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Switzerland: A Whole New World

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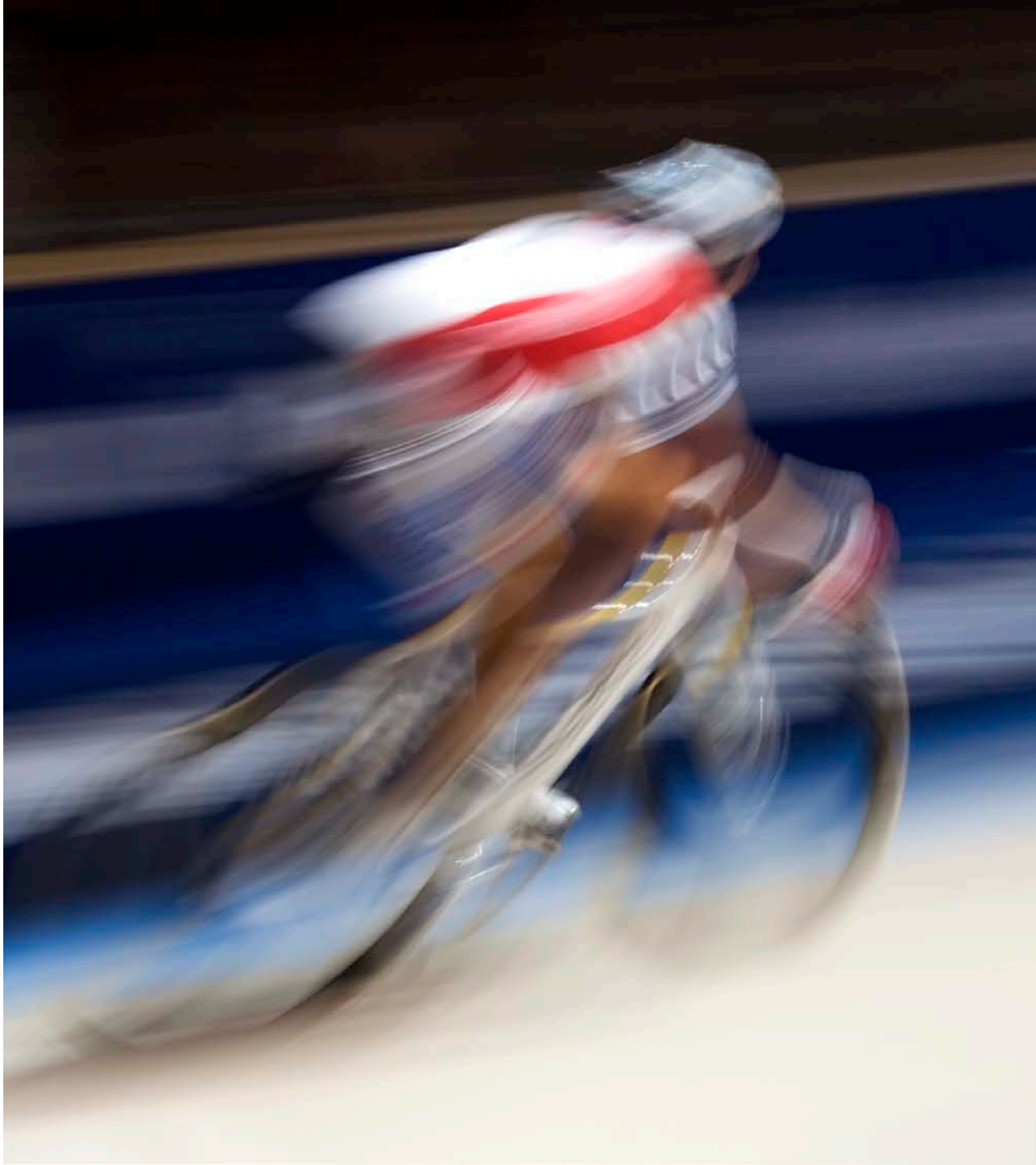


Agenda

Swiss Corporate Tax Reform III (CTR III)

- Timeline and overview
- Patent box
- Notional interest deduction
- Step-up
- Reduction of Cantonal taxes

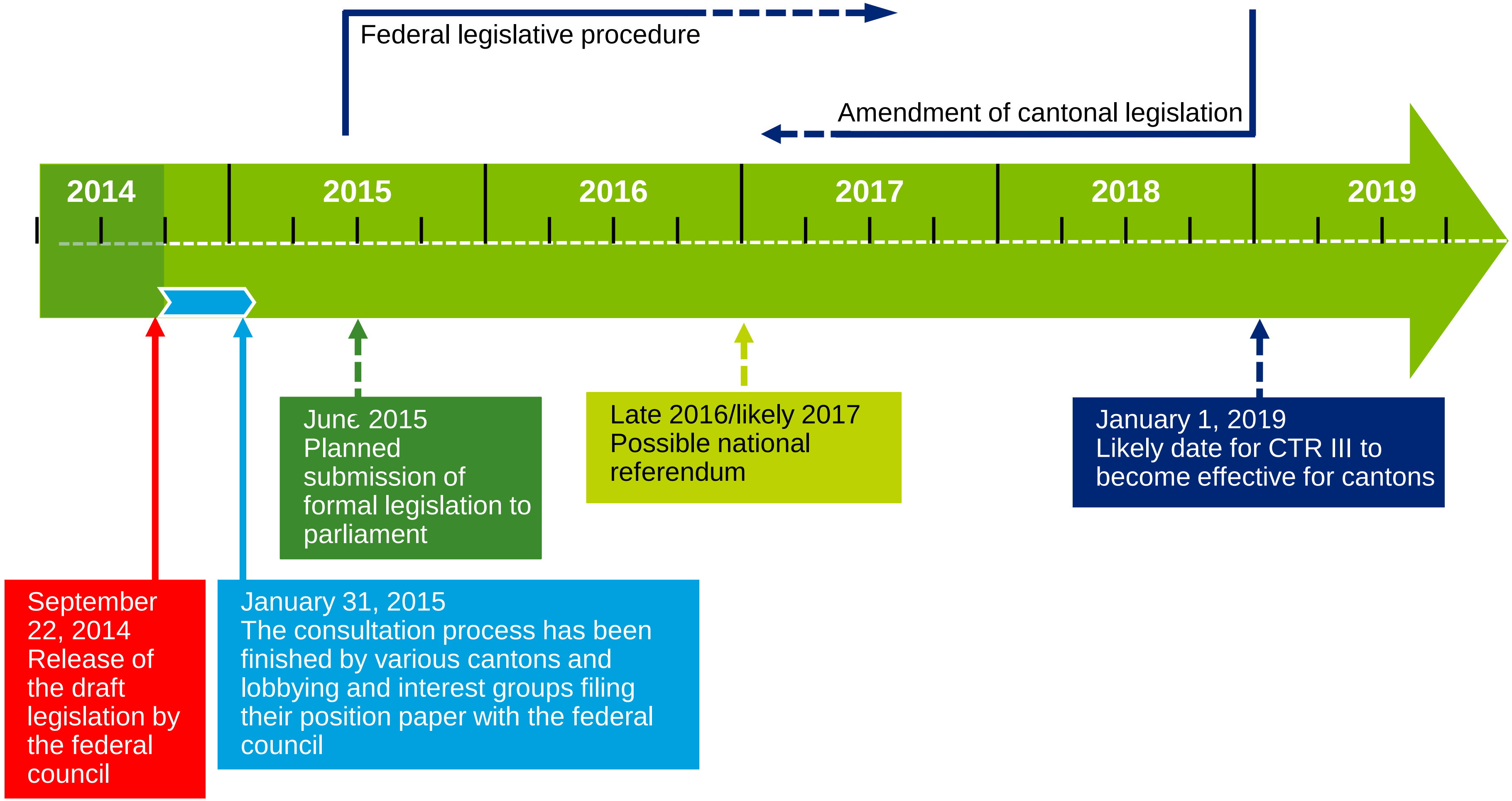
Interaction between CTR III and Base Erosion Profit Shifting (“BEPS”)

