

## Legislation Projects in Swiss Tax

What is happening in Swiss tax legislation? In addition to the upcoming upheavals in international tax law, important changes of the national tax legislation are expected in the near future.

This newsletter provides an overview of the most important tax projects in Switzerland and their implementation.

### Businesses

#### 1) Abolition of the stamp duty

On 18 June 2021, parliament decided to abolish stamp duty, thus implementing part of the "Gradual abolition of stamp duty" initiative that has been pending since 2009. The Social Democratic Party has already launched a referendum against this and it is likely that a popular vote will be held. Therefore, entry into force would not happen before 1 January 2023.

The stamp duty of 1% on any equity contribution to domestic corporations results in a high tax burden on investments in international comparison. Because of the stamp duty, the Swiss financial market is also unattractive for so-called SPACs (Special Purpose Acquisition Companies), which are listed on the stock exchange and subsequently used for the acquisition of existing companies. The abolition of the stamp duty, which has been discussed for a long time, will strengthen Switzerland as an investment location.

#### 2) Abolition of withholding tax on interest

On 15 April 2020, the dispatch on the reform of the withholding tax was adopted. The reform serves to strengthen the domestic bond market by abolishing the withholding tax on bond

interest and the turnover tax on transactions with domestic bonds. Withholding tax on bank interest paid to private individuals and on dividends will remain unchanged.

The planned reform is to be applauded, as it will make the Swiss bond market more attractive. Parliamentary consultations on the bill will begin in fall 2021 and it could enter into force on 1 January 2023, at the earliest.

### **3) Wider application of the withholding tax notification procedure**

In order to align the domestic withholding tax rules with participation exemption relief for corporations and the international withholding tax rules provided for in many tax treaties, it is planned to allow the notification procedure (relief at source instead of the refund procedure) for dividends from 10% investments instead of the current 20% investments. This would improve the liquidity situation of the parent companies, as the withholding tax refund usually takes considerable time.

In addition, it is planned to extend the notification permit for the international notification procedure of the dividend withholding tax from three to five years. This measure aims to reduce the administrative burden for all parties.

The corresponding amendments of the ordinance will enter into force on 1 January 2022, at the earliest.

According to the Federal Tax Administration, the possibility of a reporting procedure for dividends to private individuals with a qualifying shareholding of 10% was dropped for constitutional reasons. If one abstracts from the ideological discussions, a reporting procedure similar to the AEOI (automatic exchange of information on financial accounts) would be a practical solution, as the cumbersome and usually lengthy refund procedure is a burden for both the dividend recipient and the tax authorities.

### **4) Extension of the loss carry forward period from seven to ten years**

On 12 January 2021, a motion was filed to extend the loss carry forward period from seven to ten years. This would give existing companies more time to recover from a crisis (e.g. Covid) and to allow newly established companies a longer start-up period. This endeavour is in line with the principle of taxation according economic capacity and would bring Switzerland closer to the

international standard. The National Council adopted the motion on 1 March 2021 and it is now pending in the Council of States.

## **Private individuals**

### **1) Increased taxation of "capital income"**

On 26 September 2021, the Swiss people will vote on the so-called 99% initiative. The initiative provides for a 150% taxation of all capital income, including capital gains above CHF 100,000 per year. Any income from any asset would be impacted by this supertax. As a result, tax-free private capital gains on private assets will be abolished and an exit tax as known in many other jurisdictions will be introduced. In addition, income and gains from real estate will also be affected by this supertax.

This supertax will negatively impact the savings rate and will probably lead to an exodus of high net worth individuals.

If the initiative is adopted, it will have to be implemented by parliament, first. Accordingly, entry into force would not occur before 2023.

### **2) Taxation of rental value of owner-occupied real estate**

The taxation of imputed rental value has been the subject of political discussions for a number of years. The current proposal of the Committee for Economic Affairs and Taxation of the Council of States provides for the abolition of the rental value for the main residence. The imputed rental value would still be taxed on secondary residences. Expense for property maintenance would be deductible if the imputed rental value is taxed. The deduction of mortgage interest would be abolished, altogether.

For reasons of simplification, the Federal Council proposes the complete abolition of the imputed rental value, i.e. also for secondary properties. Mortgage interest would still be deductible to the extent that it generates taxable income, with taxpayers being granted an additional deduction for debt interest of CHF 50,000 per year. This corresponds to the current rules.

Deductions for preservation work of historical monuments could still be claimed. The Federal Council also wants to continue to allow deductions for energy-saving and environmental protection measures, whereas the Commission only envisaged this at cantonal level.

To promote home ownership, a new deduction for first-time buyers of owner-occupied residential property (main residence) is to be introduced. The deduction would be limited to CHF 10,000 for married couples and CHF 5,000 for single persons in the first tax year and would then decrease proportionally over ten years.

Entry into force could be on 1 January 2023, the earliest. However, it has to be assumed that a generally acceptable solution will take some more time.

### **3) New tax values for real estate**

Various cantons are reviewing the tax values for real estate and are adjusting them to more up to date values. On 11 February 2021, the Canton of Zurich has announced an in-depth analysis of the development of property values. The last general value adjustment took place in 2009 and a general increase in property tax values is to be expected.

### **4) Taxation of spouses and families**

A popular initiative on individual taxation of spouses has been launched with the aim to eliminate the so-called marriage penalty which is caused by the joint taxation of spouses. The aim is to comply with the Federal Supreme Court ruling from the year 1984 and to achieve taxation according to economic capacity. Signatures to support this initiative can be collected until fall next year.

In addition, a parliamentary initiative calls for a deduction for childcare expense up to CHF 25,000 per child and year for federal income tax. The National Council approved this initiative on 14 June 2021. Subject to the approval of the Council of States, this regulation could enter into force the earliest, on 1 January 2022. Parallel developments at cantonal level are to be expected.

Tax Partner AG

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Stephanie Eichenberger is an attorney-at-law and certified tax expert. She has more than 20 years of experience working in tax, starting out with the tax chamber of the Zurich administrative court followed with the law firm of Lenz & Staehelin and Tax Partner. Her broad experience covers the advising of national and international corporate clients as well as individuals including tax litigation. Stephanie became a Partner of Tax Partner in 2015.



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Natalja Ezzaini studied law at the University of Zurich with a focus on tax law. For 2 years she worked as a research assistant at the Chair in Swiss, European and International Tax Law (Prof Dr René Matteotti, University of Zurich). Natalja has joined Tax Partner AG in 2020 where she advises companies and individuals.

## **Tax Partner AG, Taxand Schweiz**

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