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Implementation of Tax Reform and AHV Financing (TRAF) in the canton of Aargau

The aim of Tax Reform and AHV Financing ("STAF") is to achieve international acceptance of Swiss corporate taxation. The changes will in particular affect the Swiss Federal Act on Direct Federal Tax (DBG) and the Tax Harmonisation Act (StHG) and will include abolition of the cantonal tax status (privileged taxation of holding companies, mixed companies and domiciliary companies) as well as the introduction of internationally recognised substitute measures.

After the differences between the National Council and the Council of States were settled at federal level, the United Federal Assembly adopted the bill on 28 September 2018. The referendum was successfully approved and the Swiss electorate will vote on the STAF bill on 19 May 2019. Due to the very tight schedule, consultation in the Grand Council in the canton of Aargau, as in many other cantons, has begun even before the referendum on the STAF bill.

As a high-tech canton, it is very much in Aargau's interests to ensure that research-intensive companies and their highly qualified jobs remain in the canton or move to it. In view of the competitive situation among the cantons, the canton of Aargau is also under pressure to implement the STAF bill in a delicate balance of maintaining its attractiveness as a location while ensuring financial sustainability for the canton. It is therefore planned to make full use of the new "patent box" special regulations and the extra deduction for research and development expenses. Innovative companies would thus benefit from an attractive overall tax rate of 11 % to 13 %. The corporate income tax rate for companies in the top rate category will remain at 18.6%. For dividend taxation, there will be a change from the partialrate to the partial-income method. For partial taxation, a minimum of 50% is envisaged, with the advantageous wealth taxation of unlisted securities remaining unchanged. As a further local advantage, the offsetting of profit against capital tax is also to be retained. The population will not be further burdened and will not have to accept any cutbacks by the public sector. The canton of Aargau is thus planning a balanced reform that can bring great benefits to innovative companies, SMEs and entrepreneurs while also serving the population of the canton of Aargau. In the medium to long term, everyone will be able to benefit from a stronger economy.



For the canton of Aargau, it is highly important for the cantonal implementation bill to enter into force at the same time as the federal bill. As the STAF bill is already scheduled to enter into force on 1 January 2020, the deadlines for deliberations in the Grand Council will be shortened as much as possible.

The following page provides an overview of the most important planned changes to the law with an impact on corporate taxation in the canton of Aargau. The bill also contains various relief measures for individuals.

If you have any questions, your usual contacts at PwC, or one of the above listed experts at PwC Aarau, will be happy to help you with topics related to the STAF bill.

the canton of Aargau has a two-level

this measure is not available.

rate with a lower level below this value,

Overview of the most important planned changes to the law with an impact on corporate taxation in the canton of Aargau

Reduction of the basic capital Reduction of the corporate The basic capital tax rate is to be income tax rate reduced from 1.25 % to 0.75 %. It will The canton of Aargau has decided not still be possible to offset profits against to reduce the corporate income tax capital tax and to reduce capital tax rate. However, thanks to full use of the via participation relief, with a new new special regulations, the canton of capital tax reduction for patents and Aargau remains highly competitive for similar rights and for group loans also innovative companies. to be introduced. Reduction Reduction Relief limit of the Partial taxation of dividends of the corporate If individuals hold participations of at The cantons must introduce basic capital income tax least 10%, the tax rate on dividend a mandatory relief limit for all tax base rate income is currently reduced by 40%. STAF measures. In the interest of The current partialrate method will be attractiveness, the canton of Aargau has set this limit at 70% (=maximum replaced by a partial-income method, i.e. income from qualifying dividends permissible rate). This results in a Partial will now only be included in the calculation base to the extent of 50 %. minimum effective corporate income Relief limit taxation of tax rate (federal, cantonal and dividends municipal) of 10% for the bottom tax category and 11.1 % for the top tax **TRAF** Patent box Income from patents and similar rights Transition provision / step-up based on eligible R&D expenses can Transitional The realisation of hidden reserves be included in the corporate income and any self-created added value of provision/ Patent box tax calculation base with a relief effect step-up former status companies are subject of 90%. Upon entry in the patent box, to special taxation at a rate of 2.5 % previous R&D expenses are offset for a period of five years. Alternatively, against patent-box income for five in accordance with current practice years. This prevents an immediate and until the cantonal provisions outflow of liquidity and leads to a Deduction of the STAF bill come into force Extra R&D delayed effect of patent-box relief. for selfon 1 January 2020, as planned, a deduction financing voluntary disclosure with subsequent amortisation of hidden reserves over ten years is possible. **Deduction for self-financing** A deduction for self-financing (CTR III: interest-adjusted corporate income tax) is only possible for high-tax can-**Extra R&D deduction** tons with a proportional rate and a total tax burden of at least 18.2%. Because At the taxpayer's request, an extra



deduction of a maximum of 50 % may

be made on R&D expenses incurred in

Switzerland.