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Tax Proposal 17: Federal council determines the cornerstones for the message to the Parliament

At its meeting on 31 January 2018, the Federal Council adopted the cornerstones for the message or dispatch to the draft bill to the Parliament regarding the tax proposal 17 (TP17). In addition, the Federal Council once again underlined the urgency of the bill. The Federal Finance Department has been tasked to prepare the message or dispatch to the draft bill by the end of March 2018.

Cornerstones of the TP17

As a matter of principle, the Federal Council upholds the measures according to the consultation proposal, whereby the cantonal share in the direct federal tax should now amount to 21.2% instead of 20.5%. The following measures should therefore be implemented:

- Abolition of cantonal special tax regimes for domiciled, mixed and holding companies (including abolition of the privileged taxation practice for principal and finance companies)
- Introduction of a patent box at the cantonal level (mandatory) in line with OECD requirements (modified nexus approach)
- Introduction of an additional deduction for research and development expenditure at cantonal level (optional) of max. 50% of the total R&D expenses
- Restriction of the relief to max. 70% of the taxable profit
- Dividends from qualifying investments of individuals would be taxed at the federal level at 70%, at cantonal level at least at 70%.
- Increase of the cantonal share in the revenue of the direct federal tax to 21.2%
- Increase of federal minimum requirements for family allowances by 30 francs per child as social policy measure

The notional interest deduction (NID, a limited interest deduction on the equity of a company) still contained in the bill on the Corporate Tax Reform III is unfortunately not part of the cornerstones of the TP17 determined by the Federal Council. Even SMEs could have benefited from the NID and it would be in the economic interest to promote a solid equity capitalization of companies. It remains to be seen whether this considerable but politically controversial instrument will find its way back into the bill via the Parliament.

The so-called step-up solution, according to which the built-in gains incurred during the time of the special tax status can be completely or partially disclosed tax-neutrally, will be available. Certain cantons have already published practice information. In particular, the canton of Zug has commented on the tax treatment of the uncovered reserves before or after the entry into force of the TP17.

The timetable for the implementation of the TP17 is still ambitious, but essential for the creation of the necessary legal certainty. Following the adoption of the message or dispatch to the draft bill to the Parliament by the end of March 2018, parliamentary deliberations are expected to be completed in the autumn session 2018. The first part of the new rules should enter into force at the beginning of 2019 and in the course of 2020 the TP17 should be finally adopted.

Reichlin Hess is happy to answer your queries regarding the TP17 or in helping to successfully implementing the TP17.

The content of this newsletter does not constitute legal or tax advice and may not be used as such. If you need advice with regard to personal circumstances, please reach out to your contact person at Reichlin Hess AG or to the authors of this newsletter.

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