

Tax News

Canton of Zurich: voters agree to Tax Proposal 2017

Last Sunday, the Canton of Zurich voted for Tax Proposal 2017 (TP17) and gave the green light to implement the Tax Reform and OASI Financing (TROF) measures at cantonal level as planned. The new tax legislation had already been accepted federally in the national poll of May 19, 2019 (see our Newsletter of May 2019). The cantonal tax adjustments will enter into force on January 1, 2020 (followed by a corporate tax cut effective from January 2021) and include the following:

- **Abolition of tax privileges.** TROF / TP 17 abolishes the privileged taxation status of holding, mixed, domiciliary, and principal companies as well as Swiss finance branches. Companies in the Canton of Zurich that lose their privileged status are given the option to disclose their existing hidden reserves tax-neutrally (step-up) and depreciate them over 10 years, or agree to a special tax rate for a limited transition period to cushion the effects of the abolition. These compensation measures can also be combined in the Canton of Zurich.
- **Patent box system.** The introduction of a patent box is mandatory for the cantons. The maximum allowable discount on the taxation of net profits from patents and comparable rights is set at 90% in federal law, which the Canton of Zurich fully applies.
 - All qualifying patent box gains therefore benefit from the maximum tax relief.
- **Deductions for research and development.** Contrary to the patent box, the introduction of an additional reduction for R&D costs is optional. However, the Canton of Zurich uses this option fully and sets the eligible expenditure at 50% (of R&D-incurred staff costs plus an allowance of 35%).
- **Deduction for equity financing (notional interest deduction).** Federal law gives the so-called high-tax cantons the option of introducing a deduction for equity financing (notional interest on surplus equity capital). A canton is deemed a high-tax canton if the (cantonal and communal tax rate in the canton's capital is at least 13.5%).

The Canton of Zurich will therefore introduce the notional interest deduction. This offers the possibility of an additional (notional) interest deduction on surplus equity capital, to be calculated based on a prescribed formula.

- **Disclosure of hidden reserves.** Foreign companies wishing to relocate their domicile to Switzerland may disclose their hidden reserves tax-neutrally (step-up) and write them off over 10 years. This helps reduce the profit tax burden.
- **Cap on tax relief.** The tax relief on profit derived from the aforementioned measures is capped at 70% in federal law, i.e., at least 30% of a company's net profit (before any offset of losses) is subject to ordinary taxation. The Canton of Zurich adopts the maximum allowable tax relief of 70% and thus makes full use of the scope offered by federal law.
- **Profit tax cut.** In contrast to other cantons, the Canton of Zurich will lower the corporate tax rate (simple state tax) only moderately. The profit tax rate will be reduced from 8% to 7%, effective from January 1, 2021. A further rate reduction to 6% is planned (effective from 2023), but to date no such legislative proposal exists. For the City of Zurich, this translates into a reduction in the overall (communal, cantonal, federal) corporate profit tax rate from 21.15% to 19.7%, effective January 1, 2021, and possibly to 18.2% (as of January 1, 2023) in a second step.
- **Reduction of the capital tax.** The ordinary capital tax rate remains essentially unchanged. The Canton of Zurich, however, introduces an indirect reduction through cutting the capital tax base by 90% of the capital portion attributable to participations, patents, and intercompany loans.
- **Partial taxation of dividends.** The Canton of Zurich, in alignment with federal practice, shifts from the partial rate to the partial taxation procedure, adopting the maximum allowable relief of 50% (70% federally).

- **Transposition.** Under current law, individuals can sell private investments of less than 5% of total assets tax-free to companies in which they hold at least 50%. This process, also called transposition, will now be curbed at cantonal level, just as it was at federal level, by abolishing the 5% threshold.
- **Bonus shares.** Changes will also take place regarding the income tax treatment of bonus share emissions, bonus increases in nominal value, and similar transactions. From January 1, 2020, the taxation event will be determined by the date of emission of the bonus shares or the bonus increase in nominal value. However, the emission of bonus shares or free equity increases that took place before December 31, 2019, will still only be taxed as income once the bonus nominal value has been repaid.

Status of the implementation by the cantons

Last Sunday's vote was the eighth cantonal plebiscite on the implementation of TROF. Only two cantons (Bern and Solothurn) turned down the proposed legal amendments. (Not all cantons need to hold such a ballot, and some only if a referendum is called.) Besides Zurich, nine other cantons (Basel-Stadt, Fribourg, Geneva, Glarus, Lucerne, Neuchatel, Schwyz, St. Gallen, Vaud) can now conclude the legislative exercise and start implementing TROF. The next cantonal votes on TROF will take place on September 22, 2019 in Obwalden, on October 20, 2019 in Uri, and on November 24, 2019 in Basel-Land and – provided the call for a referendum is successful – in Zug. This means that by the end of the year, about half the cantons will likely have accepted the TROF Act. The others stand to formally conclude the process within 2020. In sum, the cantonal changes relating to TROF will for the most part enter into force by January 1, 2020, or will be enacted retroactively.

Tax Partner AG, September 2019

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 more than 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

DISCLAIMER

This publication highlights certain issues and is not intended to be comprehensive or to provide tax or legal advice. Tax Partner AG is not liable for any damage resulting from the information provided. To unsubscribe, send an e-mail to unsubscribe@taxpartner.ch.