

# 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.

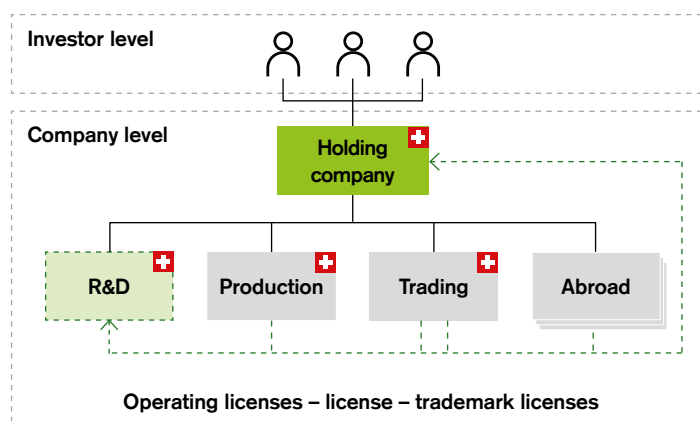
### Why the need to act now?

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**.

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### 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.

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