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

The implementation of the STAF in the Canton of Solothurn was accepted by voters at the second attempt. The controversial corporate income tax rate will be reduced in three steps to approximately 15 % (effective tax rate).

As the Swiss people approved the STAF bill (Federal Act on Tax Reform and AHV Financing) in a referendum on 19 May 2019, corporate taxation in Switzerland is internationally accepted again. The aim of the STAF bill is essentially to abolish cantonal tax privileges (holding companies, mixed companies and domiciliary companies) and to introduce substitute measures at the same time.

The initial bill to implement the STAF was rejected in the Solothurn cantonal referendum of 19 May 2019. The reason for the rejection was the planned reduction of the effective corporate income tax rate to approximately 13 %. The new proposal for implementation, which was approved by the voters of Solothurn on 9 February 2020, provides for a reduction of the effective corporate income tax rate in three steps to approximately 15 %. The approximative effective corporate income tax rate is 16.2 % for 2020, 15.8 % for 2021 and 15.3 % from 2022.

The bill and STAF entered into force with retroactive effect from 1 January 2020. Unlike the relief measures, the increase in partial taxation of dividend income to 70 % and the rise in wealth tax on assets of over 1 million Swiss francs will apply from 1 January 2021 and will not be implemented retroactively from 1 January 2020.

In particular, the reduction in the corporate income tax rate will immediately lead to a significant reduction in the tax burden for companies domiciled in the canton, which previously did not benefit from any privilege and were taxed in the higher progression stage.

The most important points of the cantonal bill for the implementation of STAF are summarised on the following page.

If you have any questions, your usual contacts or one of the STAF experts at PwC Bern/Aarau listed on the left will be happy to help you.

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

Patent box

Income from patents and similar rights based on eligible R&D expenses is included in the corporate income tax calculation base with a relief effect of 90 %. When entering the patent box earlier R&D expenses generally have to be accounted for. In cases of hardship, the earlier R&D expenses can be offset against patent box income for a period of 5 years. This prevents an immediate outflow of liquidity and leads to a delayed effect of the patent box relief.

Capital tax

The simple capital tax rate of 0.08 % is left unchanged, and applies to companies that previously enjoyed privileged taxation. Multiplied by the base tax rates of the canton, municipality (Solothurn) and church, this results in a capital tax burden of 0.18 % for all companies. It is still possible to offset income tax against capital tax. Furthermore, only 5% of the share of equity attributable to certain assets (qualifying participations, patents and comparable rights, intercompany loans) is included in taxable equity.

Reduction of the corporate income tax rate

Corporate income tax is being reduced by around 6% to 15.29%. This tax cut will be staggered over three stages: 16.21% in 2020, 15.75% in 2021 and 15.29% from 2022.**

** Combined effective corporate income tax rates in the city of Solothurn.

Partial taxation of dividend income

For natural persons holding shares of 10% or more of business or private assets, 70% of the dividend income will be included in the calculation base from 1 January 2021. For 2020, the calculation base only includes 60% (private assets) or 50% (business assets) of this income.



Transitional rules / Step-up

The realisation of hidden reserves and any self-created added value of former status companies is subject to a special, simple taxation at a rate of 1 % for a period of five years (2.15 %*). Alternatively, in accordance with previous practice and until the envisaged entry into force of the cantonal implementation of STAF on 1 January 2020 a voluntary disclosure with subsequent amortisation of hidden reserves over ten years was possible and has to be declared in the tax return for the tax period 2019 at the latest.

* Effective corporate income tax rate in the city of Solothurn (excluding direct federal tax)

Deduction for self-financing

The provisions of the federal law do not allow the introduction of a deduction for self-financing in the Canton of Solothurn.

Extra R&D deduction

At the taxpayer's request, it is possible to make an extra deduction of a maximum of 50 % on R&D expenses incurred in Switzerland.

Relief limitation

The cantons must introduce a relief limit for certain STAF measures. In the interest of boosting the canton's appeal as a location, this limit is set at 70 % for the Canton of Solothurn. Federal law prevents the relief limit from being set any higher.