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Implementation of Swiss Tax Reform and AHV financing (STAF) in the Canton of Solothurn

In its November 2019 session the parliament of the Canton of Solothurn has decided on the implementation of the STAF bill subject to an obligatory referendum. The corporate income tax rate is set to be reduced further than anticipated in the draft bill of the cantonal government, but the reduction will still be more moderate than in the initial bill, which was rejected by the electorate.

As the Swiss people approved the STAF bill (Federal Act on Tax Reform and AHV Financing) in a referendum on 19 May 2019, corporate taxation in Switzerland is internationally accepted again. The aim of the STAF bill is essentially to abolish cantonal tax privileges (holding companies, mixed companies and domiciliary companies) and to introduce substitute measures at the same time.

As the initial bill to implement STAF was rejected in the Solothurn cantonal referendum on 19 May 2019, the government of the canton of Solothurn revised the bill and proposed a reduction in the effective corporate income tax rate to approximately 16% instead of the 13% as proposed in the initial bill. The parliament has now adjusted the bill so that the effective corporate income tax rate will be reduced in three steps to approximately 15%. The bill is subject to an obligatory referendum.

The referendum is scheduled to take place in February 2020. It is expected that the bill will enter into force together with the STAF bill on 1 January 2020, which will require the retroactive application of the provisions of the cantonal implementation bill.

In particular, the planned reduction in the corporate income tax rate – albeit to a lesser extent than would have been the case with the initial bill – will lead to a significant reduction of the tax burden for all companies domiciled in the canton that have not benefited from any privilege to date.

The most important points of the cantonal bill for the implementation of STAF are summarised on the following page.

If you have any questions, your usual contacts or one of the STAF experts at PwC Bern/ Aarau listed on the left will be happy to help you.

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Overview of the most important planned changes to the law with an impact on corporate taxation in the canton of Solothurn

Capital tax

The current simple capital tax rate of 0.08 % is to be left unchanged, and it will also apply to companies that previously enjoyed privileged taxation. Multiplied by the base tax rates of the canton, municipality (Solothurn) and church, this will result in a future capital tax burden of 0.18 % for all companies in the future. It will still be possible to offset income tax against capital tax. Furthermore, only 5% of the share of equity attributable to certain assets (qualifying participations, patents and comparable rights, loans to group companies) is to be included in taxable equity.

Patent box

It will be possible to include income from patents and similar rights based on eligible R&D expenses in the corporate income tax calculation base with a relief effect of 90 %. Upon entry in the patent box, previous R&D expenses will be 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.

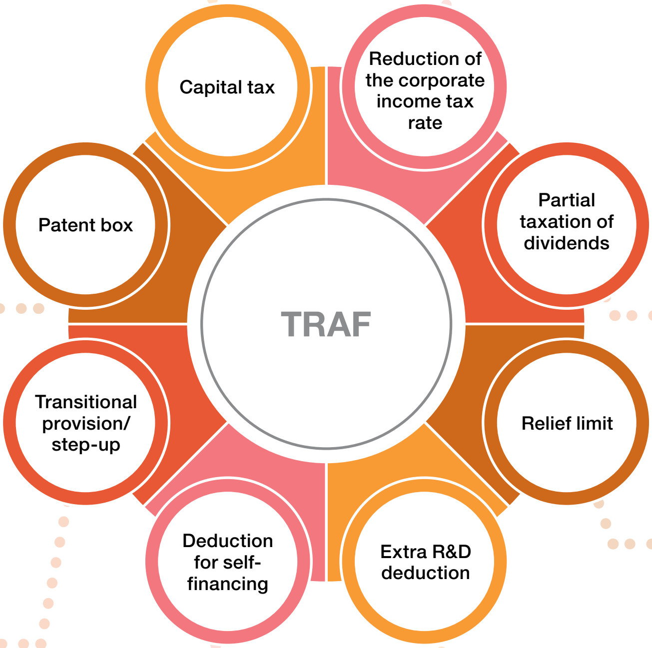
Transitional provision/step-up

The realisation of hidden reserves and any self-created added value of former status companies will be subject to special, simple taxation at a rate of 1 % for a period of five years (2.15 %*). Alternatively, in accordance with current practice and until the cantonal implementation of STAF comes into force on 1 January 2020, as planned, a voluntary disclosure with subsequent amortisation of hidden reserves over ten years is possible.

Deduction for self-financing

The provisions of the federal law do not allow the introduction of a deduction for self-financing in the Canton of Solothurn.

* Effective corporate income tax rate in the city of Solothurn (excluding direct federal tax)



Reduction of the corporate income tax rate

On 19 May 2019, the voters of Solothurn rejected an approximately 8 % reduction in the rate of corporate income tax to 13.12 %**. The new draft also reduces the rate of corporate income tax, but to a lesser extent by around 6% to 15.38%. The corporate income tax rate is to be reduced in three steps: to 16.32% in 2020, to 15.85% in 2021 and to 15.38% in 2022.**

Partial taxation of dividends

If natural persons hold equity investments of at least 10 % in their business or private assets, 70 % of the income from these qualifying investments will now be included in the calculation base. Currently 60% (private assets) or 50% (business assets) is included in the calculation base.

Relief limit

The cantons must introduce a relief limit for certain STAF measures. In the interest of boosting the canton's appeal as a location, this limit is to be set at 70 % for the Canton of Solothurn. Federal law prevents the relief limit from being set any higher.

Extra R&D deduction

At the taxpayer's request, it will be possible to make an extra deduction of a maximum of 50 % on R&D expenses incurred in Switzerland.

** Combined effective corporate income tax rates in the city of Solothurn.