steimle&partners Tax&Legal Consultants

July 2023

Canton Ticino tax reform – press release of 13th July 2023

On July 13th, 2023, the Cantonal Government presented the long expected cantonal tax reform which comes with reductions in heritance and donation taxes, special tax on pension capital withdrawals as well as reduction of income tax rates on high income. This tax measures will make Canton Ticino more attractive in intercantonal taxation.

A referendum at political level is likely.

Our free translation of the press release is attached herewith.

For further information on the above, please do not hesitate to contact us

Steimle & Partners Consulting SA
Via Dogana Vecchia 2
CH-6900 Lugano
CHE - 115.993.311 IVA

T +41 91 913 99 00
F +41 91 913 99 09
www.steimle-consulting.ch
info@steimle-consulting.ch

A company of fiduciariamega group
Unione Svizzera dei Fiduciari FIDUCIARI|SUISSE
International Fiscal Association IFA
International Tax Planning Association ITPA

Our free translation

Republic and Canton
Ticino

Council State
Department of Finance and Economic affairs

Press release State Council Department of
Finance and Economy

13 July 2023

Amendment of the Tax Law of 21 June 1994 (Tax Law) - Update of the tax law for natural persons

The Council of State, on the proposal of the Department of Finance and Economic Affairs (DFE), approved the Message No. 8303 Amendment to the Tax Law of 21 June 1994 (LT) - Update of the Taxation of Natural Persons.

In order to respond to the numerous pending parliamentary tax acts, to modernise the tax framework and to implement the parliamentary mandate defined in 2019 within the framework of Message No. 7684 on the adaptation of the cantonal tax law to the Federal Act on Tax Reform and Financing of the Old Age and Survivors' Insurance Fund (AHV/AVS), the Message approved today proposes a package of measures in favour of natural persons, structured around four priority axes of intervention:

i. **Increase in the flat-rate deduction for other business expenses**
With the aim of reducing the tax burden of taxpayers who are gainfully employed, this reform proposes to increase the deduction for other employment expenses from the current fixed flat rate of CHF 2,500 to a new variable flat rate, calculated according to 4% of the taxpayer's net salary, with a minimum of CHF 3,000 and a maximum of CHF 5,000. At the same time, with a view to vertical harmonization with higher law, it is also proposed to adjust the method of calculating the deduction for other employment expenses for accessory activity from the current fixed deduction of CHF 800 to a variable deduction on the model of the direct federal tax (DFT), calculated on the basis of 20% of the net income, from a minimum of CHF 800 to a maximum of CHF 2,400.

ii. **Inheritance and donation tax reform**
Taking into account the evolution of the socio-demographic reality of our country, consistent with the ongoing reforms of inheritance law at federal level, the present reform proposes to update inheritance and donation tax through the following measures:

- reduction of the maximum rate for concubines and other kinship relatives from 41% (maximum rate of the taxable category of non-kin) to 15.5% (maximum rate of the taxable category of close relatives);
- reduction of the maximum rate for the taxable category of non-relatives from 41% to 35%;
- Introduction of a specific rule to relieve, under certain conditions, inheritance and gift tax in the case of business transfers.
- Introduction of a new generalised exempt quota of CHF 10,000 per year applicable to each beneficiary per individual settlor or donor.

iii. **Tax adjustment on pension capital withdrawal**
In view of Canton Ticino's lack of competitiveness in this specific area, the reform proposes capping the maximum rate levied on the withdrawal of pension capital at 3%.

This measure will allow Canton Ticino to improve its position in intercantonal comparisons as regards the taxation pension capital withdrawals, thereby discouraging good taxpayers close to retirement from leaving the canton.

iv. **Reduction of the maximum income tax rate**
With the aim of improving the tax attractiveness of our territory and reacting strategically to the implementation of the 15% global minimum tax (Global Minimum Tax) for internationally active large corporations (which will only exacerbate intercantonal tax competition for natural persons), it is proposed to adjust the maximum income tax rate from the current 15.076% to 13.25% in 2024 and from 13.25% to 12.0% from 2025 onwards in two steps.

This intervention will allow our Canton to reduce its maximum tax burden for income tax purposes from the current 40.1% to 34.7%, thus gaining 5 positions (from 21st to 16th rank) in the intercantonal tax competition and ranking slightly above the average intercantonal tax rate (33.6%).

Financial Impact

When fully implemented, the legislative changes envisaged in this Message will have a neutral financial impact for the Canton, since the financial space of the temporary reduction of the tax coefficient, which ends in 2024, will be used. It should be noted that, in line with what was indicated in Message no. 8207, the financial impact of the reform also includes the lower revenue deriving from the entry into force - following the approval in popular vote last 18 June - of the parliamentary initiative presented on 17 October 2022 in the form elaborated by the PLRT, Lega, PPD+GG (the Centre) and UDC groups for the modification of art. 32 of the Tax Law: deductibility of children's health insurance premiums. As far as the municipalities are concerned, the reform will have a total financial impact estimated at CHF 23.7 million in 2024 and CHF 33.0 million as of 2025. However, it should be noted that, as of 2025, municipalities will be able to differentiate the municipal tax multiplier between natural persons and legal entities, thus enjoying greater flexibility to modulate their tax levy.

The financial impact of the reform (in millions of francs) is summarized in the table below:

	2024	2024	From 2025	From 2025
	Canton	Municipality		
Deductible increase for other business expenses	-9.1	-7.3	-9.1	-7.3
Inheritance and gift tax reform	-5.4		-5.4	
Pension Tax Adjustment	-2.2	-1.8	-2.2	-1.8
Maximum income tax rate reduced to 13.5%	-11.7	-9.3		
Maximum income tax rate reduced to 12.0%			-23.3	-18.6
*Deductibility of children's health insurance premiums'**	-6.7	-5.4	-6.7	-5.4
Total	-35.1	-23.7	-46.7	-33.0

* *The footprint also includes the 5-year deferral (of CHF 1.1 million) of the impact related to* 2023.

We would also like to remind you that the income tax rates mentioned in the Message, valid from the fiscal year 2024, are already adjusted for the effects of the cold progression by 2.5 percentage points and will apply to all taxpayer categories and income brackets.

Media contact:

Christian Vitta, Director of the Department of Finance and Economic Affairs, dfe-dir@ti.ch, tel. 091 814 44 60 Giordano Macchi, Director of the Tax Division, tel. 091 814 46 89