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Swiss tax reform approved in public vote

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With a majority of 66.4%, Swiss voters approved the bill on the Swiss tax reform and AHV financing ("TRAF") in a public vote on 19 May 2019. Based on this positive outcome, Switzerland continues to offer a stable and reliable tax environment in an otherwise uncertain international tax landscape, and remains one of the most attractive business and tax locations.

With the positive vote, Switzerland is introducing new, internationally compliant tax measures and its tax law will become fully aligned with the current international standards. At the same time, Switzerland's current preferential regimes for holding, domiciliary and mixed companies will be abolished as of 1 January 2020. Transitional measures are being introduced in order to ease the transition from the preferential regimes to the new tax measures. With the implementation of the Swiss tax reform, Switzerland will meet the requirements of the OECD and the EU, and no longer needs to worry about being on a black or grey list.

Key measures of the Swiss tax reform

The Swiss tax reform introduces the following key measures:

- Introduction of a patent box into cantonal tax laws
- Optional introduction of a 50% additional R&D cost deduction into cantonal tax laws
- Optional introduction of a deduction on excess equity (Notional Interest Deduction; NID) for high tax cantons (e.g. Zurich)
- Rules concerning hidden reserves upon migration to/from Switzerland and transitional rules upon change of status of preferential regime companies
- Maximum limitation of relief may not exceed 70% of profits subject to cantonal tax
- Optional capital tax relief for cantons relating to participations, patents and intercompany loans
- Introduction of 50% proportionality rule for withholding tax-free repayments of capital contribution reserves for companies listed on the Swiss stock exchange
- Broadening of the lump-sum tax credit to enable ordinarily taxed Swiss branches of foreign companies to claim a lump-sum tax credit for foreign withholding taxes under certain circumstances

Furthermore, at the level of individuals, the partial taxation of private dividend income will increase to 70% for business and private assets at federal tax level and to minimum 50% at cantonal level. Moreover, the 5% transposition threshold for shares transferred to self-owned companies will be abolished.

In addition to the tax measures, TRAF increases social security contributions for employer and employees by 0.15% each. Further, the cantonal share in direct federal tax revenue will increase to 21.2% (equivalent of CHF 1 billion tax reform funding per annum for the cantons). In this context, also the rules concerning the intercantonal reallocation of funds (National Fiscal Equalisation Fund, Nationaler Finanzausgleich) are being amended.

Implementation of Swiss tax reform on cantonal level

With the new legislation at federal level coming into force on 1 January 2020, the Swiss cantons have to adapt their cantonal tax laws based on the framework given by the new federal provisions. While the updated cantonal tax laws are, in principle, all scheduled to come into force on the same date as the new federal provisions (e.g. as of 1 January 2020), the status of the legislation process in the cantons varies.

In certain cantons (e.g. Basel-Stadt, Geneva, Glarus, Neuchâteland St.Gallen), the updated cantonal tax laws have already been finalised. In the remaining cantons, the finalisation of the cantonal tax laws will now pick up speed in order to finalise them as soon as possible. Public votes, if required, about the cantonal tax laws are expected to occur during the second half of 2019 (for example, the public vote in Zurich will take place on 1 September 2019). The cantons of Geneva and Solothurn voted about their cantonal tax laws at the same time as the federal vote. In Geneva the amendment of the cantonal tax laws was approved, whilst in Solothurn they were rejected by the cantonal voters.

