

# TRAF – what SMEs can and cannot benefit from

(Federal Act on Tax Reform and AHV Financing)

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## Old regulation – until the end of 2019

### Ordinary taxation (legal entities)

The effective tax burden at federal, cantonal and municipal level currently varies **between 12% and 24%**, depending on the canton.

### Taxation of status companies

- Status companies are holding companies, management companies and mixed companies (principal companies and the finance branch play a special role). These are taxed at a privileged rate.
- The tax status concerns only cantonal taxes.
- Holding companies do not pay any profit tax at cantonal level, except on income from Swiss real estate.
- Management companies (mixed companies) pay a reduced profit tax at cantonal level.
- Effective tax burden between 7.8% and 11% depending on the configuration.



# TRAF – An overview

## TRAF goals

- Strengthen the attractiveness of Switzerland as a business location.
- Restoring international acceptance.
- Ensuring the financial yield of the profit tax for the confederation, cantons and municipalities.
- New special tax regulations shall be designed restrictively.
- Greater weight shall be given to the interests of cities and municipalities.
- Strengthen the AHV.

## Consequences of the TRAF

- **Tax status no longer applies:** holding-, management- and mixed companies will be taxed at ordinary rates in future.
- Status companies must disclose hidden reserves.
- Taxes on profits and capital will decrease to varying degrees in different cantons.
- New tax rules/instruments will be introduced.

## Key points of the reform

### ***Maintaining the attractiveness***

- Introduction of a patent box (cantons)
- Favourable procedure for the disclosure of hidden reserves (cantons)
- Deductions for research & development costs (cantons)
- Deduction for self-financing (NID) (cantons)

### ***Financial compensation measures***

- Increase in dividend taxation (cantons and confederation)
- Relief limit (Kantone)
- Increase in the cantons' share of direct federal tax

### ***Special regulations without direct relation to the core objective***

- AHV financing as social compensation
- Capital contribution principle (changes for listed companies) (cantons and confederation)

# The topics for SMEs in detail





Profit tax reduction vs.  
increase in dividend taxation

## Profit tax reduction

Taxes on profits **decrease** cantonally  
to varying degrees

–

**also for the benefit of SMEs.**

## Increase in dividend taxation

At the same time, the dividend taxation is being increased at the federal level and in many cantons.

- Taxation of dividends on holdings of at least 10% of the share capital or nominal capital of a corporation or cooperative society **will be increased to 70% at federal level (from 50% and 60% respectively) and to at least 50% at cantonal level.**



How does the  
patent box work?

# The implementation and management of the patent box

## **Step 1**

*Recording of revenue/patents qualifying for the patent box.*

## **Step 2**

*Clarification of the cantonal provisions for entry into the patent box. Calculation of the entry costs.*

# The implementation and management of the patent box

## **Step 3**

*Management of the patent box / calculation of the residual profit / determination of the Nexus factor.*

## **Step 4**

*Determination/costs of exit from the patent box.*

# Which intellectual property rights are concerned?

## Art. 24a Tax Harmonisation Act (StHG):

<sup>1</sup> The following are considered **patents**:

- a. Patents under the European Patent Convention of 5 October 1973 in its revised version of 29 November 2000 with designation Switzerland;
- b. Patents under the Patent Act of 25 June 1954;
- c. Foreign patents corresponding to the patents under letters a or b.

<sup>2</sup> The following are considered **similar rights**:

- a. Supplementary protection certificates under the Patent Act of 25 June 1954 and their renewal;
- b. Topographies protected under the Topographies Act of 9 October 1992;
- c. Plant varieties protected under the Varieties Protection Act of March 20, 1975;
- d. Documents protected under the Therapeutic Products Act of December 15, 2000;
- e. Reports protected under the implementing provisions of the Agriculture Law of 29 April 1998;
- a) Foreign rights corresponding to the rights referred to in letters a-e.

## Which intellectual property rights are concerned?

- Art. 24a Tax Harmonisation Act (StHG): → **The list is exhaustive.**
- Patent protected **inventions of SMEs** and copyrighted **software** do therefore **not** qualify for the patent box! Exceptions to the regulations:
  - Software for which a patent has been granted abroad.
  - Software which is part of an invention(so-called computer-implemented invention).
- **Inventions by SMEs must be patented in order to be covered by the patent box.**
- This is not very expensive in Switzerland, but the disadvantage here is the disclosure of business secrets.





