New Swiss Company Tax Regime
Opportunities for Chinese companies

December 2019

Overview Swiss tax reform and its implementation in the canton of Zurich

Key elements entering into force on 1 January 2020

Reduction of corporate income tax rates ➡
- Effective income tax rate over all levels (federal, cantonal and municipal) will decrease to 19.70% as of 1 January 2021 (capital city, previously 21.15%). Further reduction of the effective income tax rate from 19.70% to 18.19% as of 1 January 2023 is planned.

Notional Interest Deduction (optional and restricted) ➡
- Zurich is expected to be the only canton that introduces the NID which includes the granting of an imputed interest deduction on surplus equity.
- Surplus equity includes equity capital which, in the long term, exceeds the equity capital required for business operations.

R&D «super deduction» at cantonal level (optional) ➡
- Introduction of an additional deduction for qualifying R&D;
- Additional deduction may amount to a maximum of 50% of the qualifying R&D expenses;
- Qualifying R&D expenses are own R&D activities (lower of either the actual R&D expenses or 135% of the attributable labour costs) and contract R&D performed in Switzerland (80% of the invoiced R&D costs).

Patent box regime at cantonal level ➡
- Applying to patents and similar rights;
- Patent box is compliant with OECD standards;
- Maximum allowable relief is 90% of net residual profits derived from patents and similar rights at cantonal level.

Tax neutral disclosure of hidden reserves in case of relocation to Switzerland ➡
- Companies relocating fixed assets, functions, business operations, permanent establishments, registered office or place of effective management to Switzerland may revaluate all assets (other than shareholdings of at least 10%) newly becoming subject to taxation in Switzerland at fair value;
- Assets can be amortized tax effectively and reduce the taxable profit in the following years.

Phasing out of cantonal special tax status (holding, domicile, and mixed company) and certain tax practices at federal level (principal company and finance branch), including transitional measures ➡

Status change with asset step-up before new rules become effective
- Hidden reserves have been created while being subject to a special tax status;
- Tax-neutral disclosure of hidden reserves;
- Tax-effective amortization of hidden reserves over a period of up to ten years.

(Combined solution consisting of the two options can be applied in practice)

Realization of hidden reserves following introduction of new rules
- Hidden reserves have been created while being subject to a special tax status;
- Companies may request a binding decision on hidden reserves;
- If realized within 5 years, such hidden reserves are taxed at a reduced special income tax rate;
- Zurich: special tax rate of 1.13% (capital city; cantonal and municipal taxes).

Reduction of the cantonal capital taxes ➡
- Ordinary capital tax rate remains unchanged at 0.1718% (capital city). Taxable equity attributable to qualifying investments, loans to group companies and qualifying IP may be reduced by 90%.

The total reductions through the R&D «super deduction», patent box and a step-up tax depreciation from an early exit from a special tax status may be up to 70% of the income tax basis.

Overview Swiss tax reform and its implementation in the canton of Zug

Key elements entering into force on 1 January 2020

Reduction of corporate income tax rates	✓	• Effective income tax rate over all levels (federal, cantonal and municipal) will decrease to **11.91%** as of 1 January 2020 (capital city, previously 14.35%).
Notional Interest Deduction (optional and restricted)	⃠	• Not eligible in the canton of Zug as this measure is only applicable for "high-tax" cantons (i.e. effective tax rate of a least 18.03%)
R&D «super deduction» at cantonal level (optional)	✓	• Introduction of an additional deduction for qualifying R&D; • Additional deduction may amount to a maximum of 50% of the qualifying R&D expenses; • Qualifying R&D expenses are own R&D activities (lower of either the actual R&D expenses or 135% of the attributable labour costs) and contract R&D performed in Switzerland (80% of the invoiced R&D costs).
Patent box regime at cantonal level	✓	• Applying to patents and similar rights; • Patent box is compliant with OECD standards; • Maximum allowable relief is 90% of net residual profits derived from patents and similar rights at cantonal level.
Tax neutral disclosure of hidden reserves in case of relocation to Switzerland	✓	• Companies relocating fixed assets, functions, business operations, permanent establishments, registered office or place of effective management to Switzerland may revaluate all assets (other than shareholdings of at least 10%) newly becoming subject to taxation in Switzerland at fair value; • Assets can be amortized tax effectively and reduce the taxable profit in the following years.
Phasing out of cantonal special tax status (holding, domicile, and mixed company) and certain tax practices at federal level (principal company and finance branch), including transitional measures	✓	**Status change with asset step-up before new rules become effective** • Hidden reserves have been created while being subject to a special tax status; • Tax-neutral disclosure of hidden reserves; • Tax-effective amortization of hidden reserves over a period of up to **five years**. ***(Combined solution consisting of the two options can be applied in practice)*** **Realization of hidden reserves following introduction of new rules** • Hidden reserves have been created while being subject to a special tax status; • Companies may request a binding decision on hidden reserves; • If realized within 5 years, such hidden reserves are taxed at a reduced special income tax rate; • Zug: special tax rate of **1.15%** (capital city; cantonal and municipal taxes) and increase p.a. up to **2.30% in year 5**.
Reduction of the cantonal capital taxes	✓	• Ordinary capital tax rate remains unchanged at **0.074%** (capital city). Taxable equity attributable to qualifying investments, loans to group companies and qualifying IP may be reduced by 98%.

