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

On 19 May 2019, the Swiss population voted by a large majority in favour of the Federal Act on Tax Reform and AHV Financing (TRAF). The aim of the TRAF bill and its implementation in the cantons is to achieve international acceptance of Swiss corporate taxation. The changes 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.

To implement TRAF, the cantonal government of Thurgau has launched the changes to the cantonal tax law. The bill was adopted by the Grand Council of the canton of Thurgau on 11 September 2019. In addition, the Grand Council approved the referendum by the authorities. The implementation into the cantonal tax law of Thurgau was passed by the cantonal electorate on 9 February 2020 with a majority of 62.7%. The cantonal implementation bill enters into force retroactively as of 1 January 2020.

The following page provides an overview of the most important changes to the law with an impact on corporate taxation in the canton of Thurgau. In addition to the measures with respect to corporate taxation, the bill also contains certain amendments to relief measures for private individuals.

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 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 self-generated 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, self-generated goodwill has to be amortised over a period of ten years.

**Reduction in 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 the calculation of taxable net income with a relief of 40%. When the reduction is granted, the research and development expenses already recognised in previous tax periods are added to the taxable net profit.

**R&D deduction**
Upon request by the taxpayer, an additional deduction of 130% may be granted on qualifying Swiss sourced R&D expenses.

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