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Corporate tax reform III - the draft act

For the intended CTR III the Swiss Federal Council put together a project organisation in 2013 and initiated a consultation in 2014. Based on the consultation responses, on 5 June 2015, the Federal Council released the draft act and the related dispatch regarding CTR III for consideration by Parliament.

The Federal Council's dispatch regarding the CTR III contains the following elements:

- The reforms will put an end to the tax regimes for various company structures (holding, mixed and domiciliary companies, principal companies or Swiss finance branches)
- Harmonized federal rules on the tax-privileged disclosure of hidden reserves will partially compensate for this. In particular, in connection with the transition from privileged to ordinary tax status (optional to the taxpayer) the amount of surplus values, incl. business goodwill will be subject to privileged taxation over a five year period
- A cantonal patent box system (privileged taxation of royalties from patents and intellectual property rights) will be introduced in line with international standards (OECD, EU)
- The cantons will have the option to grant additional tax deductions on research and development expenditures (in excess of actual expenses)
- The cantons may also grant relief on the capital tax
- The dispatch proposes the abolition of the issuance tax on equity capital of 1%
- With regard to individual shareholders, dividend income from qualified participations (starting at 10%, as previously) will generally be taxed at 70% (rather than the customary 60% now). This will apply uniformly to the federal and cantonal levels

Furthermore, due to the abolishment of the existing tax regimes, cantons considering their ordinary tax rates at the cantonal / communal level with the aim that the overall effective income tax rate will be in the range of 10% - 14% (including federal, cantonal and communal tax). Certain cantons already offer such attractive overall ordinary tax rates.

In order to focus on the most important measures and not to overload the tax reform the Federal Council has decided to drop the following proposals from bill

- Adjustments to the offsetting of losses
- Adjustments to the participation exemption system
- Introduction of a capital gains tax for individuals
- Interest-adjusted profit tax

- Tonnage tax.

Dropping the notional interest deduction on equity capital from consideration has led to heated discussions, and the concept could be reintroduced in the parliamentary debate.

The parliamentary debate will presumably take place in the Winter 2015 and Spring 2016 sessions and will not conclude before Summer 2016. If no optional referendum is launched, the earliest expected date for CTR III to enter into force is 1 January 2017, but more likely is 1 January 2018. The cantons will then have two years to incorporate the changes into their cantonal laws (e.g., abolition of cantonal tax regimes), i.e. by 1 January 2019 or more likely by 1 January 2020.

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Taxand's Take

The key elements of the CTR III is the improvement of the corporate tax law in various aspects and the abolishment of the issuance tax on equity capital. In addition, thanks to the domestic tax competition, certain cantons offer already very attractive ordinary effective corporate income tax rates of only 12% - 14% (including federal, cantonal and communal tax). Other cantons (in particular the “hub” cantons Geneva and Zurich with current overall ordinary tax rates of 21% - 24%) will need to reduce their ordinary tax rates in order to be competitive. Some cantons have already signaled that they will reduce their ordinary rates. As an alternative, a tax-neutral relocation from a high taxed to a low taxed canton can be considered.

With the CTR III, Switzerland will continue to remain a business location for nationals and multinationals and consolidate international acceptance in consideration of international developments in the OECD and EU.

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