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.
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 tax base
The basic capital tax rate is to be reduced from 1.25 ‰ to 0.75 ‰. It will still be possible to offset profits against capital tax and to reduce capital tax via participation relief, with a new capital tax reduction for patents and similar rights and for group loans also to be introduced.

Relief limit
The cantons must introduce a mandatory relief limit for all STAF measures. In the interest of attractiveness, the canton of Aargau has set this limit at 70 % (=maximum permissible rate). This results in a minimum effective corporate income tax rate (federal, cantonal and municipal) of 10 % for the bottom tax category and 11.1 % for the top tax category.

Transition provision / step-up
The realisation of hidden reserves and any self-created added value of former status companies are subject to special taxation at a rate of 2.5 % for a period of five years. Alternatively, in accordance with current practice and until the cantonal provisions of the STAF bill come into force on 1 January 2020, as planned, a voluntary disclosure with subsequent amortisation of hidden reserves over ten years is possible.

Extra R&D deduction
At the taxpayer’s request, an extra deduction of a maximum of 50 % may be made on R&D expenses incurred in Switzerland.

Reduction of the corporate income tax rate
The canton of Aargau has decided not to reduce the corporate income tax rate. However, thanks to full use of the new special regulations, the canton of Aargau remains highly competitive for innovative companies.

Partial taxation of dividends
If individuals hold participations of at least 10 %, the tax rate on dividend income is currently reduced by 40 %. The current partial rate method will be replaced by a partial-income method, i.e. income from qualifying dividends will now only be included in the calculation base to the extent of 50 %.

Patent box
Income from patents and similar rights based on eligible R&D expenses can be included in the corporate income tax calculation base with a relief effect of 90 %. Upon entry in the patent box, previous R&D expenses are offset against patent-box income for five years. This prevents an immediate outflow of liquidity and leads to a delayed effect of patent-box relief.

Deduction for self-financing
A deduction for self-financing (CTR III: interest-adjusted corporate income tax) is only possible for high-tax cantons with a proportional rate and a total tax burden of at least 18.2 %. Because the canton of Aargau has a two-level rate with a lower level below this value, this measure is not available.