Update on principal company developments

CTR III
Timeline and overview

CTR III

Expected timeline until implementation



CTR III
Overview

Corporate tax reform III

	Cantonal taxes	Federal taxes
Replacement measures	Patent box	
	NID	NID
Other measures	Reduction of corporate income tax rates	Abolition of capital issuance tax
	Reduction in capital tax	
	Step-up in case of migration into Switzerland	Step-up in case of migration into Switzerland
	Step up - status change	
	Participation exemption	Participation exemption
	Unlimited loss carryforward	Unlimited loss carryforward
	Group relief for losses	Group relief for losses
Compensating measures	Capital gains tax on securities held by individuals	Capital gains tax on securities held by individuals
	Adjustments to the partial taxation procedure	Adjustments to the partial taxation procedure

CTR III
Patent box

CTR III
Patent box

Current situation

- The current effective tax rate (ETR)* applicable to foreign license income for mixed companies is about 8%-11% (8.9% for the IP box in the canton of Nidwalden)
- License box regimes are used in various European countries; some are relatively liberal, but some are more restrictive and require a higher entry test and more substance
- The European Commission is scrutinizing all EU IP box regimes, and the Office of Economic and Co-operative Development (“OECD”) is undertaking a comprehensive review under the BEPS initiative to ensure these regimes do not constitute harmful tax practices

* The ETR includes the direct federal tax, as well as the cantonal/communal income tax.

CTR III

Patent box (cont'd)

Qualification of IP rights	Entry test	Calculation test	Relief	Transition rule

Draft legislation

- A patent box would be introduced with the following features and would be limited to
  - Income from patents (including income from supplementary protection certificates
  - Income from holding an exclusive license on such patents
  - Income from first applicant protection according to article 12 of the federal law on medicinal products and medical devices)
- Trademarks or trade names would not benefit from the regime

CTR III

Patent box (cont'd)

Qualification of IP rights → **Entry test** → **Calculation test** → **Relief** → **Transition rule**

A company would be entitled to benefit from the patent box if

- The company is the owner or beneficiary under a usufruct of a qualifying patent or is the holder of an exclusive license of such rights
- The company is registered as the owner of the patent
- The company has contributed significantly to the development of the underlying invention

CTR III

Patent box (cont'd)

Qualification of IP rights | **Entry test** | Calculation test | Relief | Transition rule

The term "significant contribution" would be defined broadly

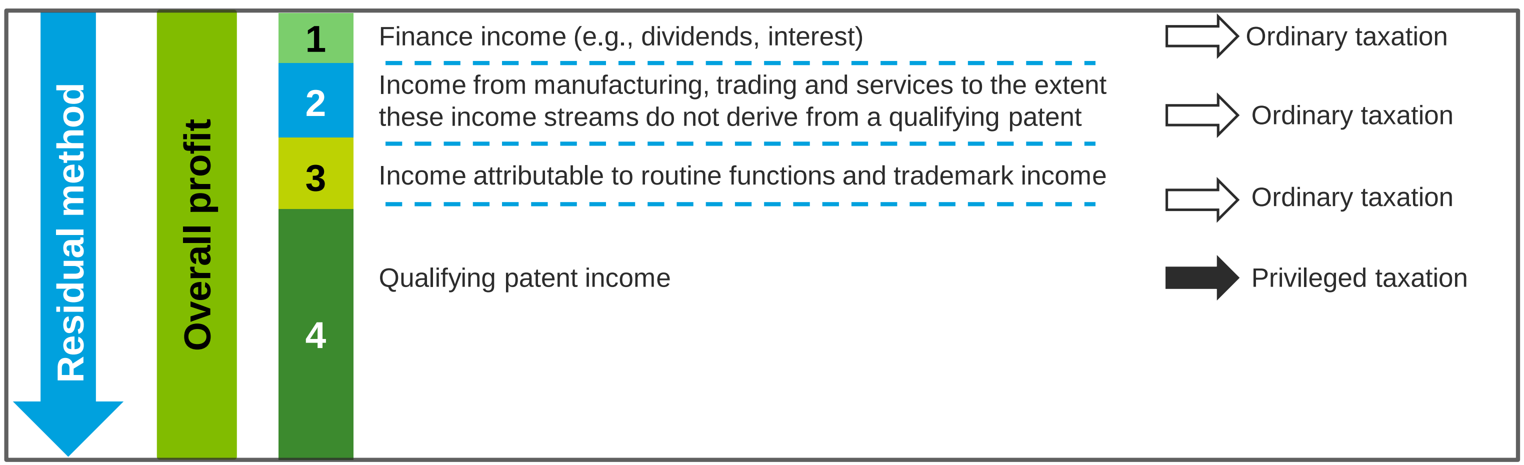
- It would include the creation or further development of the patented invention, or the creation or further development of a product that relies on the invention
- Within a group of companies, being responsible for and overseeing the development would be regarded as a significant contribution
- A company that is the beneficiary or that has an exclusive license to the invention (at least exclusive for Switzerland) would be able to benefit from the patent box if it belongs to a group of companies that made the significant contribution

CTR III

Patent box (cont'd)

