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

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On 19 May 2019, the Swiss population voted by a large majority in favour of the Federal Act on Tax Reform and AHV Financing (STAF). The aim of the STAF 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 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.

At the Landsgemeinde on 5 May 2019, the electorate approved the amendment of cantonal tax law. This legislative amendment entails cantonal implementation of the STAF bill. The legal validity of the cantonal tax bill was contingent on the legal validity of the Federal Act on Tax Reform and AHV Financing (STAF). Following adoption of the STAF bill in the referendum of 19 May 2019, both the Federal Act and the cantonal tax law amendment could enter into force on 1 January 2020.

In particular, the reduction in the profit and capital tax rate 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 following page provides an overview of the most important changes to the law with an impact on corporate taxation.

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

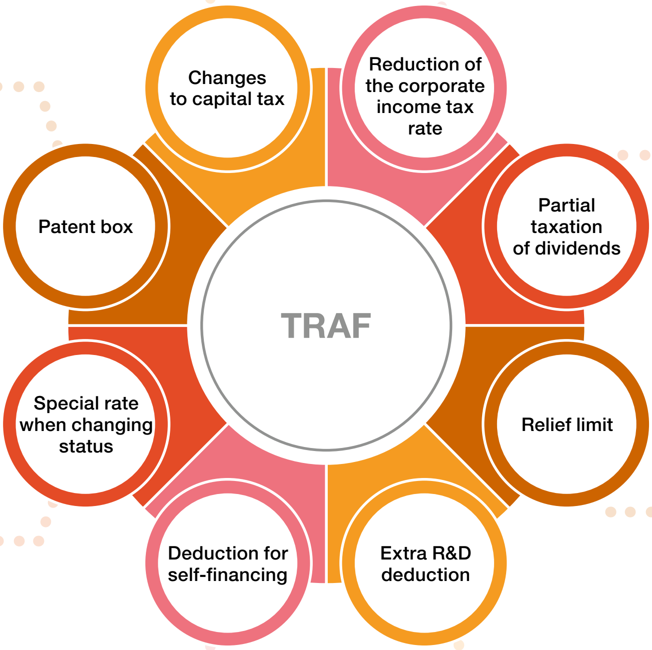
Overview of the most important legislative changes with their effects on corporate taxation in Glarus

Changes to capital tax
The capital tax rate will remain at 2‰ (effective tax burden of 2.5‰), without minimum taxation. However, taxable equity will be subject to a reduction in the ratio of qualifying investments, patents qualifying for the patent box and loans to group companies in relation to total assets.

Patent box
Income from patents and similar rights based on eligible R&D expenses can be included in the corporate income tax calculation base with a relief effect of 10%. Upon entry in the patent box, past R&D expenses are counted towards net profit.

Special rate when changing status
If transitioning from a privileged (holding, domiciliary or mixed) entity to ordinary taxation, the hidden reserves in place when execution of this law commences, including any self-created added value, will be subject to separate, simple taxation of 1.5 % if realised within the next five years. This corresponds to an effective tax burden of 1.86 %.

Deduction for self-financing
No deduction for self-financing will be introduced.



Reduction of the corporate income tax rate
The simple corporate income tax rate for the canton of Glarus is being reduced from 8.0 % to 4.5 %, resulting in an effective tax burden (direct federal taxes and GL cantonal taxes) of 12.43 %.

Partial taxation of dividends
Dividends from qualified investments held by natural persons will now be included in the calculation base at 70 %, as opposed to the previous 35 % of the total taxable income rate.

Relief limit
A relief limit of 10 % is to be introduced. This ensures that at least 90 % of the taxable result is always subject to ordinary taxation before loss carry-forwards and the deduction of reductions.

Extra R&D deduction
No additional deduction will be introduced for research and development expenses.