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Rejection of the Corporate Tax Reform III

Much suspense surrounded the outcome of the public vote on the corporate tax reform (CTR III), held on February 12, 2017. The bill, which the federal parliament had passed in June 2016, was rejected by 59.1% of the voters.

Switzerland now has a lot to answer for to the rest of the world, and its position as an investment and business location is seriously weakened by the lack of legal and planning certainty. The Federal Council now needs to present some new proposals, i.e., a new CTR III bill, to the federal parliament. By rejecting the old bill, the voters have signaled that they want some changes to the reform. What is clear across all political landscapes is the need to abolish certain tax privileges, such as those for mixed companies or holding companies. The negative outcome at the polls has slowed progress in the matter. Implementing the reform by January 1, 2019 now looks to be challenging.

One can expect that, in order to achieve majority consensus, the new bill will be trimmed.

But a fundamentally changed reform agenda is not likely (please see our Tax News of June 2016 regarding the contents of the rejected reform). The political discussion on how to compensate for any abolished tax privileges will nonetheless gain fresh momentum. The notional interest deduction, of significance for mobile financial companies, and the deduction of more than 100% of research and development costs incurred domestically were already debated controversially in the previous parliamentary deliberations. The partial taxation of dividends is also sure to spark fresh controversy. We can only hope that the taxation of private capital gains will not be made an issue again, especially since it would create another locational disadvantage for Switzerland.

We assume that the cantons will cut their ordinary corporate income tax rates despite the negative outcome of the national vote (the Canton of Vaud, for example, has already done so) in order to remain as an attractive business location from a tax point perspective. It is worth keeping in mind that numerous cantons already have favorable corporate profit tax rates in place (pre-tax federal/cantonal/municipal rates of 12% – 15%). It is also feasible that the cantons will abolish their privileged tax regimes for holding and mixed companies regardless of what happens on federal level.

Moreover, in the majority of the cantons it is currently possible for privileged taxed companies to tax neutrally disclose certain hidden reserves (step-up), which were developed under the privileged tax regime, when voluntarily changing from privileged taxation to ordinary taxation.

It is now a matter of following the national and cantonal developments. We will keep you informed in this connection.

Tax Partner AG

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Tax Partner AG, Taxand Schweiz

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