# Calculation of the special deductions for R & D

## Calculation of the special deductions for R & D

### Art. 25a Tax Harmonization Act (StHG):

- Optional for the cantons.
- R & D in Switzerland.
- No more than 50% above business-related research and development expenditure.
- Definition of "R & D" in Art. 2 of the Federal Act of 14 December 2012 on the Promotion of Research and Innovation (FIFG).

# Calculation of the special deductions for R & D

## **Art. 2 FIFG :**

Definitions in this act:

- a. Scientific research (research): the method-guided search for new knowledge; it includes by name:
  - 1. Basic research: research whose primary objective is to gain knowledge,
  - 2. application-oriented research: research whose primary aim is to make contributions to practice-oriented problem solutions;
  
- b. Science-based innovation (innovation): the development of new products, methods, processes and services for the economy and society through research, in particular application-oriented research, and the exploitation of its results.

## Calculation of the special deductions for R & D

### Art. 25a Tax Harmonisation Act (StHG):

- An increased deduction is permissible on:
  - a. the directly attributable personnel expenses for R & D, plus a surcharge of 35 % of these personnel expenses, but not exceeding the total expenses of the taxable person
  - b. 80 % of the cost of R & D invoiced by third parties
- If the customer of R & D is entitled to deduction, the contractor is not entitled to any deduction.



# Relief limit

Relief  
limit

| Canton | Maximum Relief Limit         |
|--------|------------------------------|
| ZH     | 70%                          |
| BE     | 70%                          |
| LU     | 20% / 70%                    |
| UR     | 50%                          |
| SZ     | 70%                          |
| OW     | 70%                          |
| NW     | 70%                          |
| GL     | 10%                          |
| ZG     | 70%                          |
| FR     | 20%                          |
| SO     | 70%                          |
| BS     | See patent box               |
| BL     | 50%                          |
| SH     | 70% during 5 years, then 50% |
| AR     | 50%                          |
| AI     | 50%                          |
| SG     | 40%                          |
| GR     | 55%                          |
| AG     | 70%                          |
| TG     | 50%                          |
| TI     | 70%                          |
| VD     | Still open                   |
| VS     | 50%                          |
| NE     | 40%                          |
| GE     | 9%                           |
| JU     | 70%                          |



# Capital tax reduction

# Capital tax reduction

| Canton | Applicable capital tax                   | Planned capital tax                  |
|--------|--|--------------------------------------|
| ZH     | 0.15/0.75 ‰                              | 0.75 ‰                               |
| BE     | 0.3 ‰                                    | 0.05 ‰                               |
| LU     | 0.5 ‰                                    | 0.5 ‰ or 0.01 ‰                      |
| UR     | 0.01-2.40 ‰                              | 0.01-4 ‰                             |
| SZ     | 0.4 ‰                                    | 0.03 ‰ -0.07 ‰                       |
| OW     | 2 ‰                                      | 0.01 ‰                               |
| NW     | 0.1 ‰                                    | same                                 |
| GL     | 0.05/2 ‰                                 | 2 ‰                                  |
| ZG     | 0.5 ‰                                    | Reduction on participations, patents |
| FR     | 1.6 ‰                                    | 1.0 ‰                                |
| SO     | 0.8/0.2/0.1 ‰                            | 0.1 ‰                                |
| BS     | 1/0.5 ‰                                  | 1.0 ‰                                |
| BL     | 1.25 ‰                                   | 1.55 ‰, min. 165 CHF.                |
| SH     | 0.1 ‰                                    | 0.025 ‰                              |
| AR     | 0.1 ‰, min. 900 CHF.                     | same                                 |
| AI     | 0.1 – 0.6 ‰                              | same                                 |
| SG     | 0.2 ‰                                    | Exemption of participations, patents |
| GR     | 2.3 ‰                                    | Reduction on participations, patents |
| AG     | 1.25 ‰                                   | same                                 |
| TG     | 0.3 ‰, min. 100 CHF.                     | 0.15 ‰                               |
| TI     | 1.5 ‰                                    | Still open                           |
| VD     | 0,6 ‰                                    | Adjustment follow                    |
| VS     | 1 ‰ for 1. 500'000 CHF./2.5 ‰ afterwards | Adjustment follow                    |
| NE     | 2.5 ‰                                    | 2.5 ‰ or 0.005 ‰                     |
| GE     | 1.8 ‰                                    | 4 ‰ or 0.01 ‰                        |
| JU     | 0.75 ‰                                   | 0.375 or 0.05 ‰                      |



## List of favourites for SMEs

### Priority 1

- Change in dividend taxation

### Priority 2

- Adjustment of the profit tax rate

### Priority 3

- Special deduction for research and development costs

### Priority 4

- Introduction of the patent box



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