Tax Flash: Update Swiss Tax Proposal 17 (TP 17): the major changes

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On 9 June 2017, the Swiss government confirmed the main parameters of a revised Swiss corporate tax reform package, the Tax Proposal 17 (TP 17). The most important adjustments are: no notional interest deduction and an increased base erosion limitation. Expected to enter into force in 2019 / 2020.

TP 17 proposed measures

TP 17 closely resembles the Swiss corporate tax reform III bill which was rejected earlier this year. TP 17 aims to replace current preferential tax regimes with new tax measures in line with international standards. In combination with significant tax rate reductions already announced by Swiss cantons, TP 17 is aimed at maintaining Switzerland's leading position as an attractive international business location:

- **Tax rate reductions**: Many Swiss cantons will significantly lower their effective corporate income tax rates as of 2019/2020. Depending on the location, effective corporate income tax rates can be in the range of 12-14%.

- **Patent box and R&D super-deduction**: TP 17 proposes to introduce a patent box on 90% of qualifying income as well as a super-deduction of 150% on R&D expenses. Patented software is expected to be excluded from the scope of such patent box. The super-deduction on R&D will be focused on salary expenses.

- **Preferential tax regimes**: Existing preferential tax regimes such as holding, principal, mixed company and finance branch regimes will remain in force until TP 17 is implemented. Due to the participation reduction on dividends and capital gains, the significant tax rate reductions and tax neutral step-up possibilities (see below), abolishing the preferential tax regimes should only have a limited impact on Swiss operations.

- **Step-up in asset basis**: Under current Swiss tax law companies benefitting from a Swiss preferential tax regime may receive a tax neutral step-up in basis (including goodwill) should they decide to renounce such preferential regime voluntarily. The effective tax rate following such step-up should generally match the current effective corporate income tax rate and reduce administrative compliance under the new standard on exchange of information. TP 17 also includes a revised step-up model which avoids a deferred tax asset for multinationals subject to a fair view accounting standard such as IFRS or US GAAP.

- **Measures to secure political consensus**: TP 17 does not include the earlier considered notional interest deduction. Dividend taxation for Swiss resident individuals will be increased to 70% both on federal as well as on cantonal level. This may of course still change in the course of the political process. TP 17 also includes a base-erosion limitation for companies: combined tax deductions under TP 17 will be limited to 70% of the taxable profit.

- **EU ATAD I & II and CCTB proposal**: The implementation of EU ATAD I and II rules as well as the upcoming CCTB proposals in EU member states already have triggered inbound restructurings of holding functions and IP activities to Switzerland as Switzerland is not required to introduce any of these EU-related measures. Yet, Swiss based MNEs will need to take the EU anti-tax avoidance provisions into account when restructuring their Swiss operations in order to avoid adverse tax consequences in the EU.

The changes introduced by TP 17 as opposed to the rejected Swiss corporate tax reform III (CTR III) can be summarized as follows:

Measures	**CTR III**	**TP 17**
Patent box	Yes	Yes (excluding patented software)
R&D super-deduction	150%	150% (focus on salary expenses)
Notional interest deduction	Yes	No
Base-erosion limitation	80%	70%
Abolishing of tax regimes	Yes	Yes
Capital tax relief	Yes	Expected to be included
Step-up in asset basis	Yes	Yes

Next steps

The Finance ministry will release a first draft law for public consultation in the course of September 2017. The results from the public consultation are expected to be published in December 2017 and will be discussed in the Swiss parliament in spring 2018. We recommend clients to consider all elements of TP 17 and continue their ongoing adoption process. Inbound restructurings, transfer pricing reviews and tax-neutral step-up transactions remain a high priority for 2017/2018.

TP 17 is expected to enter into force in 2019 or 2020. Loyens & Loeff is currently working on tailor-made multi-jurisdictional solutions with clients in order to ensure a smooth and efficient transition from the current Swiss tax environment to a post-2019/2020 world, both in Switzerland and the European market.