CREDIT SUISSE

Tax Reform and AHV Financing (TRAF)

Changed tax environment for entrepreneurs since January 1, 2020

The Swiss Federal Act on Tax Reform and AHV Financing (TRAF), which came into force on January 1, 2020, presents both opportunities and challenges for SMEs. It is important for entrepreneurs to be familiar with the new tools introduced as part of the reform, and to be able to use them to best effect.

What has changed with the TRAF?

Tax measures

- Abolition of special status: Tax privileges for specific company types (holding companies, mixed companies, domiciliary companies, principal companies, Swiss finance branches) no longer exist. For a limited period, TRAF provides transitional measures for the status change.
- Introduction of a patent box: Mandatory patent box meeting OECD standards at cantonal level. Revenue generated by patents will be separated from other income and taxed at a lower rate (maximum tax relief 90%).
- Higher deductions for research and development (R&D): Possibility of additional deductions for research and development, amounting to a maximum of 50% of the actual expenses, at cantonal level. Various cantons introduced such deductions on January 1, 2020.
- Notional interest deduction: Possibility for high-tax cantons to introduce a deduction on excess equity capital.
- Step-up/transitional measures: Companies that transfer their domicile to Switzerland benefit from additional write-downs in the first few years. Additional rate: A special tax rate solution for disclosure of hidden reserves is provided for companies that had to waive their special status at the end of 2019 (holding companies, mixed companies, and domiciliary companies).
- Limit on tax relief: The tax relief on profits resulting from application of the patent box, from the higher deductions for R&D, from the notional interest deduction, and based on the step-up shall not exceed 70% at the cantonal level.
- Adjustments to tax on capital: The cantons may include the capital attributable to participations, patents and similar rights as well as intra-group loans at a reduced rate in the calculation of the tax on capital.
- Adjustment to partial taxation: Partial taxation of dividends from qualifying holdings (at least 10% of the capital) now amounts to 70% at federal level and at least 50% at cantonal level.
- Capital contribution principle: Capital contribution reserves of companies listed on the Swiss exchanges can be repaid only if concurrent taxable distribution of dividends in the same amount is also paid.
- Other new developments: TRAF also brought changes to the concept of transposition and the provisions on flat-rate tax credits.

Fiscal measures

- Equalization between federal government and cantons (vertical adjustment): Cantonal share of direct Federal tax is now 21.2% (previously 17%).
- Adjustments to fiscal equalization: The changes make it necessary to adjust the national system of fiscal equalization.

Sociopolitical measures

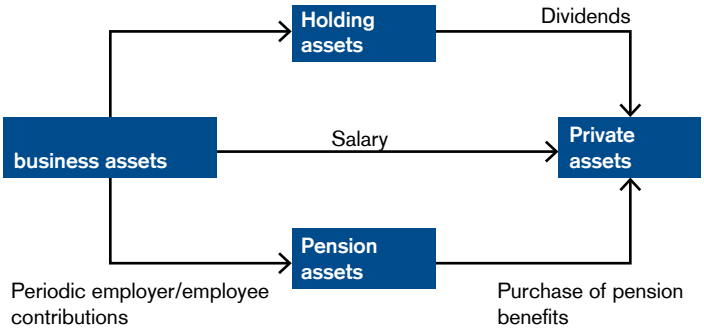
AHV financing: Contribution rate increased by 0.3% (0.15% each for employer and employee).

Measures outside the TRAF

The proposal did not cover the lowering of cantonal corporate income tax rates (cantonal sovereignty), which make up for the elimination of previous tax breaks and are intended to ensure international competitiveness. Many cantons have already passed corresponding tax reductions for companies.

Effect of TRAF on the four types of assets held by entrepreneurs

From the standpoint of tax planning, the TRAF measures will also have a direct impact on the structuring of business assets and the entrepreneur's withdrawal strategy.



Business asset structure

The elimination of the special status for cantonal tax purposes, introduction of a patent box, additional deductions for R&D, notional interest deduction, and the corresponding limit on tax relief raise the question of whether a company's current structure is still effective or whether it ought to be subjected to a functional evaluation.

Withdrawal strategy

With the advent of higher partial taxation of dividend income at federal level and in most cantons, it is necessary to review the withdrawal strategy. Companies should also rethink management of the resources not needed for running the business at the holding company level. This is where transferring funds to private assets can also make sense with a view to planned company succession. By thoroughly analyzing the company's balance sheets (separate financial statements), the owner's current salary, and the pension fund solution, we can show entrepreneurs potential ways to optimize their situation.

Contact us

We will be happy to arrange a personal consultation. Please contact your advisor or schedule an online personal consultation.
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