Further cantonal tax rate reductions expected

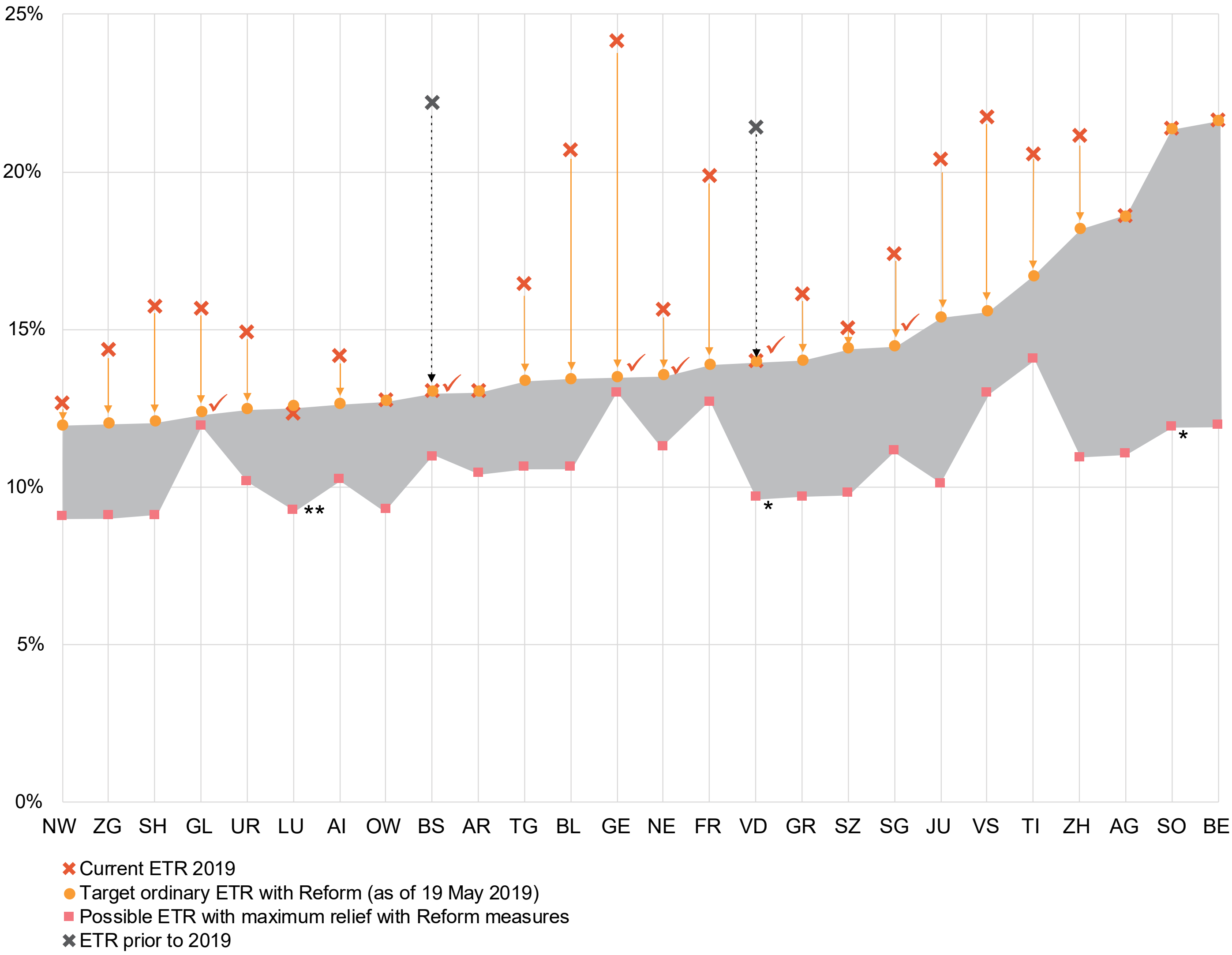
In addition to the alignment of the cantonal tax laws to the new framework provided by the federal tax law, several cantons have announced that they will reduce their cantonal headline corporate income tax rates. As a result, the combined ordinary effective tax rate for federal tax and cantonal and communal taxes will amount to between 12% and 14.5% in many cantons. Today, certain cantons already offer effective tax rates in this range (for example, Appenzell Ausserrhoden, Appenzell Innerrhoden, Basel-Stadt, Lucerne, Nidwalden, Obwalden, Vaud and Zug). Other cantons are expected to follow and decrease the tax rates to the same range. Please find below an overview of the current and new/ expected effective tax rate for each canton, also taking into account the effect of the new measures to be introduced as of 1 January 2020.

Conclusions

The approval of the Swiss tax reform (TRAF) enables the new legislation to become effective on 1 January 2020. The new measures ensure that Switzerland retains its international attractiveness as a business and tax location. The legal process to implement the new federal tax law into the cantonal tax laws has already been completed in six cantons (e.g. Basel-Stadt, Geneva, Glarus, Neuchâtel, and St.Gallen). The remaining cantons are expected to implement or, if a public vote is required, to vote about the implementation in the cantonal tax laws later this year.

Companies should now identify the actions they need to take and start to prepare for the changes if they have not already done so. Time is now of the essence, as some decisions have to be taken before the Swiss tax reform takes effect in order to adapt to the new tax environment.

Your usual PwC tax contact or any of the contacts listed above will be happy to assist.



Note: Some Cantons have indicated a range of possible ETRs. The graph depicts the least favourable rate. In addition, specific Cantonal rules for relief and measures need to be observed.

*No published information on maximum relief available so far.

** 11.7% if no Step-up.

✓ Cantonal legislative process completed.