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

**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. On 22 September 2019, the Obwalden cantonal electorate also approved the 2020 finance bill with a 55.7 % majority of the votes. The legislative amendments came into force on 1 January 2020.

To maintain the canton's attractiveness and avoid possible migration to cantons and/or countries with lower taxation, the canton of Obwalden fully implemented the internationally recognised substitute measures provided for in the StHG.

To promote innovation, the canton of Obwalden has introduced, for example, the maximum additional deduction for R&D expenses of 50 % and the maximum relief of 90 % for the patent box. The income tax rate remains unchanged at 12.74 %.

The following page provides an overview of the most important changes to the law with an impact on corporate taxation in the canton of Obwalden.

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 legislative changes with their effects on corporate taxation in Obwalden

## Adjustment of corporate income tax rate

The statutory corporate income tax rate for the canton of Obwalden remains unchanged at 6.1 %. This means the effective tax burden (direct federal taxes and cantonal taxes in the entire canton) is 12.74 %.

## Changes to capital tax

The capital tax rate for incorporated companies is 0.01 tenth of a percent of taxable equity. Minimum annual tax (incl. corporate income tax) is CHF 500.

## 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, R&D expenses already recognised in previous tax periods are taxed at a fixed rate of 1 %.

## Partial taxation of dividend income

If individuals hold shares of 10 % or more of business or private assets, the dividends will be 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.

## Maximum relief limitation

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

## Notional interest deduction (NID)

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

## R&D super deduction

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