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Implementation of the Federal Act on Tax Reform and AHV Financing in Thurgau

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On 11 September 2019, the Grand Council of the Canton of Thurgau adopted the cantonal implementation bill for the tax bill and AHV financing (TRAF).

In addition, the Grand Council approved the referendum by the authorities. Accordingly, the voters of the Canton of Thurgau will vote on the referendum on 9 February 2020. It is planned that the cantonal implementation bill will enter into force retroactively as of 1 January 2020.

The aim of the Federal Act on TRAF is to achieve international acceptance of Swiss corporate taxation.

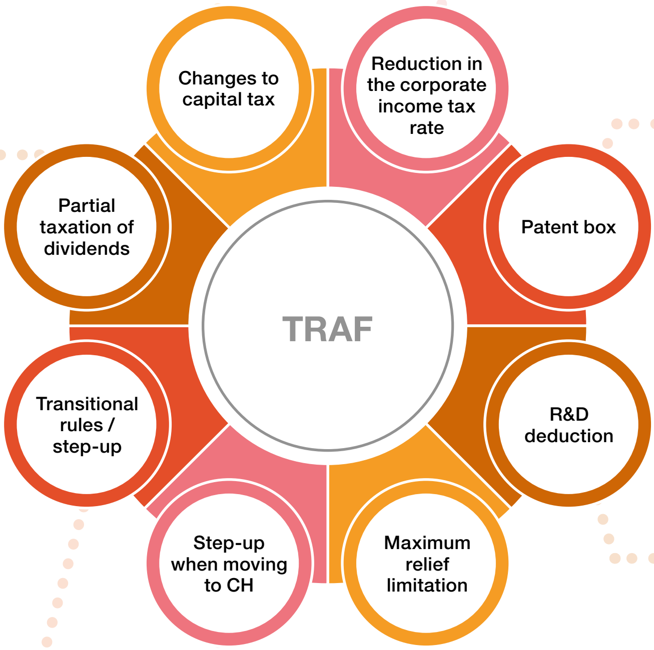
The changes will affect the Swiss Federal Act on Direct Federal Tax (DBG) and the Tax Harmonisation Act (StHG) in particular and will include abolition of the cantonal tax status (privileged taxation of holding companies, mixed companies and domiciliary companies) and the introduction of internationally recognised substitute measures.

A vote was held on the bill at federal level on 19 May 2019, and this was approved by a large majority.

The following page provides an overview of the most important planned changes to the law with an impact on corporate taxation in the canton of Thurgau.

If you have any questions, your usual contacts at PwC or one of the following TRAF experts at PwC Winterthur will be happy to help you.

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



Changes to capital tax

The taxable equity of all legal entities is now subject to simple capital tax at a rate of 0.15‰ (previously: ordinary taxation of 0.3‰ or 0.01‰ for holding privilege); the taxable equity relating to qualifying equity investments, qualifying patents and loans to group companies is included in the calculation base at just 10%. The minimum capital tax amount is increased to CHF 200 (previously: CHF 100).

Partial taxation of dividends

If an individual holds equity investments of at least 10%, 60% of the income from these qualifying investments is included in the calculation base (as under the current law).

Transitional rules / step-up

If transitioning from a privileged (holding or domiciliary) entity to ordinary taxation, the hidden reserves, including any selfgenerated goodwill, existing as per the date the amended tax law enters into force (1 January 2020), will be subject to separate taxation at a rate of 0.5% if realised within the next five years. Alternatively, in accordance with current practice (until STAF enters into force), hidden reserves may be voluntarily disclosed with subsequent amortisation.

Step-up when moving to CH

With the exception of those relating to equity investments, hidden reserves may be disclosed tax-free when the tax liability arises upon moving to Switzerland and subsequently amortised for tax purposes. The disclosed, selfgenerated goodwill has to be amortised over a period of ten years.

Reduction of the corporate income tax rate

The statutory corporate income tax rate for the canton of Thurgau is reduced from 4.0% to 2.5%, resulting in an effective tax burden (direct federal taxes and TG cantonal taxes) of 13.4% (down from 16.4% for Frauenfeld).

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 thecalculation of taxable net income with a relief of 40%. Upon entry into 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.

R&D deduction

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

Maximum relief limitation

The cantons must introduce a relief limit for all SV17 measures. The Canton of Thurgau has set this limit at 50%. This means that at least 30% of taxable earnings are subject to ordinary taxation.