The total reductions through the R&D «super deduction», patent box and a step-up tax depreciation from an early exit from a special tax status may be up to 70% of the income tax basis.

Why Switzerland offers an attractive tax environment for Chinese companies?

Attractive tax environment

- 26 cantons with different tax laws and tax rates;
- Tax authorities team up with taxpayers;
- Rulings are generally negotiable in a few weeks time;
- Swiss tax rulings are generally not limited in duration;
- Excellent Double Tax Treaty network (approx. 90 treaties), including treaty with China;
- No CFC rules.

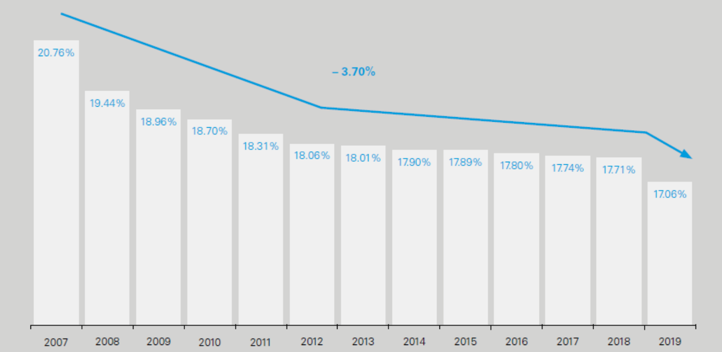
Lower income tax burden for all kinds of businesses without a need to meet any specific requirements.

Overview of selected cantons - Total effective tax rate*

	Current Effective Tax Rate ordinary taxation (capital city/principal town)	Effective Tax Rate After Swiss Corporate Tax Reform (capital city/principal town)
Basel City	22.18%	13.04%
Bern	21.64%	16.37% (as of 2022)
Geneva	24.16%	13.49%
Grisons	16.12%	14.02%
Lucerne	12.32%	12.32%
Neuchâtel	15.61%	12.50% to 13.50%
Nidwalden	12.66%	12.05% to 12.66% (pending)
Obwalden	12.66%	12.66%
St. Gallen	17.40%	15.20%
Schaffhausen	15.97%	12.09%
Solothurn	21.38%	13.12 to 16.32%
Schwyz	15.19%	14.43%
Ticino	20.95%	17.01%
Valais	21.56%	16.00%
Vaud	21.37%	14.00%
Zug	14.62%	11.91%
Zurich	21.15%	19.70%

* Source: Survey of the Swiss Federal Tax Administration (2018).

Trend average corporate income tax rates 2007-2019



Note: max. effective rate on pre-tax profits for federal/cantonal/municipal taxes in the respective cantonal capital. Corporate income tax figures for AI, GE, GL, JU, NE and SG for 2018.
Source: KPMG Switzerland.

Double Tax Convention (DTC) between China and Switzerland

DTC

Entered into force on 15 November 2014 and is OECD Model based

“Classical” WHT rates apply

Swiss Withholding Tax (35%) on qualifying dividends (i.e. stake of at least 25% in Swiss company) is reduced to 5% - otherwise it would be 10%.

- **No Swiss Withholding Tax (35%) is generally levied on interest and royalties.**
- **Withholding tax would only apply to interest on “bonds” and “debentures” as defined for tax purposes.**

Chinese Withholding Tax (10%) on qualifying dividends (i.e. stake of at least 25% in Chinese company) is reduced to 5% - otherwise it would be 10%.

- **Chinese Withholding Tax on interest is 10%.**
- **Chinese Withholding Tax (10%) on royalties is reduced to 9%.**

Mutual Agreement Procedure amongst contracting parties in case of conflict

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