Switzerland

Swiss CTR IIII: Latest draft legislation issued by the Federal Council

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Overall the draft legislation (released after public consultation) for Switzerland's Corporate Tax Reform III (CTR III) remains very attractive, in particular given the following favourable developments as compared to the original proposal:

- The proposed introduction of a capital gains tax for individuals was dropped;
- The draft legislation will newly introduce some sort of R&D incentives, which were not in the original proposal, in addition to the patent box regime;
- The so-called step up for tax purposes that would essentially lead to a grandfathering of the effective tax rates of existing cantonal tax regimes that sunset as part of the tax reform presumably in 2019 or 2020, for many years should now be structured in such a way as also to provide a financial statement benefit, that is, for US GAAP and IFRS purposes, not just for cash tax purposes; and
- The planned abolition of the 1% capital issuance tax on equity contributions was confirmed.

The proposed peripheral measures that were dropped, such as the change of the participation regime, were not necessarily favourable to the taxpayer and did not find enough support.

The one negative development is that the notional interest deduction (NID) on equity was dropped. Without this NID regime Switzerland would no longer be attractive for financing activities. Accordingly, a lobbying effort can be expected to bring this regime back into the legislation.

The main replacement measures for the tax regimes that sunset in 2019 or 2020, depending on the time needed for the legislative process, are:

- Step up for tax purposes;
- Patent box; and
- General tax rate reduction.

Although a public vote on the legislation by the Swiss voters is likely, we are confident that the legislation would pass such a referendum.

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