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Implementation of Tax Reform and AHV Financing in the canton of Zug

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International acceptance of Swiss corporate taxation is intended to be achieved through the Tax Reform and AHV-Financing Package ("STAF"). The changes will particularly affect the Federal Act on Direct Federal Tax (DBG) as well as the Tax Harmonization Act (StHG), and include the abolition of the cantonal tax status (privileged taxation as holding company, mixed company, domiciliary company) and the introduction of internationally recognised replacement measures.

At the federal level, the National Council and the Council of States have debated the proposal, and the United Federal Assembly finally voted on the aligned position on 28 September 2018. On 2 October 2018, the Zug cantonal government presented the planned implementation of TRAF in the Canton of Zug.

The replacement measures the Canton of Zug intends to implement are in particular a patent box with a maximum relief of 90 %, an increased R&D super deduction of 50 %, and attractive transitional rules in the transition period from 2020 to 2024. In addition, Zug intends to lower the cantonal effective tax rate for ordinary taxed companies from currently 14.6 % to 11.91 % (municipality of Zug). It is intended that all envisaged measures will become effective as of 1 January 2020.

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

If you have any questions, please contact your usual contact at PwC or one of the following TRAF experts at PwC Zug.

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

Adjustment of capital tax base

For all legal entities, a uniform capital tax rate of 0.05 % applies (multiplied by tax units of the municipality). The tax base for the taxable capital will be reduced by 98 % to the extent of qualifying participations, intangible assets qualifying for the patent box and intercompany loans.

Patent box

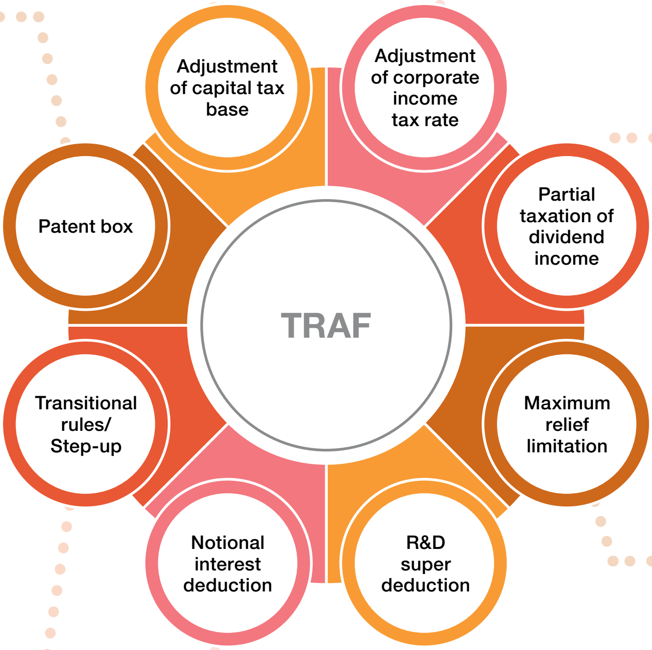
The proportion of income from patents and similar rights, to the extent it is based on qualifying research and development expenses (R&D), is included in the calculation of taxable net income with a relief of 90 %. Upon entry into the patent box, previous R&D expenses are credited against patent box 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.

Transitional rules / Step-up

The realisation of hidden reserves and self-generated goodwill of companies which were previously taxed under a privileged regime will be taxed separately at a rate of 0.8 %–1.6 % (increase of 0.2 % p.a., multiplied by tax units of the municipality) for a limited period of 5 years. Alternatively, based on current practice/ law, a voluntary disclosure and subsequent depreciation of hidden reserves (current law step-up) for a limited period of up to 5 years remains available until the TRAF enters into force.

Notional interest deduction (NID)

A notional interest deduction on excess equity can **not** be introduced in the canton of Zug because of the low ordinary tax rate.



Adjustment of corporate income tax rate

The statutory profit tax rate in the canton of Zug will be adjusted from currently max. 5.75 % to a uniform rate of 3.5 %, resulting in an effective tax burden (direct federal tax and cantonal tax for the municipality of Zug) of 11.91 %.

Partial taxation of dividend income

If individuals hold participations of more than 10 % as business assets or private assets, the dividends will continue to be considered only partially (i.e. 50 %) for the assessment of the tax base.

Maximum relief limitation

The cantons are obliged to introduce a limitation for the relief from all TRAF measures combined. In order to remain competitive, the Canton of Zug has set the respective limitation at 70 %, which is the highest permissible rate. In other words, a quota of 30 % of the taxable income will remain ordinarily taxed in any case.

R&D super deduction

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