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

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 restored. 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 the finance branch taxation at Swiss Federal level) and the introduction of internationally recognised replacement measures.

On 19 May 2019, the Swiss electorate passed the tax package with a 66.4% majority of the votes. It entered into force on 1 January 2020. The implementation into the cantonal tax law of Zurich was also passed by the cantonal electorate on 1 September 2019 with a majority of 56%. The legislative amendment entered into force on 1 January 2020.

The tax rate in the Canton of Zurich is - especially compared to neighbouring Cantons such as Schaffhausen or Zug - on the higher end. Therefore, the canton of Zurich has fully introduced all the internationally recognised replacement measures that are available based on the Federal Harmonization law in order to retain its competitiveness and to avoid potential migrations towards lower-taxed cantons and/or states. The replacement measures include in particular a notional interest deduction on excess equity amounts, an increased R&D deduction and the patent box with a maximum relief of 90%. In addition, the tax rate will be reduced from currently 21.15% to 19.70% with effect from 2021.

The following page provides an overview of the most important planned legislative changes with their effects on corporate taxation in Zurich. In addition to the measures with respect to corporate taxation, the bill also contains certain amendments to relief measures for private individuals.

If you have any questions, please contact your usual contact at PwC or one of the following experts at PwC Zurich.

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1 Percentages indicate effective tax rate in the City of Zurich including Swiss Federal as well as Zurich cantonal and communal income tax for the city of Zurich. Rates may somewhat vary for different communes in the canton of Zurich.

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

Patent box

The proportion of income from patents and similar rights to the extent it is based on qualifying research and development expenses (R&D), is included in the calculation of taxable net income with a relief of 90%. Upon entry into patent box, previous R&D expenses are credited against patent box profits for a limited period of 5 years avoiding a up-front tax cash out and resulting in a deferred phase-in into the box benefits.

Reduction of capital tax base

The tax base for the taxable capital will be reduced by 90% to the extent of qualifying participations, intangible assets qualifying for the patent box and intercompany loans.

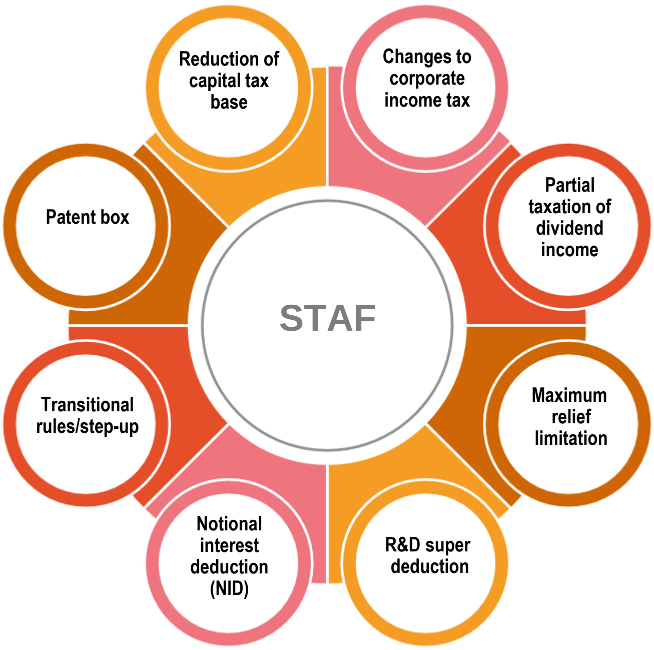
Reduction of corporate income tax rate

On 1 January 2021 the rate will be reduced from the current 21.15% to 19.70%.*)

*) Kombinierter Gewinnsteuersatz in der Stadt Zürich

Partial taxation of dividend income

If individuals hold participations of at least 10%, the tax rate on dividend income has in the past been reduced by 50%. This system will be replaced by a partial taxation, i.e. qualifying dividends will be considered only partially at 50% (potentially 60% as of the date at which a further tax rate reduction will be implemented) for the assessment of the tax base.



Transitional rules / Step-up

The realisation of hidden reserves and self-generated goodwill of companies which were taxed under a privileged regime before will be taxed separately at a rate of ~1.14% for a limited period of 5 years.

Alternatively, based on current practice a voluntary disclosure and subsequent depreciation of hidden reserves for a limited period of up to 10 years remains available until the TP17 enters into force.

Notional interest deduction (NID)

A notional interest deduction on excess equity will be introduced. The NID rate on such excess equity will generally be based on the 10-year Swiss government bond rate. To the extent it relates to intercompany loans, an arm's length rate can be applied.

R&D super deduction

Upon request by the taxpayer, an additional deduction of up to 50% may be claimed on R&D expenses incurred in Switzerland.

Maximum relief limitation

The cantons are obliged to introduce a limitation for the relief from all TP17 measures combined. In order to remain competitive, the Canton of Zurich sets the respective limitation at 70% which is the highest permissible rate. In other words, a quota of only 30% of the taxable income will remain ordinarily taxed.