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Implementation of tax reform and AHV financing (TRAF) in the canton of Aargau

Tax reform and AHV financing (“TRAF”) will restore international acceptance of Swiss corporate taxation. The aim of the federal bill is essentially to abolish cantonal tax privileges (holding companies, mixed companies and domiciliary companies) while rolling out substitute measures. On 19 May 2019, Swiss voters overwhelmingly approved the federal bill.

In mid-September 2019, the Cantonal Council of Aargau also approved the amendments to the cantonal tax law by a clear majority of 91 votes to 29, with 3 abstentions, during the second reading. This allowed the government to enact the bill on 1 January 2020. For the canton of Aargau, it was vital for the cantonal implementation bill to enter into force at the same time as the federal bill. This goal was achieved in particular by shortening the deadlines for deliberations in the Cantonal Council and for approval in September 2019.

As a high-tech canton, it is very much in Aargau’s interests to ensure that research-focused companies and their highly qualified jobs remain in the canton or move to it. Due to competition among the various cantons, Aargau was also under pressure to implement the TRAF bill in a way that carefully balances the need to maintain its attractiveness as a location while ensuring financial sustainability for the canton. For this reason, full use was made of the new patent box special regulations and the extra deduction for research and development expenses. Innovative companies thus benefit from an attractive overall tax rate of 11 % to 13 %. The corporate income tax rate for companies in the top band will remain at 18.6 %. For dividend taxation, there was a change from the partial rate to the partial-income method. For partial taxation, a minimum of 50 % was implemented, with the favourable wealth taxation of unlisted securities remaining unchanged. As a further local advantage, the offsetting of profit against capital tax was also retained. The population will have to shoulder any additional tax burden and will not have to accept any public sector cut. Aargau is thus planning a balanced reform that can greatly benefit innovative companies, SMEs and entrepreneurs while also serving the residents of the canton. In the medium to long term, everyone will benefit from a stronger economy.

The following page provides an overview of the most important legal changes which will have an impact on corporate taxation in Aargau. The bill also contains various tax relief measures for individuals.

If you have any questions, your usual contacts at PwC, or one of the following experts at PwC Aarau, will be happy to help you with topics related to TRAF.

Overview of the most important planned changes to the law with an impact on corporate taxation in the canton of Aargau

Reduction of the basic capital tax base

The simple capital tax rate was reduced from 1.25 % to 0.75 %. It is still possible to offset profits against capital tax and to reduce capital tax via participation relief. There is also a new capital tax reduction for patents and other intellectual property and for group loans.

Tax relief limit

The cantons must introduce a mandatory tax relief limit for all TRAF measures. To remain an attractive location, the canton of Aargau has set this limit at 70 % (=maximum permissible rate). This results in a minimum effective corporate income tax rate (federal, cantonal and municipal) of 10 % for the bottom tax band and 11.1 % for the top tax band.

Transition provision / step-up

The realisation of hidden reserves and any self-created added value from former status companies are subject to special taxation at a rate of 2.5 % for a period of five years. Alternatively, former status companies may disclose their hidden reserves including any self-created added value as of 1 January 2020, in a tax-neutral manner in terms of corporate income tax, in their 2019 tax return at the latest. These may then be written off against corporate income tax by no later than 31 December 2024.

Extra R&D deduction

At the taxpayer's request, an extra deduction of up to 50 % may be made on R&D expenses incurred in Switzerland.

Reduction of the corporate income tax rate

The canton of Aargau has decided not to reduce the corporate income tax rate. However, thanks to full use of the new special regulations, the canton of Aargau remains highly competitive for innovative companies.

Partial taxation of dividends

For individuals holding participations of at least 10 %, the dividend income was previously set at 40 % of the rate. The partial rate method formerly in place has now been replaced by a partial-income method. Now, just 50 % of income from qualifying dividends is included in the calculation base.

Patent box

Income from patents and other intellectual property based on eligible R&D expenses can be included in the corporate income tax calculation base with tax relief of 90 %. Upon entry in the patent box, previous R&D expenses are offset against patent box income for five years. This prevents an immediate outflow of liquidity and leads to a delayed effect of patent box tax relief.

Tax deduction for self-financing

A deduction for self-financing (CTR III: interest-adjusted corporate income tax) is only possible for high-tax cantons with a proportional rate and a total tax burden of at least 18.2 %. Because the canton of Aargau has two-bands with a lower rate below this value, this measure is not available.

