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

Geneva has approved on May 19, 2019 the cantonal draft bill to implement the national proposal of the tax law named “Federal Act on Tax Reform and AHV Financing” (TRAF). With this draft, the already attractive tax environment shall be further strengthened, and at the same time, the international acceptance shall be ensured.

Accordingly, the cantonal tax law will implement the future modifications of the Tax Harmonization Act (StHG/LHID), resulting in the abolition of special tax status companies at cantonal level (privileged taxation as holding company, mixed company and domiciliary company). This simultaneously occurs with the introduction of internationally recognized replacement measures.

The popular vote on both the federal level and the cantonal level has successfully taken place on 19 May 2019.

The fact that Geneva has already approved the revised cantonal draft tax law shows that corporate taxpayers, in particular companies that currently qualify for a special cantonal tax status, are important to the Canton of Geneva.

All companies domiciled in the Canton will benefit from this reform. Companies that so far have not benefitted from any special tax status may expect a substantial reduction of their tax burden.

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

If you have any questions, please get in touch with your usual contact or one of the following tax proposal experts at PwC.

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

Reduction of capital tax base

As of 1 January 2020, the equity tax rate will amount to 0.40%, equal to the rate applicable pre-reform for ordinary companies. A separate rate of 0.001% will be applicable for the portion of the capital corresponding to qualifying investments, patents and inter-company loans.

The capital tax will also be offset against the corporate income tax starting fiscal 2020 as per the following schedule:

FY 2020: CHF 8'500
 FY 2021: 25%*
 FY 2022: 50%*
 FY 2023: 75%*
 FY 2024: 100%*

Patent box

The proportion of income from patents and similar rights, which is based on the qualifying research and development expenses (R&D) of the taxable person, is included in the calculation of taxable net income with a relief of 10%.

Upon entry into patent box, previous R&D deductions will be immediately taxed.

Transitional rules / Step-up

The canton of Geneva does not allow an old law step up upon withdrawal of a tax regime.

The realisation of hidden reserves and self-generated goodwill of companies which were taxed under a privileged regime will be taxed separately at a total effective rate of 13% for a limited period of 5 years.

Notional interest deduction (NID)

A notional interest deduction on excess equity will not be introduced.

Reduction of corporate income tax rate

As of 1 January 2020, a reduction from currently 24.16%** to 13.99%** is planned.

Partial taxation of dividend income

If individuals hold participations of at least 10% as private assets, the dividend will be considered only partially taxable (i.e. 70% of dividend is subject to tax).

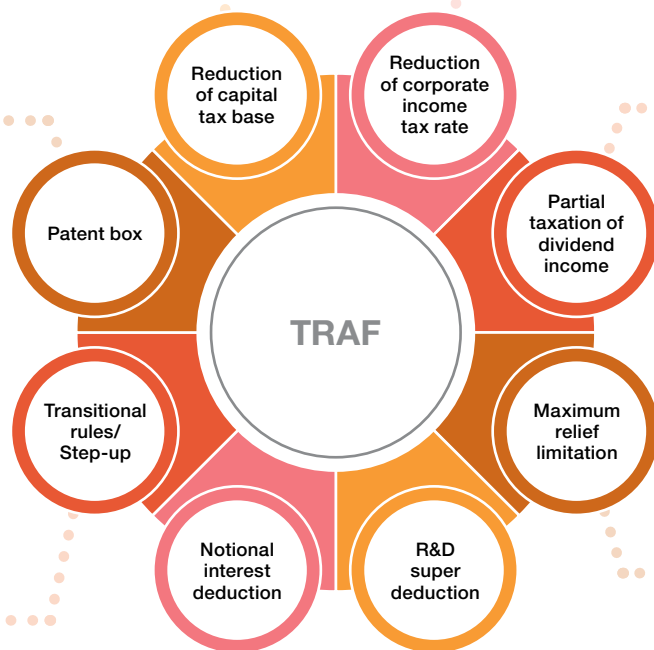
If individuals hold participations of at least 10% as business assets, the dividend will remain to be considered only partially taxable (i.e. 60% is subject to tax).

Maximum relief limitation

The cantons are obliged to introduce a limitation for the relief from all TRAF measures combined. In the canton of Geneva, a maximum relief limitation of 9% is introduced. This ensures that at least 91% of the taxable result is always ordinarily taxed.

R&D super deduction

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



*) The percentage represents the maximum amount of corporate income tax that can be offset against capital tax. If corporate income tax represents respectively 4, 2, 1.33, 1 times the capital tax, then 100% of capital tax can be offset.

***) Combined income tax rate in city of Geneva