

21 March 2016

# Swiss Tax News

Canton of Vaud

## Cantonal Corporate Tax Reform III – Vaud tax package accepted

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### Executive summary

Following several debates in 2014, the Vaud legislative assembly adopted on September 29<sup>th</sup>, 2015 the proposal contained in the fiscal roadmap prepared by the State Council. Among the changes proposed by the new legislation are the reduction of the corporate income tax rate for companies established in the canton of Vaud to 16% of earnings after tax ("EAT"), as of January 1<sup>st</sup>, 2019. The tax rate would be of 13.79% calculated on earnings before tax ("EBT"), since taxes are deductible for Swiss corporate income tax purposes.

### Cantonal referendum

At the end of 2015, the opposition collected sufficient signatures to launch a cantonal legislative referendum against the bill passed by the Vaud legislative assembly. On March 20<sup>th</sup> 2016, the votation took place in the canton of Vaud.

After counting of the ballots, it was announced that the referendum against the Vaud tax package has failed. An overwhelming majority of 87% of voters accepted the entry into force of changes to the cantonal tax law.



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# Background of the Swiss tax reform

In light of international developments and pressure from the EU, Switzerland committed in July 2014 to abolish cantonal tax regimes (holding, domicile/mixed companies, etc.). Consequently, the Swiss government prepared the Corporate Tax Reform III ("CTR III"), destined to modify corporate taxation and to substitute the abolished tax regimes by internationally accepted measures. The reform aims to maintain the tax attractiveness of Switzerland.

In June 2015, the Federal Council presented a series of new measures as part of the CTR III. In March 2016, the National Council decided on the draft bill on the Corporate Tax Reform III as already amended by the Council of States within the parliamentary winter session 2015. The draft bill differs in several aspects from the initial version published by the Swiss Federal Council in June 2015 as well as the version amended by the Council of States in December 2015. The key initiatives in the current project include:

- ▶ The introduction of a patent box at the cantonal level (cantons should be free to determine the percentage of maximum relief for qualifying patent box income);
- ▶ The optional introduction by the cantons of a research and development super deduction (deductibility of R&D expenditure in connection to Swiss and foreign activity in excess of 100%, without limitation – cantons free to determine the percentage);
- ▶ The taxation at a reduced rate of the built-in gains released after the abolishment of tax regimes (« step-up »);
- ▶ Notional interest deduction at the federal and cantonal level;
- ▶ Tonnage tax applicable to the shipping industry.

The Commission of Economic Affairs and Taxation of the Council of States will again discuss the bill in its current state. Any remaining differences between the chambers of the Swiss Parliament should be resolved in the next summer session. In accordance with the current time frame, the entry into force of measures included in the draft bill could take place at the beginning of 2019, excepting a potential referendum.

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The combined cantonal tax relief of patent box, input promotion, NID and step-up should not exceed a threshold of 80% exemption

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# The tax reform in the Canton of Vaud

During the consultation phase related to the proposal of the Swiss Federal Council, the Canton of Vaud has taken position regarding the various measures planned in coordination with the Canton of Geneva. The Canton expressed support for measures related to the promotion of R&D and the introduction of the notional interest deduction (which was reintroduced in the federal proposal) but initially rejected the "step-up" mechanism.

Considering the measures covered by the proposal as not adequate to maintain the tax attractiveness of the Canton, lowering the income tax rate for companies was presented as the most appropriate measure in the current circumstances.

The Vaud tax package was submitted for the approval of the legislative assembly, and was accepted by a large majority on September 29<sup>th</sup>. However, the legislative amendments were challenged by the opposition, who launched a legislative referendum.

## Cantonal legislative referendum

The voting related to the legislative referendum took place on March 20<sup>th</sup>, 2016.

The results of the referendum showed strong support for the bill, with an overwhelming majority of 87% of voters accepting the tax package and therefore allowing the entry into force of changes to the cantonal tax law.

Hence, the cantonal tax law will be modified and the amendments will gradually enter into force between January 1<sup>st</sup>, 2017 and January 1<sup>st</sup>, 2019.

## CTR III schedule at the Cantonal and Federal level

The estimated timing of developments related to the CTR III may be summarized as follows :



# Cantonal tax measures

Following its acceptance by referendum, the cantonal income tax rate reduction will be implemented gradually:

- ▶ Reduction of the legal cantonal tax rate from 8.5% to 8% starting on January 1<sup>st</sup>, 2017;
- ▶ Reduction of the legal cantonal tax rate from 8% to 3.3% as of January 1<sup>st</sup>, 2019.

Following January 1<sup>st</sup>, 2019, the overall income tax rate for companies (combined between the Confederation, canton and commune) will be 13.79 % calculated on earnings before tax.

## Overview of tax rates

Simulation based on entry into force of the Vaud CTR III amendments

Income taxes	2015	2016	2017	2018	2019
Base tax	9.00%	8.50%	8.00%	8.00%	3.33%
CCT <sup>1</sup> Tax rate - EAT	21.02%	19.85%	18.68%	18.68%	7.50%
Tax rate - EBT	16.23%	15.46%	14.69%	14.69%	6.47%
DFT Federal tax - EAT	8.50%	8.50%	8.50%	8.50%	8.50%
Tax rate - EAT	29.52%	28.35%	27.18%	27.18%	16.00%
Total Tax rate - EBT	22.79%	22.09%	21.37%	21.37%	13.79%

<sup>1</sup> Cantonal / communal tax for a company domiciled in Lausanne, Canton of Vaud

This table does not take into account the various measures of the federal proposal

The CTR III roadmap provides a safeguard clause to take into account a possible modification of circumstances (speeding up, adjournment, freezing, amendment of the proposal)

The income tax rate reduction will be accompanied by other changes to corporate taxation, including:

- ▶ Adoption of a uniform capital tax rate of 0.6‰ (the imputation of income tax on capital tax is maintained), representing an increase of 100% for companies currently taxed under the ordinary regime);
- ▶ Gradual decrease of the minimum tax rate ;
- ▶ Modification of instalment perception system ;
- ▶ Mostly formal adaptations of the tax law to the revision of commercial law.

A global overview of the most significant changes for companies contained by the Vaud amendments are summarized in the following table:

Corporate taxation	2015	2016	2017	2018	2019	
Ordinary effective rate (federal and cantonal)	22.79%	22.09%	21.37%	21.37%	13.79%	
Special tax regimes (holding, mixed, etc.)	Yes	Yes	Yes	Yes	Abolition	
Capital tax	Ordinary regime	0,3‰	0,3‰	0,3‰	0,3‰	0,6‰
	Holding companies	0,75‰	0,75‰	0,75‰	0,75‰	0,6‰
	Mixed companies	0,1‰	0,1‰	0,1‰	0,1‰	0,6‰
Minimum tax assessed on gross revenues	Wholesale	0.13‰	0.13‰	0.12‰	0.12‰	0.05‰
	Manufacturing	0.36‰	0.36‰	0.32‰	0.32‰	0.14‰
	Other gross revenues	0.72‰	0.72‰	0.68‰	0.68‰	0.28‰

<sup>1</sup> Cantonal / communal tax for a company domiciled in Lausanne, canton of Vaud, subject to the entry into force of the Vaud tax package

### Endnote

<sup>1</sup> This communication has been prepared for general information and is not intended to constitute advice. Contact your EY tax advisor for more specific information.

<sup>2</sup> Further information on the Swiss Corporate Tax Reform III is available under [www.ey.com/ch/CTR-III](http://www.ey.com/ch/CTR-III)