Tax Proposal 2017

After the Swiss voters rejected the corporate tax reform (CTR III) (please see our Tax News of February 2017), the Federal Department of Finance launched Tax Proposal 17 (TP17) to safeguard Switzerland's competitiveness. TP17 aims to preserve Switzerland's attraction as a business location, bolster international acceptance and secure future tax revenues.

In preparing TP17, the federal government's Steering Committee, which consists of federal and cantonal representatives, carried out consultations with city and communal representatives, political parties, as well as business and employees' associations.

The Federal Council deliberated on the key recommendations of the Steering Committee on June 9, 2017 and indicated broad agreement with them in its subsequent media release.

The Federal Council has adopted the following key elements of TP17:

- **The privileged tax regime** for companies with special tax status (holding / mixed / domiciliary / principal companies and Swiss finance branches) is to be abolished.
- **Patent box system.** A mandatory patent box in line with the OECD standard is to be introduced at cantonal level. The patent box is defined more narrowly than it was in the CTR III proposal: the privileged treatment of royalties from proprietary software has been eliminated.

- **Deductions for research and development.** The additional deduction of R&D costs is capped at 150% of real costs, and is now limited to staff expenditures.
- **Combined tax relief.** Tax relief on profits derived from the two aforementioned privileges is capped at 70% (CTR III: 80% maximum relief). This limits the scope for tax relief compared with CTR III.
- **Partial taxation of dividends.** At federal level, the partial taxation of dividends from qualified participations (10% or more of the capital) is set at 70% (before: 60%); at cantonal and communal level, it is to be at least 70% (no limit before). In the CTR III proposal, the lower threshold for the cantons introducing the interest-adjusted income tax – which is no longer part of the new proposal – was 60%.
- **Vertical offset.** The share of the cantons in the direct federal tax is to be increased from 17% to 20.5% (CTR III had envisaged a cantonal share of 21.2%).
- **Child and education allowances.** The minimum amount of the child and education allowances is to be raised by CHF 30. The child allowance would thus amount to at least CHF 230, and the education allowance to at least CHF 280. This element has no material connection with the corporate tax reform but was added for purely political reasons. Presumably because a similar benefit had led the voters in the Canton of Vaud to accept the cantonal CTR III proposal.

Next steps

The Federal Department of Finance will prepare a consultation draft by September 2017. The submission of the draft bill to the Federal Parliament is envisaged for spring 2018. If all goes to plan, the two chambers of Parliament could debate TP17 during their summer and fall sessions of 2018.

The Steering Committee attaches great importance to a speedy implementation at cantonal level. The cantons are therefore 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.

At this point it is difficult to estimate a date for TP17's entry into force. All the more so because a referendum against the parliamentary decision on TP17 is not improbable given the rather tough criticism that was levied against the proposal from all sides of the political spectrum as well as from various interested parties. To expect the entry into force of the new TP17 regulations by January 1, 2020 seems ambitious, although it's not entirely unrealistic.

We will keep you posted on the further developments in connection with TP17.

Tax Partner AG

Zurich, June 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.

Tax Partner offers the full range of tax advice thereby offering a unique in-depth service quality to its clients.

As a part of its growth and continuously expanding international relationships, Tax Partner co-founded Taxand in 2005. Taxand is the world's largest independent tax organisation delivering high quality integrated tax advice worldwide.

Tax Partner has repeatedly been nominated as a leading tax firm in Switzerland in several international rankings.

Tax Partner AG
Talstrasse 80
8001 Zurich
Switzerland
Phone +41 44 215 77 77
Fax +41 44 215 77 70
www.taxpartner.ch

TAXAND
Your global tax partner
www.taxand.com