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Advantageous Swiss and Canton Ticino business tax reform

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1) Introduction

The cantonal tax reform came into force on 1 January 2020.

The driving force behind this change was the “Federal business tax reform and the financing of the Old Age and Survivors' Insurance” law passed on 19 May 2019 and -upstream of this- the constant pressure that the European Union and the OECD have exerted on Switzerland with regard to the privileged tax regimes applied to companies enjoying special cantonal fiscal status (holding companies and auxiliary companies), as well as to “Principal companies” and Swiss Finance Branches.

For a long time, Switzerland has been criticised for these privileged regimes and urged to abolish them, under “threat” of blacklisting Switzerland.

While the repeal of cantonal tax benefits has put an end to differences in taxation between foreign and Swiss source corporate income, Ticino has been forced to take measures to improve its fiscal competitiveness at both intercantonal and international level.

Below is a list of the most significant changes brought about by the recent tax reform, as well as the adjustments promoted at the level of our Canton to keep its financial centre competitive and attractive.

2) Abolition of the cantonal tax privileges and reduced company profit taxation

The abolition of the cantonal tax privileges, applicable to special statute companies, "principal companies" and swiss finance branches, is the novelty which was given greater resonance.

While these companies had hitherto benefited from privileged regimes of taxation on profits (for instance, it should be noted that holding companies were previously entirely exempted), they are now ordinarily taxed.

The resulting intercantonal tax competition induced has thus led **Ticino** to approve a reduction in the **cantonal rate on corporate profits**, from the current 9% to **8%** during the period **2020-2024**, and to **5.5%** as of **2025**.

Therefore, **following the reform, the overall tax burden for every company located in Ticino is 14.6%** (considering the direct federal, cantonal and municipal tax, with reference to the most advantageous municipalities).

What follows is for the better understanding of the effects of the reform and the development of the overall tax burden for legal entities ¹:

Legal entity	TAX RATE		
	2019	TRANSITIONAL PERIOD 2020-2024	SINCE 2025
under ordinary taxation	18.6%	17.4%	14.6%
under cantonal tax privileges	10.0%	13.5%	

And in addition, in order to grant to these companies a gradual and "soft " transition towards the ordinary tax regime, a reduced tax rate on hidden reserves, equal to 1%, has been introduced.

3) Increased deductions for research and development

The cantons may agree a higher weighting to research and development expenditures, in order to promote and support research and development activities. As such are classified expenses directly attributable to employed staff (remunerations and social security contributions) involved in research and development activities as well as related expenses incurred for outsourced activities (supported by invoices).

In order to encourage the development of companies active in this field, Ticino has implemented this fiscal measure with the highest permitted deduction, i.e. total expenses as attributable to research and development + 50%.

¹ The rates are calculated by applying a municipal multiplier of 60% of the cantonal tax coefficient. The latter for the year 2019 is 100%, for the transitional period 98% and from 2025 to 96%.

4) Patent Box

This measure is connected with the previous one and provides that profits from patents and similar IT rights will be taxed at a reduced taxable base at cantonal level.

Canton Ticino has resolved to apply the maximum relief, i.e. for 90% of net income, which means that at least 10% of those profits will be submitted to taxation.

Such relief is provided only on cantonal and municipal level, whereas for direct federal taxation profits from patents and similar rights are entirely taxed without benefiting from any relief.

5) Tax relief limitation

To avoid a total profit tax exemption, the tax relief based on the patent box and the additional deductions for research and development cannot exceed 70% of the taxable profits, which means that at least 30% of these profits are taxed.

Canton Ticino has entirely adopted this restriction. Consequently, the relief based on the additional deductions for research and development and the patent box regime cannot exceed 70% of the taxable profits.

6) Relief on the wealth taxation

The aim of the reform is also to introduce a reduction of the wealth taxation for those who are self-employed and invest in research and development activities.

This measure relieves the wealth taxation of business assets, consisting of movable and intangible assets, for a percentage resulting from the ratio of the total assets to the assets relating to the rights referable to the patent box.

7) Reduction of the cantonal tax coefficient

In addition to measures addressed primarily to legal persons, the State Council of the Ticino government has also introduced some measures in favor of individuals.

At first the reduction of the cantonal tax coefficient from 100% to 97% applicable for the transitional period of 4 years (2020-2023). Secondly, since 2025 there will be a further reduction of the coefficient down to 96% (with a with a new parliamentary decision).

In practical terms, the tax burden relating to the cantonal tax will be 97% of the amount due based on the application of the rates in force. As an example, if the tax burden in 2019 is CHF 50'000.00 in 2020 it will be CHF 48'500.00.

The measure in question, by changing the cantonal coefficient may also have positive effects on legal persons going to reduce both the taxes on profits and on capital.

8) At municipal level: possible modulation of the tax burden for natural and legal persons

With this measure, municipalities will have the option to introduce different municipal multipliers for natural persons and for legal entities.

The conditions to be fulfilled are the following: the minimum municipal multiplier should be 40% and the difference between the natural persons multiplier and legal entities multiplier cannot exceed 20 percentage points.

The introduction of such a measure will be effective from 2025.

9) Conclusion

The aim of this reform is to strengthen the competitiveness and attractiveness of our canton and to support its economic development.

In an intercantonal comparison, the progressive reduction of the tax rates on company profits from the current 18.6% to 14.6% brings Ticino within the Swiss average tax rate (14.5%).

By comparing this cantonal taxation to the taxation of business profits at an international level, the competitive advantage of establishing a business in Ticino becomes clear.

In addition, the advantages connected to the patent box and research and development activities are intended to encourage investment in innovative activities that may constitute an added value for Ticino.

We remain at your disposal for any further information on the topics covered above

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