Qualification of IP rights | Entry test | **Calculation test** | Relief | Transition rule

- As indicated in the chart below, qualifying patent income would be calculated based on a residual method, i.e. all income of a company would be considered patent income that is not specifically deducted as non-patent income, such as
  - Financing income
  - Income from manufacturing, trading and services to the extent these income streams do not derive from a qualifying patent
  - Income attributable to routine functions and trademark income



- It thus appears that patent income that is embedded in the sales price of a product would qualify for privileged taxation

CTR III

Patent box (cont'd)

Qualification of IP rights | Entry test | Calculation test | **Relief** | Transition rule

- The introduction of a patent box would be mandatory for all cantons
- The extent of tax relief would be at the discretion of each canton, but would be limited to 80% of cantonal/communal income. This would result in an combined federal/cantonal/communal ETR of about 8%-10% (no NID at the cantonal/ communal level on patent box income)
- No tax relief would be granted for federal income tax purposes

CTR III

Patent box (cont'd)

Qualification of IP rights → Entry test → Calculation test → Relief → **Transition rule**

Change from ordinary taxation to patent box regime

- Such a change would lead to the taxation of hidden reserves (including self-created goodwill) at the ordinary tax rate, which could be deferred at the discretion of the canton up to a maximum period of ten years, with tax effective amortization of the stepped-up assets possible thereafter, but at the reduced patent box rate

Transition from a special tax regime (e.g., mixed company regime) to patent box regime

- Such a change should, in general, be tax neutral

Open issues and questions

- It remains to be seen to what extent the individual cantons would apply the tax relief, i.e. 80% or below
- Final recommendations from the OECD related to BEPS (expected in September 2015) may result in refining of the Swiss patent box

CTR III

Notional interest deduction

CTR III
Notional interest deduction

Current situation

- The ETR applicable to foreign interest income is
  - 7.8% for a holding company
  - 8%-11% for a mixed company
  - 0.5%-2% for a finance branch/company structure

Draft legislation

- The NID is an internationally accepted and widely practiced concept (e.g., Belgium, Italy, Liechtenstein) that refers to a deemed deduction of interest on equity exceeding a core equity amount, in addition to actual interest expenses arising from debt financing
- The NID is intended to ensure somewhat equal treatment of equity financing and debt financing at a company level
- Under the proposed NID, no booking entry to the Swiss GAAP accounts would be required; the NID would reduce the tax base in the tax return

CTR III
Notional interest deduction

Draft legislation (cont'd)

- The NID also would be available to Swiss branches/permanent establishments of foreign companies
- The NID would be granted on the average equity exceeding a calculated core (minimum) equity, i.e. average equity minus core equity = surplus equity. The core equity would be assessed asset-by-asset, using a defined factor per asset-class (e.g., cash would require 0% core equity, intercompany loans 15% of core equity and patent box assets or participations 100% of core equity)
- The notional interest rate would be equal to the ten-year Swiss government bond rate, plus 50 basis points, but would be no lower than 2% (For comparison the minimum safe harbor rate for intra-company loans in CHF is 0.25% and the maximum safe harbor rate for intra-company loans in CHF exceeding CHF 1 million is 1% for 2015)

CTR III

Notional interest deduction (cont'd)

FinanceCo (Swiss finance branch); CHF in thousands

Avg. Assets		Avg. Liabilities	
100	Cash	–	Debt
900	IC loans	1,000	Equity
1,000	**Assets**	**1,000**	**Liabilities**

	Status Quo *Swiss Finance Branch (SFB)*	**Corporate Tax Reform III** *NID*		
Crash		100	0%	–
IC loans		900	15%	135
Core equity				**135**
Equity				**1,000**
Surplus equity				**865**

		Status Quo	Corporate Tax Reform III
Interest income	2.5%	22.5	22.5
- NID up to CHF 1bn for SFB (22.5/1.21)		-18.6	–
- NID according to CTR III – NID rate	2%	–	-17.3
Income before taxes		3.9	5.2
Combined ETR (for mixed co./10% Quo	8.3%	-0.3	–
Combined ETR	12%		-0.6
Taxable Income		3.6	4.6
ETR		**1.44%**	**2.77%**

CTR III
Notional interest deduction (cont'd)

Consequences

- The NID is designed to, in particular, benefit (intercompany) financing activities, and would lead to a general tax rate reduction for most companies
- The NID would reduce or eliminate the discrimination of equity financing vs. debt financing from a tax perspective
- The NID regime should be an attractive solution for finance companies and, together with other measures, should make Switzerland more attractive as a finance location

CTR III
Step-up

CTR III
Step-up on status change

Current situation

- The step-up in cases of a transition from a privileged tax regime to an ordinary tax regime is an established practice and has been confirmed by Switzerland’s Federal Supreme Court with respect to holding companies. There is consensus that a step-up also would apply in cases of a transition from a mixed company to an ordinary tax regime

Draft legislation

- A step-up of hidden reserves and self-created goodwill would be possible for all privileged companies upon the status change to an ordinary taxation
- The moving in or out of a patent box from or to ordinary taxation would be treated as migration/emigration with step-up, whereas the tax levied upon transition into a patent box by an ordinary taxed company could be deferred for up to ten years

CTR III

Step-up on status change (cont'd)

Consequences

- The step-up essentially would indirectly grandfather the existing tax rates available under privileged tax regimes so they would continue to apply for a period of up to ten years after the reform becomes effective

Open issues and questions

- Various groups including the Swiss tax authorities have worked out possible solutions in order to solve the tax accounting issue, i.e. to avoid that the step-up would lead to a deferred tax asset (one-year effect). In subsequent years, the group ETR would be high because of the release of the deferred tax asset. It remains open how such working group input will flow into the final draft legislation
- As the rules in the draft legislation about the step-up do not include specific details (e.g., the valuation method, depreciation period, taxable quota, etc.) the cantons are generally free to define such detailed rules

CTR III

Step-up on migration

Current situation

- Swiss tax follows Swiss statutory accounts and thus, a step-up in basis often is not possible or is limited due to accounting rules

Draft legislation

- A step-up of hidden reserves and self-created goodwill in the tax balance sheet would be allowed for direct federal and cantonal/communal tax purposes
- A step-up would be available when the company becomes subject to tax in Switzerland, such as in a transfer of its legal seat and domicile or effective place of management, or a transfer of certain assets or functions to Switzerland
- The step-up amount could be amortized for tax purposes; goodwill would be amortized on a straight-line basis over a maximum period of ten years
- An NID would be allowed up to the stepped-up fair market value of assets, but not on the stepped-up goodwill

