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Public Consultation on Tax Proposal 17 Initiated

After the rejection of the Corporate Tax Reform III package following a referendum held in February 2017, the Federal Council published new draft legislation for a tax reform (the 'Tax Proposal 17') on 6 September 2017 and initiated a public consultation process that will last until 6 December 2017.

Overall, the Tax Proposal 17 includes measures that are fairly similar to the recently rejected reform package, with some modifications designed to achieve buy-in from the majority of the Swiss populace. As in the previous package, the Tax Proposal 17 would repeal the current privileged corporate tax regimes (holding, mixed and domiciliary or auxiliary companies, the finance branch regime and the principal company regime) and introduce some new measures designed to maintain Switzerland's competitiveness in the international tax arena (in particular, an OECD-conforming patent box regime and a super-deduction for R&D expenses). However, the highly controversial notional interest deduction is no longer included in the current proposal.

The key measures of the proposal are set out below:

Measure	Mandatory implementation	
	Federal level	Cantons / communes
Abolition of the arrangements for cantonal status companies At cantonal level, status companies pay only a reduced profit tax or none at all. This preferential treatment will be abolished with TP17. Overtaxation will be avoided with a temporary special tax rate solution.	No	Yes
Patent box Profits from patents and similar rights will be separated from other profits and taxed at a lower level. The relief may not exceed 90%. The proposed arrangement is based on the current international standards (nexus approach).	No	Yes

Measure	Mandatory implementation	
	Federal level	Cantons / communes
Additional deductions for research and development There may be additional deductions of no more than 50% for research and development expenses. The measure is aimed at domestic research and development. The key expenses are personnel expenses plus a flat rate supplement.	No	Voluntary implementation
Relief restriction The aggregate tax relief based on the patent box and additional R&D deductions may not exceed 70% of the taxable profit (down from 80% in the CTR III package). The calculation also includes amortization based on earlier taxation under a cantonal tax privilege.	No	Yes
Increased dividend taxation Dividend inclusion for individuals owning corporate equity stakes of at least 10% will rise to 70% at federal and cantonal levels; cantons may raise the inclusion ratio even further.	Yes	Yes
Increase in the cantons' share of direct federal tax revenue The cantons' share of the federal direct tax revenue will be raised from 17% to 20.5%.	Yes	
Consideration of the cities and communes The cantons have to give adequate consideration to the needs of cities and communes in connection with the increase in the cantons' share.		Yes
Increase in the minimum federal requirements for family allowances The minimum family allowance entitlement will be raised by CHF 30.		Yes
Capital tax adjustments The cantons may allow for a reduced capital tax rate relating to equity capital invested in corporate equity interests and patents, and similar rights.	N/A	Voluntary
Step-up of hidden reserves Companies relocating to Switzerland from abroad may benefit from additional amortization of stepped-up asset values (including goodwill). If companies migrate from Switzerland to a foreign jurisdiction, an exit tax on hidden reserves will be due, as is already the case.	Yes	Yes

Measure	Mandatory implementation	
	Federal level	Cantons / communes
Tightening of tax rules in respect of private restructurings The scope of tax-neutral transfers by individuals of corporate minority interests (in particular during takeover scenarios) will be narrowed down.	Yes	Yes
Extension of the lump-sum foreign tax credit The lump-sum foreign tax credit prevents international double taxation. Under certain conditions, Swiss permanent establishments of foreign companies will, in future, also be entitled to it.	Yes	Yes
Fiscal equalization adjustments To prevent upheaval among the cantons, fiscal equalization will be adjusted in line with the new reality in terms of tax policy.		

Although not a formal measure within the proposal, the increase of the cantons' share of federal tax revenues is meant to allow for general corporate tax rate cuts at the cantonal level, which the cantons are expected to make use of in varying degrees.

After the consultation process, the Federal Government is expected to release a formal proposal to the Federal Parliament in early 2018, which is planned to be dealt with by the two chambers of the Federal Parliament during spring/summer 2018. The current consultation phase aims to align the different interest in order to avoid another referendum and a delay of the reform.

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