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Corporate tax

# Switzerland Relaunches Corporate Income Tax Reform

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After Swiss voters rejected the Corporate Tax Reform III, the Swiss Federal Council has now adopted the main points of the Tax Proposal 17, a revised corporate tax reform package.

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During its meeting of June 9, 2017, the Swiss Federal Council discussed the tax reform agenda and adopted the main points of the Tax Proposal 17 ("TP17"). The TP17 was presented to the Swiss Federal Council by a steering body comprised of representatives from the Swiss Federation and Cantons. Similar to the Corporate Tax Reform III ("CTRIII"), it mainly aims at abolishing a number of tax privileges which have been challenged by the European Union and other international organizations for a considerable time, and replacing them with new taxation rules which comply with modern international standards.

## Rejection of the CTRIII

The launch of the TP17 became necessary when Swiss voters rejected the CTRIII in a public vote on February 12, 2017. Initially, the CTRIII was launched by the Swiss Federal Council with the intention of replacing the traditional Swiss tax privileges with new, more internationally compliant taxation rules. The analysis of the voting revealed that the CTRIII was rejected mainly because it was perceived as being too economically friendly and, in particular, the municipalities and towns doubted that the new taxation rules would result in a well-balanced budget.

Despite the rejection of the CTRIII, the immediate nullification of the aforementioned contentious tax privileges has remained a top priority for the Swiss Federal Council. Therefore, immediately following the public vote of February this year, the Swiss Federal Council installed a steering body, comprised of federal and cantonal representatives, with the task of elaborating a more balanced proposal as soon as possible. The steering body has since then met a total of



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five times in March and May, and presented their recommendations, titled TP17, to the Swiss Federal Council on June 1, resulting in these recommendations being largely adopted during a meeting on June 9. As expected, the TP17 is very similar to the CTRIII, however, slightly less economically friendly.

## The Core Elements

The core elements of the TP17 remain the abolition of the various tax privileges offered by Switzerland, namely the holding company, domiciliary and mixed company privilege, as well as the favorable international allocation of profits rules applicable to so-called principal companies and finance branches.

In order to remain an attractive tax jurisdiction, the abolition of the tax privileges will be mitigated by the following measures:

- As already stipulated in the CTRIII, Proposal 17 will also provide very attractive transitional rules allowing the formerly privileged companies to step-up the tax basis of their assets tax neutrally allowing them to benefit from a higher depreciation basis for a given period of time.
- Furthermore, the TP17 will still include the introduction of a mandatory patent box in accordance with the OECD standard. Compared to the CTRIII, the newly-proposed patent box regime will not be applicable to patented software any longer.
- The introduction of an R&D super-deduction limited to 150 percent of actual expenses remained in the TP17, but will focus more on salary expenses compared to the CTRIII.
- The maximal combined tax relief resulting from the patent box and the R&D super-deduction has been reduced from 80 percent (CTRIII) to 70 percent.

In this context, it is important to note that the significant corporate tax rate deductions already announced by many Swiss cantons will not be affected by the TP17. Depending on the location, the effective ordinary corporate income tax rates will be significantly lowered to a level of 12–14 percent as of 2019/2020.

In order to be better prepared for a possible public referendum, the TP17 does not include a notional interest deduction system anymore.

In addition, the minimal individual taxation of dividends from qualified participants representing a stake of at least 10 percent will be increased to 70 percent of the ordinary individual taxation rates.

## Moving Forward

Moving forward, the Swiss Federal Council has instructed the Federal Department of Finance to submit to it a consultation draft by September 2017. The consultation should be completed by December 2017, allowing the Swiss Parliament to address the topic in its spring 2018 session. It is possible that certain measures of the TP17 will be amended during this process. The TP17 is expected to enter into force in 2019 or 2020.

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