CTR III

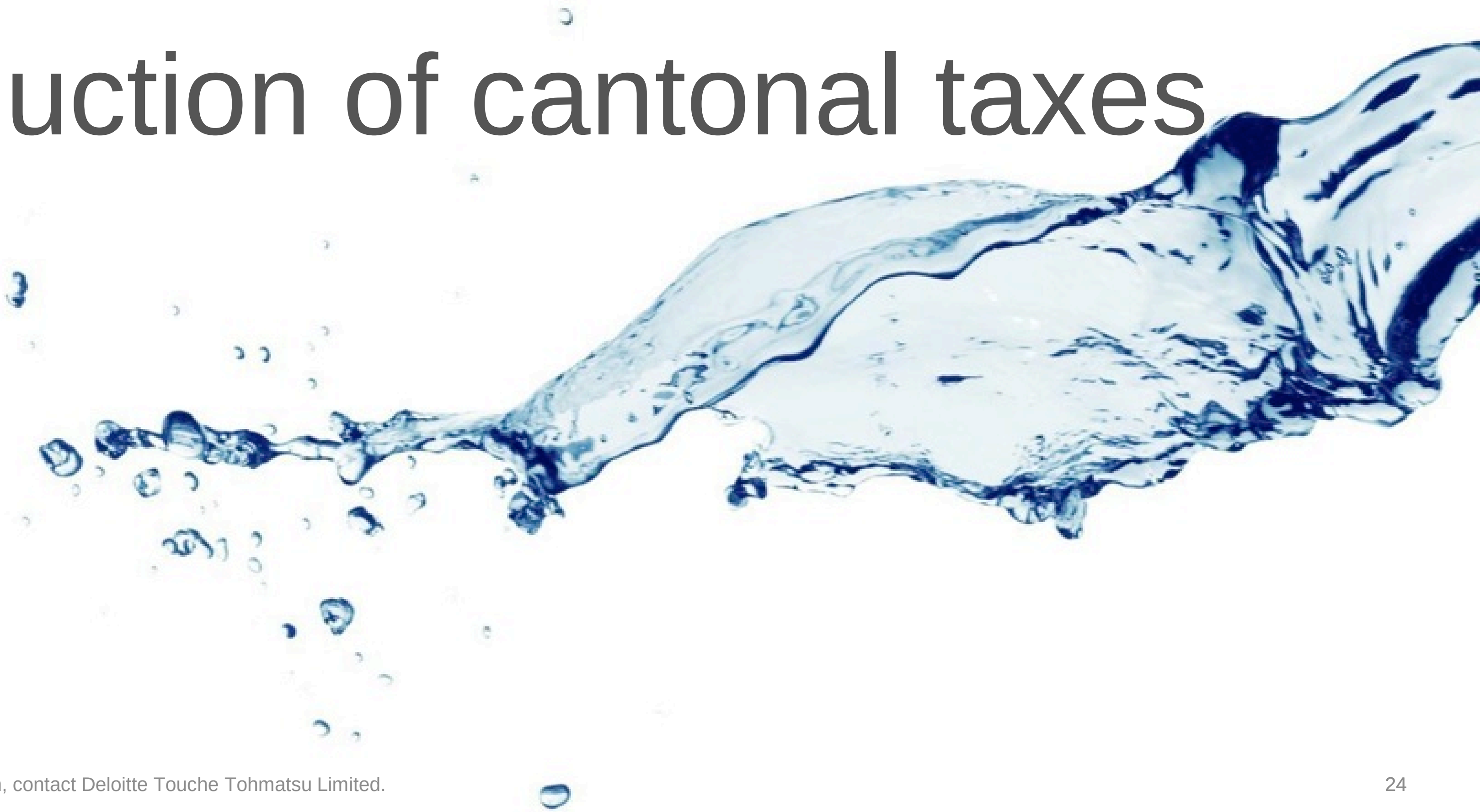
Step-up on migration (cont'd)

Consequences

- The step-up with subsequent amortization would make migration to Switzerland attractive, as it could potentially eliminate taxation for up to ten years
- Migration to and emigration from Switzerland would be treated equally for tax purposes
- An exit or the transfer of certain functions from Switzerland would result in exit taxation, under which the same standards and valuation methods would be applied as on a migration to Switzerland
- As for the step-up on status change it remains open how the working group input will flow into the final draft legislation in order to solve the tax accounting issue

CTR III

Reduction of cantonal taxes



CTR III

Reduction of cantonal corporate income tax rate

Current situation

- Combined federal/cantonal/communal effective corporate income tax rates currently are between 11.26% and 24.17%

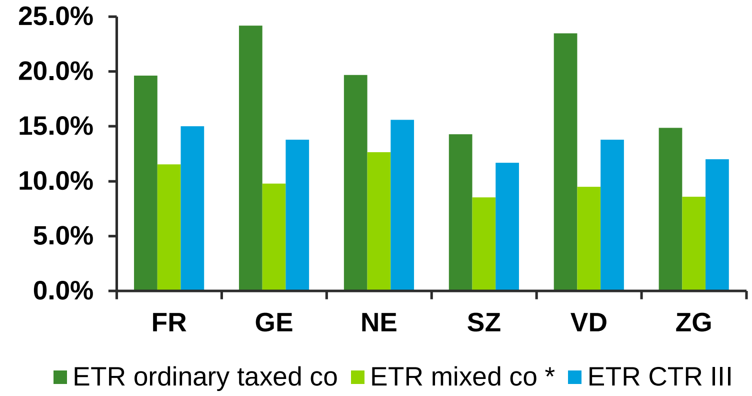
Draft legislation

- Cantons basically would be free to reduce their cantonal income tax rates within the boundaries of their budget
- The federal government announced that it would compensate cantons for lower tax revenue in the amount of CHF 1 billion per year

Comments

- Not all cantons would be equally affected by the abolition of privileged tax regimes. High-tax cantons that would not reduce their tax rate, however, would run a high risk of mobile income being shifted to low-tax cantons
- Not all cantons have announced to date whether and to what extent they plan to reduce their corporate tax rate

- The Swiss government anticipates an average reduction of the ETR to approximately 16%, with various cantons reducing their rates to as low as 12%:



