



September 2020

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## Implementation of Tax Reform and AHV Financing in the canton of St. Gallen

**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.**

On 19 February 2019, the Cantonal Council of the canton of St. Gallen approved amendment XV to the cantonal tax law in its final vote. This amendment entails cantonal implementation of the STAF bill. No referendum was organised against it. 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 will 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 St. Gallen

## Changes to capital tax

The taxable equity of all legal entities will now be subject to simple capital tax at a rate of 0.2‰ (effective tax burden of 0.6‰); the 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.

## Partial taxation of dividends

There will be a change at the cantonal level from the previous half-rate taxation of dividends for qualified private shareholders to partial taxation of the same at a rate of 70%.

## Special rate / step-up

If transitioning from a privileged (holding or domiciliary) 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 0.5% if realised within the next five years. This corresponds to an effective tax burden of 1.49%. In the case of mixed companies, voluntary disclosure with subsequent amortisation of hidden reserves over ten years is possible instead.

## Noted-item solution

As a special feature in SG, the labelling of hidden reserves is also possible in the event of early withdrawal from privileged status. In the case of later realisation (unlimited), these are exempted from ordinary taxation.

## Reduction of the corporate income tax rate

The statutory corporate income tax rate for the canton of St. Gallen is being reduced from 3.75% to 2.8%, resulting in an effective tax burden (direct federal taxes and SG cantonal taxes) of 14.5%.

## Patent box

Upon request, the net profit from patents and similar rights is to be included in the calculation of the taxable net profit in the ratio of the qualifying research and development expenses to the total research and development expenses per patent / similar right (nexus quotient) with a reduction of 50%. When the reduction is granted, the research and development expenses already recognised in previous tax periods are added to the taxable net profit and a taxed hidden reserve is created in this amount.

## R&D deduction

Research and development expenses incurred directly by the taxpayer or indirectly via third parties in Switzerland will on request be approved for deduction at 140%.

## Relief limit

A relief limit of 40% is to be introduced. This ensures that at least 60% of the taxable result is always subject to ordinary taxation before loss carry-forwards and the deduction of reductions.

