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Implementation of Swiss Tax Reform and AHV Financing (STAF) in the canton of Geneva

On 19 May 2019, the Swiss electorate passed the "Federal Act on Tax Reform and AHV Financing" (TRAF) with a 66.4% majority of the votes. It entered into force on 1 January 2020. At cantonal level, no referendum was held against the cantonal tax law revision decided by Geneva. The legislative amendments entered into force on 1 January 2020. With this bill, the already attractive tax environment shall be further strengthened, and at the same time, the international acceptance shall be ensured.

The changes mainly affected the Federal Act on Direct Federal Tax (LIFD/DBG) as well as the Tax Harmonization Act (LHID/StHG) and its implementation into cantonal tax law. The reform includes the abolition of the cantonal tax regimes (for holding, mixed and domiciliary companies at cantonal level, as well as for principal companies and the finance branch taxation at Swiss Federal level) and the introduction of internationally recognised replacement measures.

In order to retain its competitiveness, the canton of Geneva introduced the full range of internationally recognised replacement measures provided for in the LHID (except for notional interest deduction). These measures feature in particular a patent box with maximum relief of 10%, an additional R&D super deduction of maximum 50% and transitional rules to mitigate the increase in the effective tax burden over a transitional period of 5 years for companies that historically benefited from a special tax status. In addition, the income tax rate (effective tax rate combined) was reduced to 13.99%.

Our experts would be happy to share this information in more detail with you during a meeting or a phone conversation in order to explore with you the possibilities for implementing the different measures. Their contact details are listed above, do not hesitate to contact them

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

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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 year 2020 as per the following schedule:

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

* The percentage represents the maximum amount of corporate income tax that can be offset against capital tax. If corporate income tax represents respectively:

4X the capital tax for FY21, 2X the capital tax for FY22, 1,33X the capital tax for FY23, then 100 % of capital tax can be offset.

Reduction of corporate income tax rate

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

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

Patent box

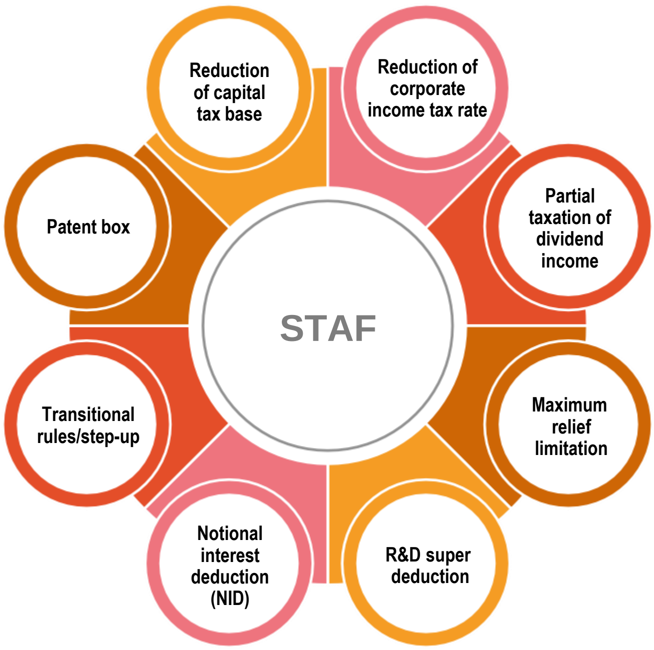
The proportion of income from patents and similar rights, which is based on the qualifying research and development expenses (R&D) of the taxable person, is included in the calculation of taxable net income with a relief of 10 %.

Upon entry into patent box, previous R&D deductions will be immediately recaptured with a corresponding full amortization for the same amount in the same year. As long as the amortization has not been fully offset with the qualifying patent box income, the patent box will not be efficient.

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).



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.

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. Hence minimum rate of 13,5%.

Notional interest deduction (NID)

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

R&D super deduction

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