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Implementation of Tax Reform and AHV Financing (TRAF) in the Canton of Schaffhausen

The cantonal government of Schaffhausen adjusted the cantonal tax law based on the national proposal of the “Federal Act on Tax Reform and AHV Financing” (TRAF). With this draft, the attractive tax environment already known from the past will be maintained and, at the same time, international acceptance will be ensured.

On 19 May 2019, the Swiss electorate passed the national tax package (TRAF) with a clear 66.4 % majority of the votes. Eventually, in the cantonal tax law the modifications of the Tax Harmonisation Act were implemented, resulting in the abolition of special tax status companies at cantonal level (privileged taxation as a holding company, mixed company or domiciliary company). This occured simultaneously with the introduction of internationally recognised replacement measures such as e.g. the Patent Box or the R&D super deduction.

With the revision of the cantonal tax law the Canton of Schaffhausen underlines the fact that corporate taxpayers, in particular companies that qualified for a special cantonal tax status, are of importance for Schaffhausen.

All companies domiciled in the canton benefit from the reduction of the profit and capital tax rates, whereas companies that so far did not benefit from any special tax status experience a substantial reduction of their tax burden.

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

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

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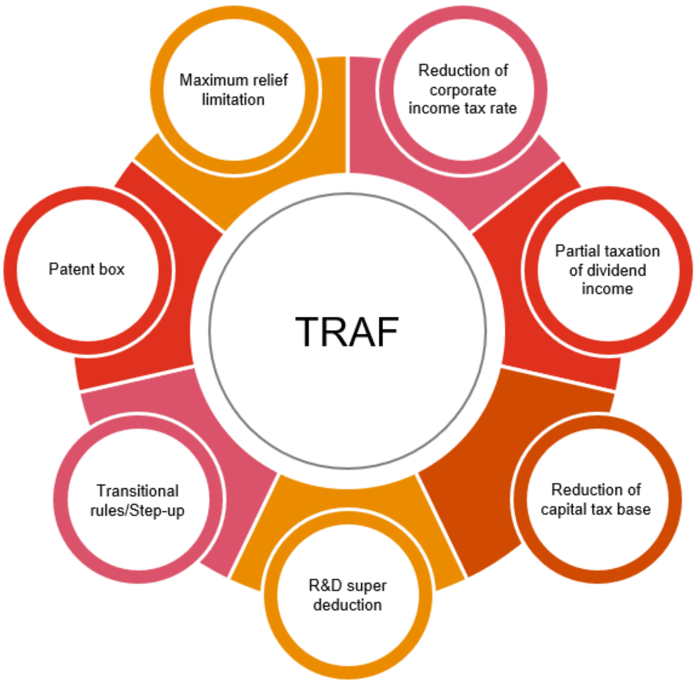
Overview of the most important legislative changes with their effects on corporate taxation in Schaffhausen

Maximum relief limitation
The cantons are obliged to assume a limitation for the relief from all TP17 measures combined. In order to remain competitive, the Canton of Schaffhausen sets the respective limitation at 70 % for the first five years. After that, the limitation will be set at 50 %. In other words, a quota of only 30 % resp. 50 % of the taxable income will remain ordinarily taxed.

Reduction of corporate income tax rate[1]
As per 1 January 2020, a reduction from currently 15.7 % to 14% occurred. As of 1 January 2025, an additional decrease to 12.2 % shall become effective. The planned decrease in 2025 occurs simultaneously with a reduction of the maximum relief limitation.

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 ex- penses are credited against patent box profits for a limited period of 5 years avoiding an 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 60 % for the assessment of the tax base.

Reduction of capital tax base
All companies tax their equity capital at the rate of 0.051‰, which corresponds to the capital tax rate of the former status companies.

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 ~1.6 % for a limited period of 5 years. For a classical step-up or a combination of the separate rate model and the classical step-up a ruling with the Schaffhausen tax authorities is required.

R&D super deducton
Upon request by the taxpayer as from 1 January 2025, an additional deduction of 25 % may be granted on qualifying Swiss sourced R&D expenses.

1) Calculated for City of Schaffhausen, with multiplier 2020.