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

**On March 20, 2016 Vaud has already approved the cantonal bill of the corporate tax reform (“RIE III VD”) which entered into force on January 1, 2019. However, this bill only implemented part of the measures linked to the federal proposal of the tax law named “Federal Act on Tax Reform and AHV Financing” (RFFA). Said measures could indeed only be incorporated in the cantonal law once the RFFA had entered into force at federal level.**

The RFFA came into force at federal level on January 1, 2020, following its adoption by popular vote on May 2019. Said reform aims to establish a system of corporate taxation in line with current international standards, while introducing measures to maintain Switzerland's attractiveness and competitiveness as a business location.

However, the people of the canton of Vaud had already approved the RIE III VD in 2016 with an entry into force for 2019. As a consequence, only part of the measures of the RIE III VD could enter into force in 2019, as some of the new measures would have been contrary to the version of the Federal tax act in force at the time (such as the abolition of the privileged tax status).

Subsequently to the enactment of the RFFA, the Vaud state Council has adopted the necessary amendments to the Vaud tax law on December 11, 2019, which entered into force on January 1, 2020.

Hence, starting 2020, companies domiciled in the canton will benefit from this reform. Indeed, even companies which do not qualify for any specific measures of the reform may expect a reduction of their tax burden.

The following page provides an overview of the most important legislative changes and their effects on corporate taxation in Vaud.

If you have any questions, please get in touch with your usual contact or one of the following tax proposal experts at PwC.

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

### Capital tax rate modification\*

In 2020, the capital tax rate amounts to 0.14%.  
The taxable capital linked participation, patents and loans to group companies is reduced by 50%, hence taxed at a rate of 0.07%.  
The capital tax can be offset against the income tax.

### Reduction of corporate income tax rate\*

As of January 1, 2019, the ordinary income tax rate at cantonal and federal level is reduced from 21.37% to 14.00% in the canton of Vaud.

In 2020, the ordinary income tax rate is at 14.03% and 14.00% in 2021.

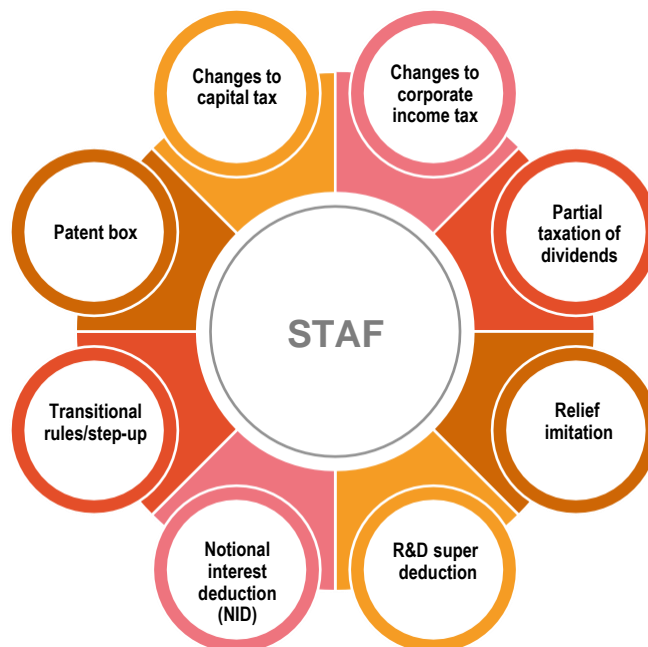
### Patent box

Upon request by the taxpayer, the proportion of income from patents and similar rights, which is based on the qualifying research and development expenses (R&D) of the taxpayer, is included in the calculation of taxable net income with a relief of 60%.  
The R&D expenses previously deducted constitute a "pool" that will be offset by future profits from the patent box (entry cost). The patent box will only be effective once this pool has been exhausted. If the pool is not exhausted within 5 years, the differential will be taxed as ordinary income.

### Partial taxation of dividends

If individuals hold participations of at least 10% as private assets, the dividend will benefit from a partial taxation (i.e. 70% of dividend is subject to tax).

If individuals hold participations of at least 10% as business assets, the dividend will benefit from a partial taxation (i.e. 60% is subject to tax).



### Transitional rules /Step-up

The canton of Vaud does not allow an old law step-up upon withdrawal of a tax regime.  
The hidden reserves and self-generated goodwill of companies which were taxed under a privileged regime will be taxed separately at a total effective rate of circa 12.02% for a limited period of 5 years (dual rate method).

### Maximum relief limitation

The cantons are obliged to introduce a limitation for the relief from all TRAF measures combined. In the canton of Vaud, the maximum relief limitation is of 50% on the taxable income. This ensures that at least 50% of the taxable result is always taxed. This results in a reduced income tax rate of 11.04% in 2020 and 11.02% in 2021.

### Notional interest deduction (NID)

A notional interest deduction on excess equity has not been introduced.

### R&D super deduction

Upon request by the taxpayer, an additional deduction of 50% may be granted on qualifying Swiss sourced R&D expenses