- The following cantons expect to maintain their low headline tax rates

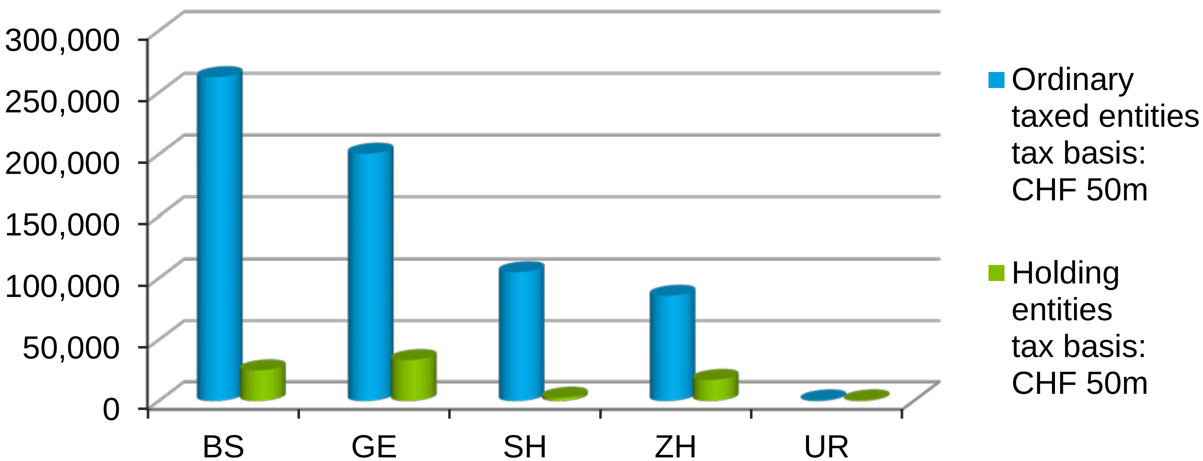
	ETR
• Schwyz**	11.58%
• Appenzell Ausserrhoden	12.66%
• Nidwalden	12.66%
• Lucerne**	11.26%

* Quota for taxation of foreign-source income of 10%
** Certain regions

CTR III
Reduction of net wealth tax rates

Current situation

- Several cantons allow taxpayers to credit net wealth taxes against corporate income taxes, which can result in an elimination of annual cantonal taxes
- The cantons of Appenzell Ausserrhoden, Argovia, Lucerne, St. Gall, and Schaffhausen grant participation relief on net wealth tax
- The following chart shows the difference in the net wealth tax burden between an ordinary taxed company and a holding company in selected cantons



BS = Basel
GE = Geneva
SH = Schaffhausen
ZH = Zurich
UR = Certain regions in Canton Uri

CTR III

Reduction of net wealth tax rates (cont'd)

Draft legislation

- Under CTR III, cantons would be given the opportunity to lower the annual net wealth tax rate on equity with respect to participations, intellectual property and intercompany loans

Consequences and open issues

- The change in legislation would increase the tax competition between cantons and likely would result in a reduction of annual net wealth taxes for most companies
- Most cantons have not yet announced whether and to what extent they would reduce net wealth tax rates

Interaction between CTR III and BEPS

Interaction between CTR III and BEPS

Swiss view on BEPS

- Switzerland is highly committed to the OECD-BEPS initiative and to introduce a new tax system that fully is aligned with international standards
- CTR III draft law is the first fully virtually BEPS compliant tax law
  - All proposed tax regimes and measures of CTR III are supposed to be fully BEPS compliant
  - The final BEPS reports on intangibles, expected to be published in mid 2015, might have a significant impact on what will be included in the final CTR as privileged taxed income from intellectual property rights and what the respective required substance in Switzerland will be

Interaction between CTR III and BEPS

Swiss view on BEPS (cont'd)

- Examples from the practice in Switzerland, which already seem to be BEPS influenced
  - Increased substance: The Swiss tax authorities have put more focus recently with regard to the demonstration of economic substance (nexus approach) with regard to the withholding tax clearance for dividend repatriation to foreign holding companies (no written guidelines; review by the Swiss Federal Tax Administration (SFTA) on a case-by-case basis)
  - APAs/MAPs: The Swiss tax authorities focus in APA/MAP reviews/negotiations on the available substance of Swiss operations in Switzerland

Interaction between CTR III and BEPS
Impact for Swiss operations

Time lag between BEPS outcome and CTR III implementation

- OECD guidelines and unilateral law changes based on BEPS recommendations might be implemented prior to CTR III becoming effective
- Certain changes under the BEPS initiative that are merely a new interpretation of existing rules come into force with immediate effect

Foreign PE risk due to commissionaire and other alike arrangements

- Principal companies and other MNCs domiciled in Switzerland might be affected to attribute a higher profit share to group entities under a limited function and risk profile (e.g., commissionaire structures or the like) or may be challenged on the basis of having PEs in a number of countries
- Requires a thorough review of the business model, an implementation of structuring options and/or potentially an adaption of the business model to mitigate an adverse tax impact of such PEs or an adverse impact on the tax status of the principal companies/MNCs

Interaction between CTR III and BEPS
Impact for Swiss operations (cont'd)

Transparency

- New rules related to country-by-country reporting and planned simplified exchange of information between foreign tax administrations
- Swiss tax rulings and other tax documentation will potentially need to be shared with foreign tax authorities
- Companies need to ensure that their business model is consistent and that any questionable results from the country-by-country reporting are properly explained and documented

Substance

- Under BEPS it is crucial that companies (particularly principal companies and/or IP companies) have the necessary management substance (own qualified staff) in place in order to justify the residual profit in the future

Interaction between CTR III and BEPS
Recommended action steps/tools

BEPS assessor tool

- Identify BEPS risk and issues

BEPS GAP analysis

- Perform BEPS GAP analysis on high impact issues

Substance review

- Review of existing substance and compare it with existing/contemplated tax structure

PE assessment in the light of BEPS

- Assess potential risks and propose changes (might impact business model)

Simulation and analysis of country-by-country (CbC) reporting

- Prepare a CBC report on a trial basis to determine possible need for adaptions and identify need for further substance or documentation

Interaction between CTR III and BEPS
Recommended action steps/tools (cont'd)

Concept for centralized TP compliance

- Centrally manage the documentation process, monitor and ensure consistency between different documentation and speed-up the documentation process

Deloitte "Elements" (TP documentation)

- Web-based documentation solution to properly, and in a cost and time efficient way, prepare and present stipulated documentation and information

Innovation management

- Set-up of an innovation management center in Switzerland as top location and combine the need of required substance for IP Holdings in Switzerland with the benefit from an IP box tax regime, from IP protection rights and from available qualified staff in Switzerland.

