International Tax

Switzerland Tax Alert

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Cantons announce lower headline tax rates in anticipation of Corporate Tax Reform III

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Switzerland is considering a comprehensive corporate tax reform, referred to as the “Corporate Tax Reform III,” that could result in the phasing out of certain tax regimes, such as the holding, mixed and domiciliary company regimes between 2018 and 2020. The regimes would be replaced with a variety of other measures.

The overriding objective of the contemplated reform is to secure and strengthen the tax competitiveness and attractiveness of Switzerland as an international location for corporations. To achieve this objective, the steering committee in charge of the reform considers it an imperative that the tax system offer competitive tax rates that are accepted internationally.

The changes recommended by the steering committee are, in part, a response to concerns raised by the European Commission that some of Switzerland’s tax rules constitute unfair tax competition and are in violation of the 1972 Switzerland-EU Free Trade Agreement.

The steering committee has recommended several measures to replace the holding, mixed and domiciliary company regimes that would accomplish the dual goals of tax competitiveness and international acceptance. These measures include:

- A “license box” for income arising from the exploitation and use of intellectual property;
- A notional interest deduction on equity; and
- A general reduction of the headline corporate tax rate (effective combined federal/cantonal/communal rate).

Other measures to increase the general tax attractiveness of the country are being considered, such as broadening the participation exemption from an indirect exemption to an outright exemption; making it possible for the cantons to eliminate the annual net wealth tax for corporations; abolishing the capital issuance tax on capital contributions; and amending the withholding tax law to allow Swiss companies to issue bonds without adverse withholding tax consequences.

Steps taken by the cantons

Following the recommendation of the steering committee, several cantons already have announced a reduction of their headline tax rates (effective combined federal/cantonal/communal rates) and others are likely to follow suit in the near future:

- **Canton of Vaud:** The canton of Vaud gradually will reduce the headline tax rate for all corporations in Vaud from 22.8% to 13.8% in 2020.
- **Canton of Geneva:** The canton of Geneva will lower the headline tax rate for all corporations from 24.2% to 13%.
- **Canton of Neuchâtel:** Neuchâtel started to decrease the income tax rate in 2012; by 2016, it will tax all corporations at a rate of 15.61%.
- **Canton of Fribourg:** The canton of Fribourg will reduce it headline tax rate from 19.6% to 15%.
- **Canton of Zug:** The canton of Zug will reduce the headline tax rate from 14.6% to around 12%.

In addition, the following cantons, all of which currently impose a tax rate under 15%, have stated or are expected to maintain their low headline tax rates (effective combined federal/cantonal/communal):

- **Canton of Schwyz**: 11.7% (communities of Freienbach/Wollerau)
- **Canton of Lucerne**: 12.3% (11.3% in the lowest taxed community)
- **Canton of Appenzell Ausserrhoden**: 12.7%
- **Canton of Nidwalden**: 12.7%
- **Canton of Obwalden**: 12.7%
- **Canton of Appenzell Innerrhoden**: 14.3%

As indicated above, the lowering of the headline tax rate is only one of several measures that are being contemplated to ensure the competitiveness and attractiveness of Switzerland for corporations once certain special tax regimes are phased out.
