and the introduction of internationally recognized replacement measures.

The popular vote on the federal level will take place on 19 May 2019.

The fact that Basel-Stadt has already agreed on the cantonal implementation underlines the urgency for the Canton, which generates a significant share of the tax revenues from companies that currently qualify for a cantonal tax status. In order to create legal certainty, it is of eminent importance for the Canton Basel-Stadt to implement new rules as quickly as possible, thus avoiding their potential emigration.

In particular, the reduction of the profit and capital tax rate for all companies domiciled in the Canton that have not benefited from any status will lead to a substantial reduction of their tax burden.

The State Council decides on the date of entry into force; certain provisions could therefore enter into force already as of 1 January 2019. The respective communication is expected shortly.

The following page provides an overview of the most important legislative changes with their effects on corporate taxation in Basel-Stadt.

If you have any questions, please get in touch with your usual contact or one of the following tax proposal experts at PwC Basel.

Amendment of capital tax

Uniform capital tax rate of 0.1% applies for all legal entities.
Reduction of tax base of taxable equity to the extent of qualifying participations as well as for box-qualifying patents of 80%.

Reduction of the profit tax rate

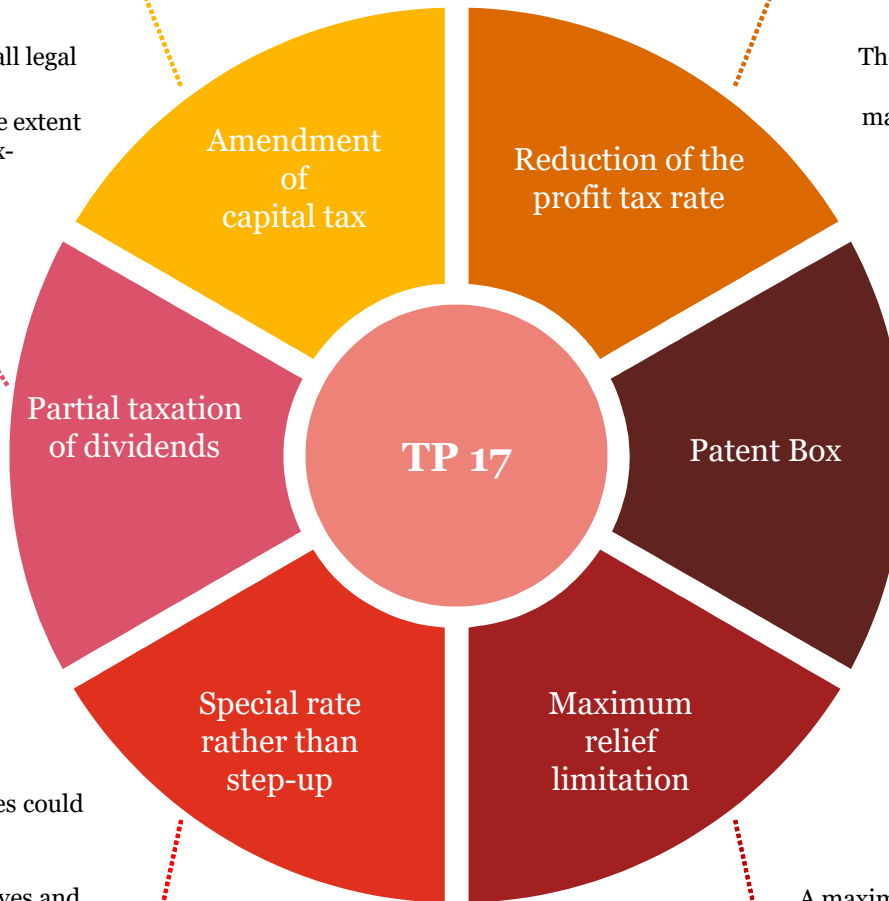
The statutory profit tax rate in Canton Basel-Stadt will be reduced from 20% (yield-dependent maximum) to 6.5% (proportional), resulting in an effective tax burden (direct federal tax and cantonal tax Basel-Stadt) of **13.04%**.

Partial taxation of dividends

Increase in partial taxation of qualifying dividend income for individual shareholders on cantonal level from 50% to 80%.

Special rate rather than step-up

Previously, in the transition from privileged taxation to ordinary taxation, hidden reserves could be disclosed tax-free and were subsequently depreciated tax effectively (step-up).
In the future, the realisation of hidden reserves and self-generated goodwill will be taxed separately at the tax rate of 3% for a limited period of 5 years.



TP 17

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R&D deduction

The optional additional deduction of up to 50% for R&D expenses in accordance with the SthG will not be implemented in Canton Basel-Stadt.

Maximum relief limitation

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A maximum relief limitation of 40% is introduced. This ensures that at least 60% of the taxable result is always ordinarily taxed.

Patent Box

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The proportion of income from patents and similar rights, which is based on the qualifying research and development expenses (R&D) of the taxable person, is included in the calculation of taxable net income with a relief of 90%.

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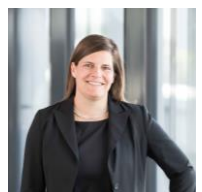
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