

Tax Reform Package for Swiss Companies is Approved

12th June 2019

Historically, Swiss companies have enjoyed a zero tax regime for capital gains and dividend income.

Trading companies, however, have always attracted a local canton (region) tax rate. The new tax changes focus on trading profits.

New Corporate Tax Rate – Geneva

As from January 2020, the corporate tax rate (combined federal and cantonal tax) for all companies in Geneva, will be 13.99%.

The Swiss federal tax rate is consistent but corporate tax rates (federal tax, plus cantonal tax) will vary across different Swiss cantons, depending on the specific cantonal tax rates approved in the referendums, which took place in May 2019.

Background

The European Union (EU) gave Switzerland until the end of 2018 to abolish a number of tax privileges that are not internationally acceptable. The main objective of the reforms is to achieve this while retaining the international attractiveness of the Swiss Corporate Tax Regime

On 28 September 2018, the final draft of the 'Federal Act on Tax Reform Financing' ("TRAF") was approved by the Swiss Parliament.

Results of the Referendum

The referendum on TRAF took place on 19 May 2019, and the new Law is to be implemented on 1 January 2020.

A large majority of Swiss voters accepted the 2020 Swiss federal tax reforms and a large majority of Geneva voters also accepted the Geneva cantonal tax reforms (each canton had its own vote on its specific cantonal tax reforms).

Summary of Principles

At the federal level, the profit allocation rules of principal companies and Swiss finance branches are to be repealed.

At the cantonal level, tax privileges for holding companies, domicile companies and mixed companies will be abolished.

Patent Box

Net profit from domestic and foreign patents are to be taxed separately with a maximum reduction of 90% (precise rate subject to cantonal discretion). This Patent Box Regime meets the OECD2 standard and the 90% maximum relief is mandatory at the cantonal level.

Before the Patent Box is applied for the first time, the corresponding tax deducted R&D expenditures must be recaptured and taxed.

R&D Super Deduction

An R&D super deduction of 50% for domestic R&D is optional, at the cantonal level.

Additional Measures

- Overall tax relief of 70% is mandatory at the cantonal level; the patent box, R&D super deduction and a notional interest deduction (NID), in addition to possible depreciations from an early transition from 'privileged' to 'ordinary' taxation, are subject to an overall tax relief of 70%.

- Extension of the flat-rate tax credits on the permanent establishments of foreign companies; Swiss permanent establishments of foreign companies will, in most circumstances, be able to claim withholding tax on income from third countries, with a flat-rate tax credit.
- So called 'high' tax cantons have the option to introduce a notional interest rate deduction (NID) on excess capital. It is anticipated currently that only the canton of Zurich will meet the specified requirements.
- Adjustments are being made to the taxation of dividend income from qualifying participations. At the federal level, the tax rate increases to a standard rate of 70% (previously 50% for business investments and 60% for private investments). At a cantonal level there is a harmonisation of the relief method and a minimum tax rate of 50% (precise rate at cantonal discretion).
- Swiss-listed companies may only pay tax-free capital contribution reserves if they pay taxable dividends equal to the same amount.

Summary

Cantons are expected to receive an increased share of federal tax: 21.2% (previously 17%).

- This will enable the majority of Swiss cantons to provide attractive corporate tax rate of between 12% and 18% (combined federal and cantonal tax).

Additional Information

If you would like additional information regarding the changes to the Swiss Corporate Tax Regime, please contact Christine Breitler at the Dixcart office in Switzerland: advice.switzerland@dixcart.com. Alternatively please speak to your usual Dixcart contact.