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

**The Swiss corporate tax reform ensures that the Swiss corporate tax system enjoys international acceptance and maintains Switzerland's attractiveness as a business location. The changes affect, in particular, the Swiss Federal Act on Direct Federal Tax (DBG), as well as the Tax Harmonisation Act (StHG) and its implementation into cantonal tax law. They include the abolition of the cantonal tax status (privileged taxation of holding companies, mixed companies and domiciliary companies) and the introduction of internationally recognised substitute measures.**

In the referendum of 19 May 2019, the Swiss electorate passed the tax package with a 66.4 % majority of the votes.

A "constructive referendum" was held in the canton of Nidwalden, countering the tax law revision agreed by the Nidwalden cantonal parliament. The subject of the constructive referendum was that the revised tax law should be accepted in principle, but the envisaged tax rate reduction should not be accepted. By passing an implementation ordinance, the Nidwalden government With the public vote dated 27 September 2020 the voting population of the Canton Nidwalden accepted the cantonal tax rate reduction from 6% to 5.1%. The reduction of the income tax rate enters into force as per 1 January 2021. The implementation ordinance contains the following measures in particular:

Abolition of the holding company and management company tax status with transitional regulations, the introduction of the patent box and a relief limitation of 70 %.

The following page provides an overview of the planned changes to the law with an impact on corporate taxation in the canton of Nidwalden.

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

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

## Patent box

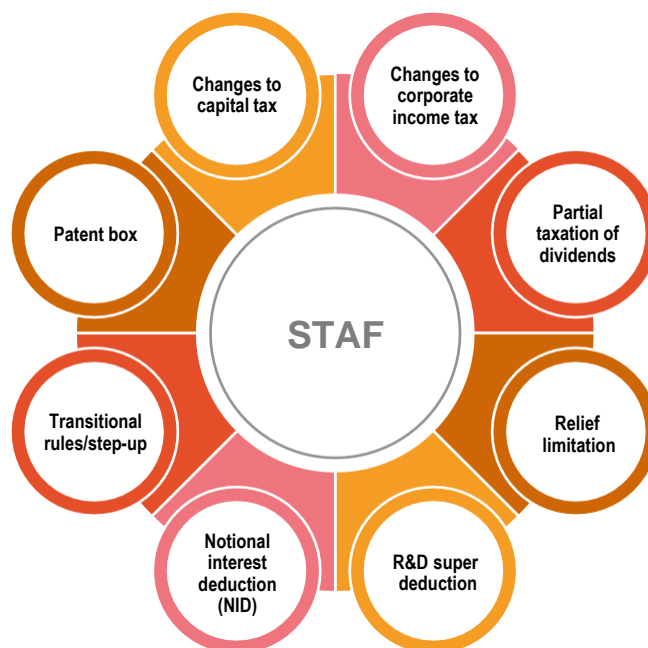
Income from patents and similar rights based on eligible R&D expenses can be included in the corporate income tax calculation base with a relief effect of 90%. Upon entry in the patent box, previous R&D expenses are offset against patent-box income for five years. This prevents an immediate outflow of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

## Changes to capital tax

The capital tax rate for legal entities remains unchanged at 0.1 tenth of a percent of taxable capital. Minimum annual tax (incl. corporate income tax) is CHF 500.

## Changes to corporate income tax

As of 1 January 2021 the statutory corporate income tax rate in the canton of Nidwalden will be reduced from 6% to 5.1%. This leads to an effective income tax burden (direct federal tax as well as cantonal taxes in the entire canton) of 11.97% (instead of 12.66% previously).



## Partial taxation of dividends

If individuals hold shares of 10% or more of business or private assets, the dividends will continue to be considered only partially (50%) for the assessment of the tax base at cantonal and municipal tax level.

## Transitional rules / Step-up

The realisation of hidden reserves and any added value that was self-created during the period of privileged taxation is subject to special taxation at a rate of 1.0%–1.8% (0.2% increase p.a.) for a period of five years.

Alternatively, in line with current practice, hidden reserves can be voluntarily disclosed and subsequently amortised for corporate income tax purposes over five years until STAF comes into force.

## Notional interest deduction (NID)

Given the low ordinary corporate income tax rate in the canton of Nidwalden, no deduction for self-financing can be introduced.

## R&D super deduction

There is no provision for an R&D super deduction in the canton of Nidwalden.

## Relief limitation

The cantons must introduce a mandatory relief limit for all STAF measures. In the interest of attractiveness, the canton of Nidwalden has set this limit at 70% (=maximum permissible rate). This means that, in all cases, at least 30% of profits are subject to ordinary taxation each year.