Interaction between CTR III and BEPS
Recommended action steps/tools (cont'd)

Future ETR rate under CTR III

- Determine the combined ETR of the various proposed measures included in the CTR III draft legislation

Immigration/Emigration analysis and support

- Analyze available benefits under the CTR III draft legislation for a company migrating to Switzerland respectively for existing Swiss companies to move to another canton within Switzerland

Update on principal company developments

Update on principal company developments
Tightened guidelines

Exclusivity test of commissionaires/LRDs vis-à-vis Principal

- Distribution companies only allowed to perform distribution function for Principal
- At least 90% of the profit must be from respecting trading activity for Principal
- At risk: Denial of deemed PE allocation to LRDs for more than one year not satisfying the exclusivity-test

Minimal Margin test at level of commissionaires/LRDs

- Limits the acceptable gross profit margin for commissionaires/LRDs at 3% (or higher costs)
- At risk: Distributors accounting for a higher gross margin lead to a reduction of the profit attributable to the foreign deemed PE (even if in line with the dealing at arm’s length principle)

Update on principal company developments
Tightened guidelines (cont'd)

Outsourcing of principal functions

- Typical principal functions
  - Procurement, planning of research & development, production planning and management, inventory and warehouse management, logistics, development of marketing strategy, sales planning and management, treasury and finance as well as administration
- At risk: Outsourcing of principal functions to foreign companies results in an adjustment of the principal allocation (reduction of profit being attributed to the foreign PE)

MAPs/APAs

- APAs/MAPs earlier resulted in a denial of corresponding adjustment (unpublished SFTA practice)
- Under the new practice, APAs/MAPs have no impact on principal allocation as such

Update on principal company developments
Tightened guidelines (cont'd)

Timing

- Already applicable for all new Swiss principal companies to be established
- As of tax year 2016 generally applicable for all existing Swiss principal companies
- Despite tightening of the application by the SFTA, the Cantonal Tax Authorities will ultimately be the authority to review and finally assess the new principal company guidelines

Anticipated practice changes – discussion on-going with SFTA and Cantons

- “3% gross margin is not achievable”
  - SFTA is not anticipated to amend the primary 3% gross margin test
  - SFTA is however anticipated to amend the fall back test by applying a mark-up of 5% on the higher costs

Update on principal company developments
Tightened guidelines

Anticipated practice changes – discussion on-going with SFTA and Cantons (cont'd)

- "Exclusivity test leads to massive administrative burden and forces groups to do artificial restructurings at significant costs"
  - For existing principal companies, SFTA is anticipated to take an individualized approach to companies. In specific cases, they have said they may not enforce exclusivity rules depending on burden to change business models given the short period for which the rules will apply, i.e. likely for the years 2016-2018
- "Outsourcing of auxiliary principal functions should be allowed"
  - SFTA is anticipated to be more flexible that outsourcing of support and auxiliary functions will not lead to adjustment of the principal allocation
  - Core principal functions need to be carried out with people in Switzerland with appropriate qualification and seniority
- "Ideally new guidelines to be deferred for existing principals until CTR III becomes effective"
  - SFTA will likely not return to the previous practice

Please remember to complete your evaluation

Appendices

Appendices

CTR III – overview

CTR III – other measures

- Participation exemption
- Group relief for losses
- Unlimited loss carryforward
- Abolition of capital issuance tax

CTR III - Compensation measures

- Capital gains tax on securities held by individuals
- Adjustments to partial taxation procedure

Tax holiday

CTR III
Overview

OECD | G20 | EU

are focusing on

Nontaxation | Shifting of mobile income | Ring fencing

Abolition of these regimes and adoption of replacement measures

Holding company | Domiciliary company | Mixed company | Principal company | Finance branch

Corporate tax reform III

Nontax

Impact on financial equalization mechanism
- Abolition of tax privileged regimes and a general reduction of the tax rate will affect cantons differently but will require no significant change in the inter-cantonal financial equalization mechanism

Vertical (federation vs. cantonal) compensating measures
- Federation and cantons participate equally in the shortfall of direct federal income tax revenue
- Participation of cantons in direct federal tax would increase from 17% to 20.5%

Increased scrutiny
- The federal council has announced it will increase the number of tax auditors by 60 to 70

Cantonal taxes / Federal taxes

Measures	Cantonal taxes	Federal taxes
Replacement measures	**Patent box**	
Replacement measures	**NID**	**NID**
Other measures	**Reduction of corporate income tax rates**	**Abolition of capital issuance tax**
Other measures	**Reduction in capital tax**	
Other measures	**Step-up in case of migration into Switzerland**	**Step-up in case of migration into Switzerland**
Other measures	**Step up - status change**	
Other measures	**Participation exemption**	**Participation exemption**
Other measures	**Unlimited loss carryforward**	**Unlimited loss carryforward**
Other measures	**Group relief for losses**	**Group relief for losses**
Compensating measures	**Capital gains tax on securities held by individuals**	**Capital gains tax on securities held by individuals**
Compensating measures	**Adjustments to the partial taxation procedure**	**Adjustments to the partial taxation procedure**

CTR III

Other measures

CTR III

Participation exemption

Current situation

- The current concept of participation relief provides for an indirect relief mechanism, as opposed to a direct exemption
- This system could lead to a potential tax leakage in situations
  - Where a company is highly leveraged, and therefore, does not obtain full relief on qualifying income
  - Where there are loss carryforwards, as these will be consumed by participation income before the participation relief applies

CTR III
Participation exemption (cont'd)

Draft legislation

- Would change from an indirect to a direct participation exemption regime on dividends and capital gains
- No minimum threshold and no minimum holding period would be required
- Participation income would not form part of taxable income. Instead, participation income, along with capital gains from participations, write-ups on participations and income on subscription rights would be in a separate, non-taxable basket, along with capital losses, depreciation, accruals, and impairments on participations
- There would be no attribution of administrative or financing expenses to the participation basket
- Similar to the existing rules, if the distribution is deductible at the level of the distributing entity, it would not qualify for the participation exemption
- There would be no controlled foreign company rules

CTR III

Participation exemption (cont'd)

- Example comparison of current participation relief and participation exemption under CTR III

Balance sheet

Participation	500	Loans	300
		Equity	200
	500		500

Indirect method (old concept)

Participation income	30
Financing costs	(15)
Profit	15
Income tax	(1.2)
Participation relief	100%
Effective income tax	0

Direct method (new concept)

	Qualifying participation income	Other income
Participation income	30	
Financing costs		(15)
Profit	30	(15)
Income tax	0	0
Tax losses carried forward		(15)

CTR III

Participation exemption (cont'd)

Consequences

- For most companies, the change from participation relief to the participation exemption would not have a significant impact on the ETR
- Write-downs on participations would no longer be tax deductible
- All tax leakage would be avoided, which would benefit companies that currently do not have full participation relief or that have loss carryforwards
- Would strengthen Switzerland as a holding location

