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

The cantonal government of Ticino announced the cantonal draft bill to implement the national proposal of the tax law named “Federal Act on Tax Reform and AHV Financing” (TRAF).

On 19 May 2019 Ticino approved the TRAF with a majority of 64.9% of voters. Accordingly, the cantonal tax law will implement the future modifications of the Tax Harmonisation Act, resulting in the abolition of special tax status companies at cantonal level (privileged taxation as a holding company, mixed company and domiciliary company). This will be implemented at the same time as the introduction of internationally recognised replacement measures.

Notably, the government of the canton of Ticino proposed to introduce R&D incentives (patent box and R&D super deduction) to the maximum relief allowed by the Tax Harmonisation Act to make Ticino one of the most attractive cantons for companies investing in R&D.

Additionally, all ordinarily taxed companies domiciled in the canton will benefit from the reduction in the profit tax rate, whereas companies that benefit from a special tax status can expect the introduction of a transitional measure that will substantially mitigate the increase in the effective tax burden over the next 5 years.

The following page provides an overview of the most important legislative changes and their effects on corporate taxation in Ticino.

If you have any questions, your usual contacts at PwC or one of the following TRAF experts at PwC Ticino will be happy to help you.
Overview of the most important planned legislative changes with their effects on corporate taxation in Ticino

Reduction of capital tax base
Cantonal capital tax rate of 1.5‰ applies to all companies, with a possibility to credit 10% of income tax towards capital tax (16% as of 2025). Participation relief for capital tax purposes up to 100% applies to companies satisfying the condition to apply holding taxation. Capital tax is further reduced for equity attributable to patents.

Patent box
The proportion of income from patents and similar rights, which is based on qualifying research and development expenses (R&D) incurred by the taxable person, is included in the calculation of taxable net income with a relief of 90% (maximum relief). One-time entry fee upon first-time entry into patent box (i.e. taxable add-back to taxable profit) is expected to be attractive.

Transitional rules / Step-up
The realisation of hidden reserves and self-generated goodwill of companies which were taxed under a privileged regime before will be taxed separately at a rate of 1% (multiplied by tax units of the municipality) for a limited period of 5 years. Current step-up practice as per the circular letter 29/2017 will be abolished as of 2020.

Notional interest deduction (NID)
A notional interest deduction on excess equity will not be introduced in the canton of Ticino.

Adjustment of corporate income tax rate
The cantonal multiplier will be reduced from 100% to 98% and potentially to 96% as of 2025. The ordinary corporate income tax rate will be reduced from 9% to 8% during the transition phase (2020-2024) and further reduced to 5.5% after the transition phase, thus leading to an expected ETR of 15.9% and of 13.9% in the most attractive municipalities.

Partial taxation of dividend income
Ticino already increased the partial taxation of dividend income from 60% to 70% as of 1 January 2018 when implementing the “mini tax reform”. No further adjustments in this respect.

Maximum relief limitation
The cantons are obliged to introduce a limitation for the relief from all TRAF measures combined. In order to be competitive, the canton of Ticino sets a limitation at 70% (maximum relief). In other words, a quota of only 30% of taxable income will remain ordinarily taxed.

R&D super deduction
A R&D super deduction of 50% (maximum relief) will be introduced in the canton of Ticino.