Executive summary

On 12 February 2017, Swiss voters, in a popular vote, rejected the federal bill on Corporate Tax Reform III (CTR III) as adopted by the Federal Parliament last summer. The need for tax reform is undisputed in Switzerland and the Federal Council will now prepare a revised bill as quickly as possible. This means that the reform will not take effect in 2019 as planned, but may be delayed by one to three years depending on the further legislative procedure. The current tax legislation remains in force and the existing tax regimes remain available until a new law is passed.

Detailed discussion

CTR III was supposed to align the Swiss corporate tax system with international standards by replacing existing tax regimes with a new set of internationally accepted measures effective 1 January 2019. Disagreements on the scope of the new measures and the handling of the anticipated tax losses caused the rejection. Opponents argued that the tax revenue shortfall eventually would have to be borne by the Swiss population.

The need for a tax reform itself is undisputed and Switzerland remains committed to reform its tax system in order to retain its high attractiveness as business location for international companies. The preparation and adoption of a revised federal bill will result in a delayed implementation of the reform.
Key aspects of the current status are:

- Rejection of CTR III changes nothing for Swiss-based companies in the short term. The current corporate tax laws remain in force until a new law is passed. Current tax regimes should generally remain available until a revised tax reform is effectively enacted.

- The Federal Council announced that it will prepare as quickly as possible a revised bill on tax reform in close consultation with the cantons, communes, business community and the political parties. Timing is currently unclear but a delay by one to three years may be expected considering the complexity of the reform and the fact that the cantons require two years for implementation at the cantonal level.

- It is assumed that the further legislative procedure, including the delay of the Swiss tax reform, will be discussed in an ongoing dialogue with the European Union and the Organisation for Economic Co-operation and Development.

- Cantons are sovereign to adopt unilateral changes to their cantonal tax laws within the framework of the federal tax harmonization law. In particular, they can unilaterally reduce their corporate tax rates in order to strengthen their fiscal competitiveness. Numerous cantons are already providing very attractive low statutory tax rates between 11.5-15% (including federal tax).

- Most cantons allow a tax-neutral disclosure of built-in gains upon a change of the cantonal tax status resulting in a comparable low cash tax rate during the subsequent amortization period (step-up). This would be relevant if a company decided to voluntarily exit a preferential tax regime before a revised version of CTR III is effectively implemented.

Despite of the referendum and the resulting delay of tax reform, Switzerland remains an attractive business location with its highly skilled workforce, excellent infrastructure, and the overall attractive tax environment. Companies engaged in business activities in Switzerland should analyze potential impact of future changes and consider potential alternative strategies, such as a voluntary exit from a tax regime with step-up or a tax-neutral move to another canton.

Future Alerts will report on developments in the tax reform process.

Endnote

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