

## Switzerland

### Why the Swiss Corporate Tax Reform III needs to be aligned with BEPS



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Switzerland's Corporate Tax Reform III (CTR III) not only intends to make the country even more competitive internationally as a location for multinationals, but signifies a commitment to introduce a tax system that is aligned with international standards and virtually "BEPS-proof".

Under the proposed reform, likely by 2019 or 2020, all Swiss special corporate tax regimes will be replaced by other measures, such as a step up for tax purposes, a patent box, or notional interest deduction (NID) on equity. In addition, it is expected that most cantons will reduce their headline tax rates significantly. All of these measures combined should provide companies with low tax rates and planning security until 2029 or 2030, so for up to 15 years from now.

While CTR III should be attractive for most companies in the future, there are potential implications of the BEPS project in relation to CTR III that have to be considered now. For example, multinationals in Switzerland often operate under a principal business model and may be affected by the OECD move to attribute a higher share of profit to group entities operating under a limited function and risk profile (for example, toll manufacturing or commissionaire structures). Particularly, the recently published discussion draft on permanent establishment (PE) status avoidance may either require changes to the business model or the principal company may be challenged on the basis of having PEs in a number of countries.

While there are structuring options to mitigate the tax impact of such PEs, they may adversely affect the principal company tax status of a Swiss company, which will only be phased out in 2019 or 2020. Companies affected may seek advice on how to best mitigate the gap in timing between BEPS outcomes and CTR III implementation.

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