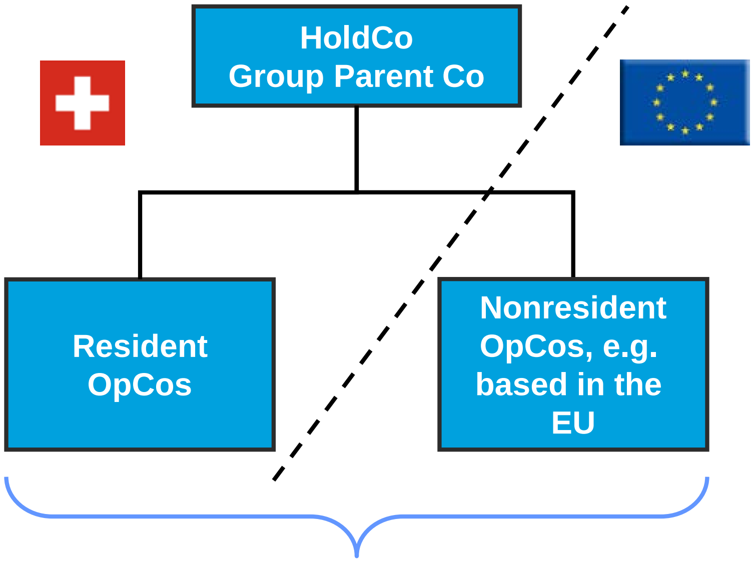
Open questions

- It is not clear how certain transactions would be treated (e.g., whether a loan waiver in favor of a subsidiary would be tax deductible)

CTR III
Group relief for losses

Draft legislation

- The draft legislation provides for group relief in the form of the utilization of losses incurred by resident and non-resident subsidiaries (including lower-tier subsidiaries) at the level of the group parent company (GPC) in the following situations
  - Where the resident or non-resident subsidiary has exhausted the possibilities available for having the losses taken into account in its state of residence for the accounting period concerned in the claim for relief and for previous accounting periods
  - Where there is no possibility for a foreign subsidiary’s losses to be taken into account in its state of residence for future periods, either by the subsidiary itself or by another affiliate (e.g., in cases of a merger or liquidation)
- Only a resident entity could be classified as a GPC. It seems a Swiss permanent establishment of a foreign-based entity would not benefit from such relief
- To benefit from relief, the GPC would be required to have sufficient financial control over the domestic and foreign group members, either by direct shareholding (above 50%) or indirect shareholding (e.g., via a partnership or joint venture structure)



- Non-utilizable losses. Those incurred on the following events
  - Ceasing of OpCo’s business by means of liquidation, merger, etc.
  - Expiration of the limited loss carry-forward period for non-resident subsidiaries or as a result of change in ownership, etc.

CTR III
Unlimited loss carryforward

Current situation

- Tax losses may be carried forward to be set off against current year profits during the seven years following the tax year in which the losses incurred
- This regime is applicable for both federal and cantonal/communal income tax purposes

Draft legislation

- Losses would be able to be carried forward indefinitely
- Tax losses carried forward could offset only 80% of current year profits; 20% of the current year profits would be subject to income tax
- The new regime also would apply to losses that are incurred under the current regime that limits loss carry forwards to seven years

Consequences

- A taxpayer’s recordkeeping would have to be adjusted

CTR III

Abolition of capital issuance tax

Current situation

- A capital issuance tax of 1% is levied on the contribution of equity into a Swiss company (with exemptions for the first CHF 1 million of nominal share capital and for restructuring transactions)

Draft legislation

- The capital issuance tax would be abolished

Consequences

- The abolition of the 1% capital issuance tax would not significantly impact the tax burden of most Swiss companies, as an exemption applies in most cases already today, except for cash contributions by a direct shareholder

CTR III

Compensation measures

CTR III

Capital gains tax on securities held by individuals

Current situation

- Under the federal tax law and cantonal/communal tax law, capital gains on the sale of privately held assets are fully exempt from income tax (except in certain cases)

Draft legislation

- Capital gains on the sale of securities held by an individual would be subject to income tax
- Capital gains derived from participations would be taxable at 70% (capital gains from other securities would be fully taxable). The taxable basis would be the difference between the sales price and the acquisition costs
- Losses on the sale of participations could be offset against capital gains from such participations, with any remaining loss carried forward for an unlimited period of time

CTR III

Capital gains tax on securities held by individuals

Draft legislation (cont'd)

- Losses on the sale of other securities could be fully offset against capital gains or income from other securities, with any remaining loss carried forward for an unlimited period of time
- Capital gains on the sale of other privately held assets such as cars, paintings, etc. would remain exempt from income tax (except in certain cases)
- The capital gains tax also would be levied in the case of an exit of the individual from Switzerland

Consequences

- The taxation of capital gains on the sale of securities significantly would diminish Switzerland's attractiveness for wealthy individuals

CTR III
Adjustments to partial taxation procedure

Current situation

- Income derived by an individual from qualifying dividends (shareholding quota of at least 10%) is taxed preferentially for direct federal and cantonal/communal tax purposes (depending on the canton and/or whether the qualifying shares are held as private or as business assets)

Draft legislation

- The taxation of participation income would be adjusted and a tax relief of a maximum of 30% (compared to the current higher relief) would be available for direct federal and cantonal/communal tax purposes to compensate for the corporate income tax rate reduction
- At the same time, the 10% shareholding quota for qualifying dividends would be abolished, making the regime broader

Consequences

- Minority shareholders would benefit, whereas shareholders with an interest currently above 10% could be negatively affected

