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The cornerstones of TP17 are as follows:

- **Tax privileges.** The special taxation status of holding, mixed, domiciliary, and principal companies as well as Swiss finance branches will be abolished. *Implementation at federal level: yes, for principal companies and Swiss finance branches; cantonal/communal level: yes, compulsory*

  Companies that lose their privileged status are given the option of tax-neutral disclosure of existing hidden reserves (step-up as per current taxation practice and/or special-rate solution). The specific arrangements depend on the respective canton of domicile.

- **Patent box system.** Introduction of a patent box in line with the OECD standard at cantonal level. With this patent box, net profits attributable to patents and comparable rights will be taxed at a discount of no more than 90%. The term "comparable rights" includes supplementary protection certificates, topographies, plant varieties, data protection in accordance with the Therapeutic Products Act, and the corresponding foreign rights. Not included in the patent box are inventions by SMEs that are not protected by a patent, and proprietary software. *Implementation: federal: no; cantonal/communal: yes, compulsory*

Tax Proposal 2017

On September 6, 2017, the Swiss Federal Council launched the consultation process on its Tax Proposal 17 (TP17). TP17 represents a revision of the failed third corporate tax reform (CTR III) and contains several tax (and non-tax) measures that aim to boost Switzerland's competitiveness in tax matters. It is designed to preserve Switzerland's attraction as a business location, bolster international acceptance and secure future tax revenues.

- **Additional deduction for research and development.** The additional deduction for research and development at cantonal level is capped at 50% of actual costs incurred (i.e., for a total not exceeding 150%); however, this is now limited to directly attributable staff costs plus a flat-rate allowance for general costs. The measure applies only to domestic research and development activities. *Implementation: federal: no; cantonal/communal: yes, optional*

- **Maximum tax relief.** Tax relief on profit obtained by the two aforementioned measures is capped at 70% (CTR III: 80%) of taxable profit. This limitation includes the tax depreciation on stepped up assets obtained by changing from a special-status company to an ordinary taxed company (see above). *Implementation: federal: no; cantonal/communal: yes, compulsory*

- **Capital tax.** The cantons may lower their capital tax base relating to participations and patents (proportionate equity). *Implementation: federal: no; cantonal/communal: yes, optional*

- **Disclosure of untaxed reserves when changing domicile.** Companies that transfer their domicile to Switzerland can initially benefit from additional write-downs on stepped up values. If they transfer their domicile abroad, the currently prevailing exit tax (market value approach) continues to apply. *Implementation: federal: yes; cantonal/communal: yes, compulsory*

- **Lump-sum tax credit.** As a new measure, Swiss permanent establishments of foreign companies will also be eligible for lump-sum tax credit. *Implementation: federal: yes; cantonal/communal: yes, compulsory*

- **Partial taxation of dividends.** In the case of individuals, the partial taxation of dividends from qualified participations (10% or more of the capital) is increased to 70% at federal level (60% before); at cantonal and communal level, it is also to be at least 70% (no lower limit before). *Implementation: federal: yes; cantonal/communal: yes, compulsory*

- **Adjustments to tax-free capital gains (transposition).** Under the existing regime, individuals were able to sell participations of max. 5% to own-controlled corporations at market value without any tax implication. This threshold is to be abolished, which means that even portfolio securities will now be affected by the transposition restrictions. *Implementation: federal: yes; cantonal/communal: yes, compulsory*

- **Vertical offset.** The cantonal share in the direct federal tax collected increases from 17% to 20.5%. In distributing this surplus, the cantons must take due consideration of the financial needs of the municipalities and communes.

- **Child and education allowances.** The minimum monthly amount of child and education allowances is to be raised by CHF 30. The child allowance will thus amount to at least CHF 230 per month, and the education allowance to at least CHF 280 per month.

Strikingly, the draft bill does not provide for an interest-adjusted income tax (notional interest deduction) – something the Canton of Zurich, in particular, had demanded unequivocally.

In sum, and notwithstanding the absence of the notional interest deduction, it can be said that TP17 essentially includes the same elements as CTR III. The carrots being offered to the victorious opponents of CTR III are (apart from the withdrawal of the notional interest deduction): slight adjustments to the patent box and to the deductions for research and development, a slightly lower maximum tax relief and, above all, a massively higher taxation of dividends from qualified participations for individuals, as well as the – incomprehensible – tightening of the current transposition practice. Moreover, the increase in child and education allowances, although plainly outside the scope of corporate taxation, is offered as an additional carrot.

Next steps

The consultation process will last three months, ending on December 6, 2017. The dispatch to the Federal Parliament is envisaged for spring 2018. If all goes to plan, the two chambers of Parliament could debate the TP17 draft bill during their summer and fall sessions of 2018.

The cantons are called on to drive their cantonal implementation plans in parallel to the federal proposal and to make them public by the time the decision on TP17 is due. This is aimed at reinforcing the proposal's transparency.

It is hard to estimate when TP17 might become law. Its entry into force and the applicability of its regulations are not foreseen until January 1, 2020.
We will keep you posted on the further developments in connection with TP17.

Tax Partner AG

Zurich, September 2017

Tax Partner AG, Taxand Schweiz

Tax Partner AG, Taxand Switzerland, is focused on Swiss and international tax law and is recognised as an important independent tax boutique. With currently 10 partners and counsels and approximately 40 professionals, the firm has been advising multi-national and national corporate clients as well as individuals since it was established in 1997.

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