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# Implementation of Tax Reform and AHV Financing in the canton of Berne

On 2 December 2019, the Grand Council of the canton of Berne adopted the bill for the cantonal tax law revision 2021 in a first reading with 90 votes to 49. This aims in particular to implement the legal requirements of TRAF.

TRAF has re-established international acceptance of Swiss corporate taxation. The federal government's proposal primarily aims at abolishing cantonal tax privileges (for holding companies, mixed companies and domiciliary companies), as well as introducing substitute measures. On 19 May 2019, the proposal was approved by significant majority.

To implement TRAF, the cantonal government of Berne has launched the 2021 cantonal tax reform. The bill was adopted by 90 votes to 49 by the Grand Council of the canton of Berne during a first reading in the 2019 winter session. In the 2020 spring session, the Grand Council will take a final decision on the proposal in a second reading. If the referendum is subsequently held, the voters will also have to decide on the proposal.

The tax reform is set to enter into force on 1 January 2021. To implement the mandatory requirements of TRAF by 1 January 2020, certain provisions of the 2021 tax reform are expected to be applied with retroactive effect as of 1 January 2020 in the canton of Berne.

You will find an overview of the key elements of the 2021 tax reform on the next page. The overview includes details on the implementation of TRAF and the changes to corporate taxation in the canton of Berne based on the bill adopted by the Grand Council in his first reading.

If you have any questions, your usual contacts at PwC or one of the TRAF experts shown on the left at PwC Berne will be happy to help you.



# Overview of the most important planned legislative changes with their effects on corporate taxation in Berne

### Changes to capital tax

The regular capital tax rate is set to be reduced from currently 0.03% to 0.005%. Multiplied by the canton's, municipality's (Berne) and church's tax adjustment factor, this results in a total future capital tax burden of 0.024%. It will still be possible to offset corporate income tax against capital tax.

#### Patent box

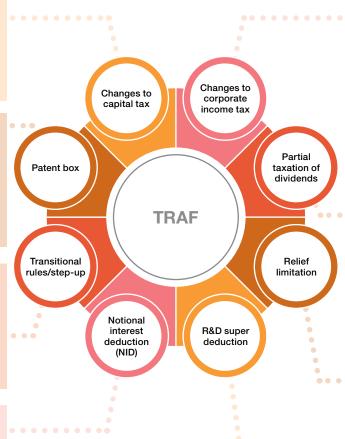
Income from patents and similar rights based on eligible R&D expenses will be included in the calculation of taxable income with a relief effect of 90%. Upon initial entry in the patent box, the R&D expenses already taken into account in previous tax periods (including additional R&D deduction) are taxed separately at a rate of 70%. The basic tax rate is 0.5%.

### Transitional rules / Step-up

The realisation of hidden reserves and any self-created goodwill of former status companies is subject to special taxation at a rate of 0.5% (basic tax rate) for a period of five years. Alternatively, current practice allows the hidden reserves to be disclosed voluntarily and subsequently amortised over a period of ten years.

# Notional interest deduction (NID)

The introduction of a notional interest deduction for equity financing in the canton of Berne is **not** permitted under federal law.



#### Changes to corporate income tax On 25 November 2018, the voters of Berne rejected a reduction in the corporate income tax rate and voted down the 2019 tax reform (53.6%). The government is therefore holding off reducing the corporate income tax rate in the 2021 tax reform. In order to relieve the tax burden on corporate the comband eventment

corporates, the cantonal government of Berne proposes a reduction of the multiplier to be applied on corporate income and capital taxes from 3.06 to 2.82, apart from the tax law revision 2021. The Grand Council of the canton of Berne is expected to decide on this in the winter session 2020 as part of the budget for 2021.

# Partial taxation of dividends

Where individuals hold shares of at least 10% as part of their business or personal assets, dividends are included in the tax base at a rate of 50%. Capital gains on the sale of shares held as business assets are only partly taxed, provided these shares have been held by the taxpayer in question for a least one year.

## **Relief limitation**

The cantons must introduce a relief limitation for certain TRAF measures. In the interest of attractiveness, the canton of Berne has set this limit at 70%, which is the maximum permissible relief under federal law.

## R&D super deduction

Upon request of the taxpayer, an additional deduction of 50% may be granted on qualifying Swiss sourced R&D expenses.

