Press release

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Federal Council initiates consultation on tax proposal 17

During its meeting on 6 September 2017, the Federal Council initiated the consultation on tax proposal 17 (TP17). The proposal will make a significant contribution to having an appealing location and thus to added value, jobs and tax receipts. The reform will additionally meet international requirements concerning corporate tax law.

Around half a year after the failure of the third series of corporate tax reforms, the Federal Council is proposing a new version of the project with tax proposal 17. The wide-scale hearings following the referendum confirmed that a reform was still urgently needed. The current corporate taxation no longer meets international requirements, which is having an increasingly negative impact on Switzerland as a location. The new proposal contains major adjustments and takes account of the outcome of the referendum. There should be less of a burden on the federal budget and greater consideration should be given to the interests of the cities and communes. Companies will continue to benefit from a competitive tax framework. Consequently, entrepreneurs and companies should help counter-finance the reform: entrepreneurs by means of a higher tax burden on dividends and companies by means of higher family allowances.

Tax measures

TP17 contains several tax measures to maintain Switzerland's competitiveness. All cantons will introduce a patent box. Moreover, they can grant R&D tax deductions if need be. There are further instruments in addition to those two key ones. They are listed in tabular form at the end of this press release.

Financial impact

The proposal will put a burden of around CHF 750 million on the federal budget. Furthermore, there is a temporary supplementary contribution of CHF 180 million for the financially weak cantons from 2024 onwards. This will be financed with the expiring cohesion fund.

TP17 has a federalist slant. The cantons will have leeway in terms of implementation, which will compensate for some of the reduction in receipts expected at cantonal level and enable them to select the best strategy for them. According to current estimates, TP17 will give them additional receipts of approximately CHF 1.2 billion. CHF 825 million of that sum will come from the increase in the cantons' share of direct federal tax. The financial impact for the cantons and communes will depend on the cantons' tax policy decisions. In parallel to the federal proposal, the cantons will push ahead with their implementation projects and make their impact transparent.

Next steps

At the same time as the law, the consultation will also include the two ordinances on the reduced taxation of profits from patents and similar rights (clarification of the patent box) and on fiscal equalization and cost compensation (fleshing out of resource equalization).

The consultation will run for three months and end on 6 December 2017. The Federal Department of Finance (FDF) is planning to submit the dispatch for Parliament to the Federal Council in spring 2018. Consequently, the earliest possible TP17 can enter into force is 2020.

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The following can be found as an enclosure to this press release at www.finance.admin.ch:

- Explanatory report: consultation procedure on tax proposal 17
- Legislative text on tax proposal 17
- Ordinance on the reduced taxation of profits from patents and similar rights
- Ordinance on fiscal equalization and cost compensation
- Letter to the cantons
- Letter to the organisations
- List of addressees
- Glossary

Tax proposal 17 measures

Key tax proposal 17 measures

Measure	Implementation duty	
	Confed eration	Cantons / communes
Abolition of the arrangements for cantonal status companies At cantonal level, status companies pay only a reduced profit tax or none at all. This preferential treatment will be abolished with TP17. Overtaxation will be avoided with a temporary special rate solution.	No	Yes, mandatory
Patent box Profits from patents and similar rights will be separated from other profits and taxed at a lower level. The relief may not exceed 90%. The arrangement is based on the current international standards.	No.	Yes, mandatory
Additional deductions for research and development There may be additional deductions of no more than 50% for research and development. The measure is aimed at domestic research and development. The decisive expenses are personnel expenses plus a flat-rate supplement.	No	Yes, voluntary
Relief restriction The tax relief based on the patent box and additional deductions for research and development may not be higher than 70% of the taxable profit. The calculation also includes amortization based on earlier taxation as a status company.	No	Yes, mandatory
Increased dividend taxation Dividend taxation for natural persons will be increased to 70% at federal and cantonal level. The cantons can provide for a greater increase.	Yes	Yes, mandatory
Increase in the cantons' share of direct federal tax The cantonal share will be raised from 17% to 20.5%.		
Consideration of the cities and communes The cantons have to take adequate consideration of the cities and communes in connection with the increase in the cantons' share.		
Increase in the minimum federal requirements for family allowances The minimum requirements for family allowances will be increased by CHF 30.		

Further tax proposal 17 measures

Measure	Implementation duty	
	Confed eration	**Cantons / communes**
Capital tax adjustments The cantons can include the capital associated with financial interests and patents and similar rights at a reduced level in the capital tax calculation.	No	Yes, voluntary
Disclosure of hidden reserves Companies that relocate their headquarters to Switzerland can benefit from additional amortization the first few years. If headquarters are relocated abroad, an exit tax will be due, as is already the case at present.	Yes	Yes, mandatory
Transference adjustments This measure will close a taxation gap in that the scope of tax-free capital gains and thus also the impact of the capital contribution principle will be restricted.	Yes	Yes, mandatory
Extension of the flat-rate tax credit The flat-rate tax credit prevents international double taxation. Swiss operating companies of foreign companies should now be entitled to it as well.	Yes	Yes, mandatory
Fiscal equalization adjustments To prevent upheaval among the cantons, fiscal equalization will be adjusted in line with the new reality in terms of tax policy.		