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

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 the Neuchâtel government council. The legislative amendments entered into force on 1 January 2020. With the Swiss tax reform, the international acceptance of the Swiss corporate tax system has been ensured and Switzerland's attractiveness as a business location has been strengthened.

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 Neuchâtel introduced the full range of the 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 20%, 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 13.57%.

The following page provides an overview of the most important legislative changes and their effects on corporate taxation in Neuchâtel.

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.

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

Modification of capital tax base

The ordinary equity tax rate amounts to 0.5% (unchanged).

A separate tax rate of 0.001% applies for the portion of equity corresponding to patents, qualifying participations and intra-group loans.

The capital tax is offset against the corporate income tax (unchanged).

Reduction of corporate income tax rate

As of 1 January 2020, a reduction from previously 15.61%* to 13.57%* has been implemented.

* Combined income tax rate in city of Neuchâtel

Patent box

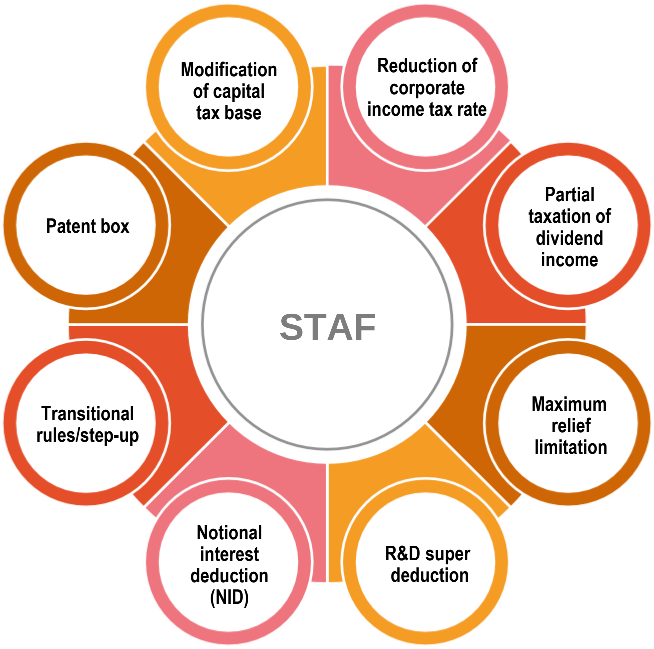
The proportion of income from patents and similar rights, which is based on the qualifying research and development expenses (R&D) of the taxable person, is included in the calculation of taxable net income with a relief of 20 %.

Upon entry into the patent box, previous R&D deductions will be immediately taxed ordinarily.

Partial taxation of dividend income

If individuals hold participations of at least 10% as private assets, the dividend is considered only partially taxable (i.e. 60 % of dividend is subject to tax).

If individuals hold participations of at least 10% as business assets, the dividend is considered only partially taxable (i.e. 60 % is subject to tax).



Transitional rules / Step-up

The canton of Neuchâtel 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 can be taxed separately for a limited period of 5 years. This leads to a taxation of the result at a total effective rate of 12.57%.

Maximum relief limitation

The cantons were obliged to introduce a limitation for the relief of some TRAF measures. In the canton of Neuchâtel, a maximum relief limitation of 40% has been introduced. This ensures that at least 60% of the taxable result is always ordinarily taxed.

Notional interest deduction (NID)

A notional interest deduction on excess equity has not been 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.