Tax holiday

No changes due to CTR III

Tax holiday

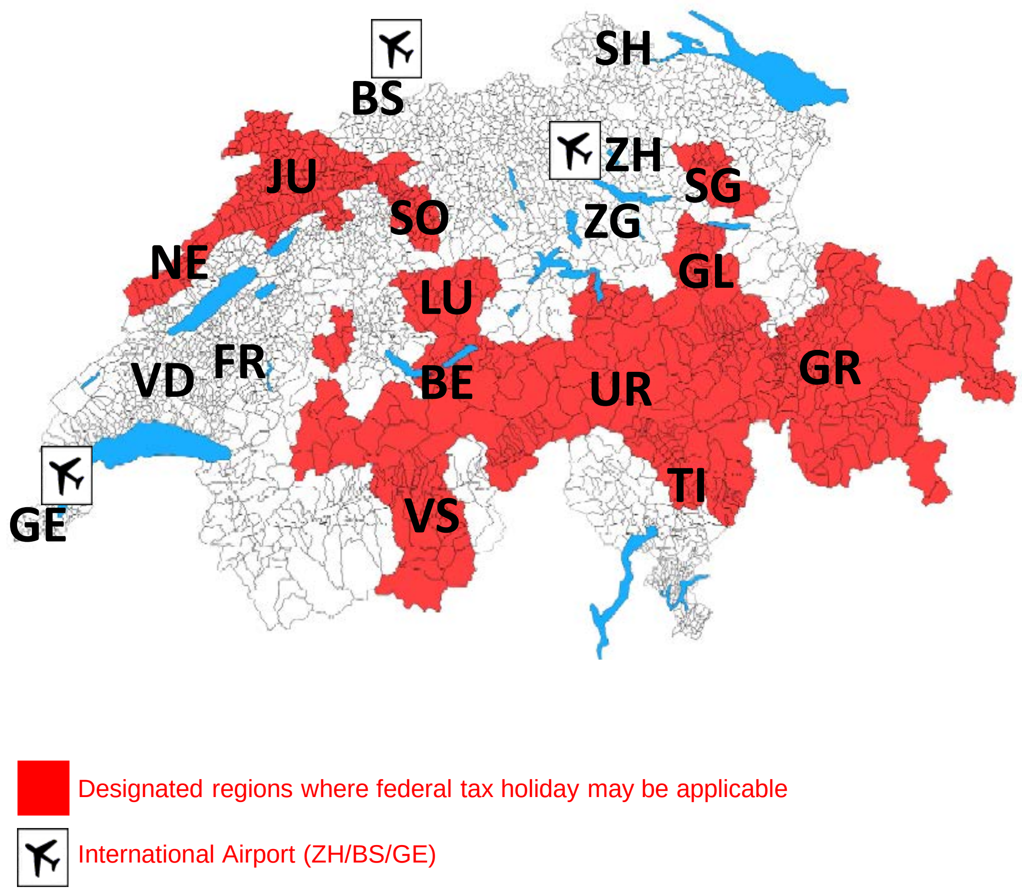
No changes due to CTR III

	Cantonal Level	Federal Level
Description	• Relief from taxation for up to 100% of investment in Switzerland may be available at both the federal and cantonal levels • Incentives often depend on the number of jobs created and the type and amount of investment, and/or regional economic planning aspects. In some cantons (e.g. Fribourg), additional subsidies are granted based on the number of newly created jobs	
Limitation	• Maximum duration of relief is 10 years	• Maximum period of relief is 10 years • Only applicable in designated regions • Enterprise must first receive a cantonal tax holiday before making a formal application for a federal tax holiday
Conditions	• Creation of new jobs (main criterion) • Activity to be undertaken in the canton • Business sector • Technological development • Opening of new markets/strengthening existing business clusters • Production of new goods or manufacturing of goods that are complementary to existing products • Business not in competition with local enterprises	
Application Process	• Provide canton with an adequate business plan, meet with the cantonal economic promotion office (tax advisor) to discuss, submit a formal application to the canton for the tax holiday • Determination is made by the cantonal government on the recommendation of the Cantonal Economic Promotion Agency • Letter of intent generally issued four to eight weeks from the time the application is filed (usually handled at the next meeting of the respective government)	• Determination is made by the Federal Minister of Finance on the recommendation of the Federal Economic Promotion Office and the canton • The determination usually takes about two to four months (although a clear indication will be made by the federation to the canton within a few weeks of the tax holiday that likely will be offered)

Tax holiday

Overview

	Cantonal Level	Federal Level
Jura (JU)	Up to 100%	Up to 100%
Uri (UR)	Up to 100%	Up to 100%
Berne (BE)	Up to 100%	Up to 100%
Solothurn (SO)	Up to 100%	Up to 100%
Grisons (GR)	Up to 100%	Up to 100%
St. Gallen (SG)	Up to 100%	Up to 100%
Lucerne (LU)	Up to 100%	Up to 100%
Ticino (TI)	Up to 100%	Up to 100%
Neuchâtel (NE)	Up to 100%	Up to 100%
Valais (VS)	Up to 100%	Up to 100%
Glarus (GL)	Up to 100%	Up to 100%
Fribourg (FR)	Up to 100%	N/A
Basle (BS)	Up to 100%	N/A
Schaffhausen (SH)	Up to 100%	N/A
Zug (ZG)	N/A	N/A
Zurich (ZH)	Up to 50%	N/A
Geneva (GE)	Up to 100%	N/A



Speaker bios

Jackie Hess is a partner in Deloitte AG, Switzerland. She is the Swiss Business Model Optimization (BMO) tax leader as well as the Swiss life sciences tax leader. She has over 15 years of experience serving some of the firm's largest multinational clients.

Jackie is specialized in the Swiss aspects of such projects. This includes Swiss location planning, tax holiday negotiations and tax ruling negotiations. She also oversees the European tax considerations that result from changes to the business model. In addition, she has extensive experience in cross-border tax planning, including finance and IP structuring.

Jackie holds a B.A. from the University of Chicago, J.D. from Cornell Law School and LL.M. in international taxation from Catholic University, Louvain, Belgium.

Jackie is a member of the Tax Chapter Board of the Swiss-American Chamber of Commerce as well as the Swiss Advisory Board of the American Swiss Foundation.

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Jacques Kistler is a Tax Partner in the Deloitte & Touche LLP Geneva Office and has more than 23 years' experience as a Swiss international tax specialist. Jacques' experience has included working in the field of international tax structuring and M&A. He specializes in cross-border tax planning and has assisted numerous multinationals, specifically in the establishment of Swiss finance and IP structures, as well as in the structuring of Swiss trading and principal/headquarter operations.

Jacques is Head of the Deloitte tax department covering the French speaking part of Switzerland. His team includes specialists in all areas of tax, including Swiss and international tax, tax accounting, VAT, and supply chain.

Jacques is a frequent speaker at seminars and is a well known specialist in his field. He is a graduate of The Fribourg University in Economics and qualified as a Certified Swiss Tax Expert. He is a member of the Swiss Certified Tax Expert Association.

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Speaker bios

Brian Pinto is an international tax partner with Deloitte Tax LLP and currently serves as the leader of the Dallas International Tax Service Line. Brian also serves as the Mid-America leader of the Global Value Alignment team where he has substantial experience advising U.S. multinationals with tax optimization associated with supply chain reorganizations, intellectual property monetization and other business transformations.

Brian also has substantial experience in structuring cross-border acquisitions and dispositions, cross-border financing, foreign tax credit optimization, and offshore cash utilization and repatriation strategies.

Brian has both a Bachelor's and Master's degree in Accounting from Texas A&M University and is a CPA in Texas.

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