

Abolition of tax privileges

Opportunities created by abolition of tax privileges

Is your company affected?

Are your operating entities owned by a holding company? Do you have companies that enjoy domiciliary, management, or other privileges? Does your company enjoy other tax advantages? If you can answer “yes” to any of these questions, you may **need to act** due to the TRAF. Our tax consultants are your point of contact, and will be pleased to discuss the opportunities and challenges created by the TRAF with regard to your tax and financial situation.

What changes will the TRAF bring?

Swiss voters approved the Federal Act on Tax Reform and AHV Financing (TRAF) on May 19, 2019. For **companies**, this means the abolition of privileges for holding, domiciliary, management, principal, and finance companies. Hidden reserves formed under the privilege will enjoy tax relief for a transitional period following the abolition of special status. The nature and scope of the relief depend on whether their exit from the privilege is voluntary, i.e. before the TRAF enters into force in the cantons, or mandatory, i.e. upon the TRAF’s entry into force in the cantons on January 1, 2020.

In the case of **voluntary exit** from the special status (**step-up solution**), hidden reserves and goodwill are disclosed on a tax-exempt basis, then written off against taxes over a transitional period of up to ten years. In addition, the revalued amount is subject to tax on capital as well as a relief restriction of 70%. In the case of **mandatory exit** from the privileged regime (**special-rate solution**), hidden reserves and goodwill will be taxed separately at a reduced rate over a five-year statutory transitional period. The special-rate solution is not subject to any relief restriction, and no additional tax on capital is incurred.

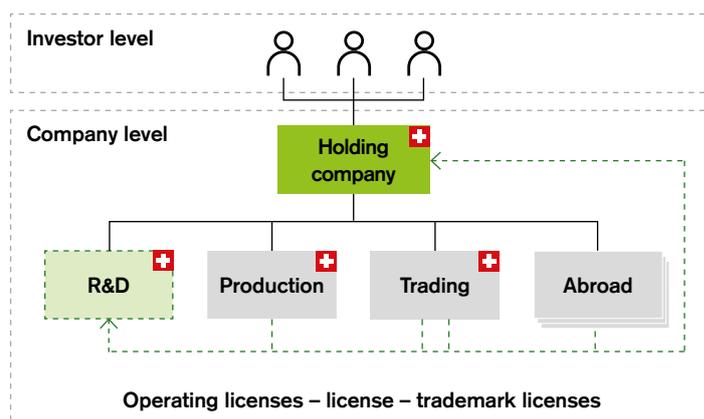
Why the need to act now?

Given that the privileges have to be abolished no later than **January 1, 2020**, it is advisable to act now by calculating the tax impact from the abolition of privileged status. This enables the decision to be made on whether voluntary or mandatory exit from the privileged regime is more tax-efficient for companies.

How can you benefit?

In the absence of further measures, the abolition of tax privileges

will increase the tax burden. Through the **transitional tax arrangements**, the tax consequences of the end of the privileged regime can be reduced and even eliminated for a limited period. This is illustrated by the following generic example:



The transitional tax arrangements may result in a reduction in the tax burden if, in addition to dividends, the holding company also receives licensing income from trademark rights. If an R&D entity meets the requirements for a management privilege and receives operating licenses from abroad, the transitional solutions may lead to a further reduction in the tax burden.

Potential benefits

- Efficient use of transitional tax arrangements reduces the tax burden: The tax reduction increases in line with the proportion of asset value and functions already in Switzerland.
- Lower costs enhance the return on capital, which may result in a higher credit rating.
- Adverse reactions abroad – such as a refusal to allow the deduction of expenses or the levying of withholding tax – can be minimized through ordinary taxation.
- Despite the transitional solution, it is usually easier for companies taxed at the standard rate to reclaim foreign withholding taxes and credit foreign basic tax to Swiss taxes.

Influencing factors

- Possible types of exit from the privileged tax regime in the cantons involved.
- Level of hidden reserves and goodwill at the time of entry and exit from the privilege.
- Applicable valuation method and case-specific valuation procedures.
- Amortization period in the case of voluntary exit, and level of special rate in the case of mandatory exit.

Next steps

- Determine options for exiting the privileged regime in the cantons involved.
- Evaluate exit option(s) and conduct cost-benefit analysis.
- Calculate hidden reserves and goodwill using a recognized valuation method.

- Prepare implementation plan and timetable.
- Meet with cantonal tax authorities and obtain any tax pre-assessments.

How can we help?

Our tax consultants will analyze and calculate whether **voluntary or mandatory** exit from the privileged regime is the more tax-efficient route, enabling you to achieve a sustained reduction in costs.

What next?

Let us know if you are interested in an initial analysis. We will be pleased to send you a **list of the information required**, and to meet with you to discuss **some initial solutions**.

Contact us

We will be happy to arrange a personal consultation. Please contact your advisor to schedule a personal consultation together with one of our tax consultants.

CREDIT SUISSE (Switzerland) Ltd.

P.O. Box 100
CH-8070 Zurich
credit-suisse.com

The information provided herein constitutes marketing material. It is not investment advice or otherwise based on a consideration of the personal circumstances of the addressee nor is it the result of objective or independent research. The information provided herein is not legally binding and it does not constitute an offer or invitation to enter into any type of financial transaction. The information provided herein was produced by Credit Suisse Group AG and/or its affiliates (hereafter «CS») with the greatest of care and to the best of its knowledge and belief. The information and views expressed herein are those of CS at the time of writing and are subject to change at any time without notice. They are derived from sources believed to be reliable. CS provides no guarantee with regard to the content and completeness of the information and where legally possible does not accept any liability for losses that might arise from making use of the information. If nothing is indicated to the contrary, all figures are unaudited. The information provided herein is for the exclusive use of the recipient. Neither this information nor any copy thereof may be sent, taken into or distributed in the United States or to any U. S. person (within the meaning of Regulation S under the US Securities Act of 1933, as amended). It may not be reproduced, neither in part nor in full, without the written permission of CS. Your Personal Data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website <https://www.credit-suisse.com>. In order to provide you with marketing materials concerning our products and services, Credit Suisse Group AG and its subsidiaries may process your basic Personal Data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can opt-out from receiving these materials at any time by informing your Relationship Manager. Copyright © 2019 Credit Suisse Group AG and/or its affiliates. All rights reserved.