Implementation of Tax Reform and AHV Financing in the canton of Ticino

With the Swiss tax reform, the international acceptance of the Swiss corporate tax system will be ensured and Switzerland's attractiveness as a business location will be maintained. The changes particularly affect the Federal Act on Direct Federal Tax (DBG) as well as the Tax Harmonization Act (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 finance branch taxation at Swiss Federal level) and the introduction of internationally recognised replacement measures.

On 19 May 2019 Ticino approved the TRAF with a majority of 64.9% of voters. A referendum against the cantonal implementation law was called, however the referendum committee did not collect enough signature. Consequently, the legislative amendments entered into force with effect on 1 January 2020.

Accordingly, the cantonal tax law will implement the future modifications of the Tax Harmonisation Act, resulting in the abolition of special tax status companies at cantonal level (privileged taxation as a holding company, mixed company and domiciliary company). This will be implemented at the same time as the introduction of internationally recognised replacement measures.

Notably, the canton of Ticino has introduced R&D incentives (patent box and R&D super deduction) to the maximum relief allowed by the Tax Harmonisation Act to make Ticino one of the most attractive cantons for companies investing in R&D.

Additionally, all ordinarily taxed companies domiciled in the canton benefit from the reduction in the profit tax rate, whereas companies that was benefiting from a special tax status can apply for a transitional measure that substantially mitigate the increase in the effective tax burden over the next 5 years.

The following page provides an overview of the most important legislative changes available as of January 2020 and their effects on corporate taxation in Ticino.

If you have any questions, your usual contacts at PwC or one of the following TRAF experts at PwC Ticino will be happy to help you.
Overview of the most important planned legislative changes with their effects on corporate taxation in Ticino

**Reduction of capital tax base**
Cantonal capital tax rate of 1.5‰ applies to all companies, with a possibility to credit 10% of income tax towards capital tax (16% as of 2025). Participation relief for capital tax purposes up to 100% applies to companies satisfying the condition to apply holding taxation. Capital tax is further reduced for equity attributable to patents.

**Patent box**
The proportion of income from patents and similar rights, which is based on qualifying research and development expenses (R&D) incurred by the taxable person, is included in the calculation of taxable net income with a relief of 90% (maximum relief). One-time entry fee upon first-time entry into patent box (i.e. taxable add-back to taxable profit) is very attractive.

**Transitional rules / Step-up**
The realisation of hidden reserves and self-generated goodwill of companies which were taxed under a privileged regime before are taxed separately at a rate of 1% (multiplied by tax units of the municipality) for a limited period of 5 years.

**Notional interest deduction (NID)**
A notional interest deduction on excess equity has not been introduced in the canton of Ticino.

**Adjustment of corporate income tax rate**
The cantonal multiplier will be reduced from 100% to 98% and potentially to 97% as of 2024. The ordinary corporate income tax rate was reduced from 9% to 8% during the transition phase (2020-2024) and will be further reduced to 5.5% after the transition phase, thus leading to an expected ETR of 15.9% and of 14.6% in the most attractive municipalities.

**Partial taxation of dividend income**
Ticino already increased the partial taxation of dividend income from 60% to 70% as of 1 January 2018 when implementing the “mini tax reform”. No further adjustments in this respect.

**Maximum relief limitation**
The cantons are obliged to introduce a limitation for the relief from all TRAF measures combined. In order to be competitive, the canton of Ticino sets a limitation at 70% (maximum relief). In other words, a quota of only 30% of taxable income will remain ordinarily taxed.

**R&D super deduction**
A R&D super deduction of 50% (maximum relief) was introduced in the canton of Ticino.