

Abolishment Privileged Mixed Company Status - Relocation to Schaffhausen

Zurich, 28 November 2017

1. Introduction – privileged mixed company status

In Switzerland, a company currently may apply for privileged mixed company taxation if its income and expenses are predominantly non-Swiss. The specific criteria in order to fulfill the privileged mixed company status may vary from canton to canton. In general, it can be said that if at least 80% of the Swiss company's income and expenses according to the financial statements are generated with foreign customers/suppliers, the privileged mixed company status will be granted.

Under the privileged mixed company status, net income from Swiss counterparties (< 20%) will be subject to ordinary corporate income tax (CIT) rates. Net income from non-Swiss counterparties will be subject to ordinary federal income tax rate and, at cantonal level, only a certain quota of the net income (2.5% - 20%) will be taxed resulting to an overall effective tax rate of 9% to 12% (CIT rates in Switzerland depend on the location of the company).

2. Abolishment of privileged mixed company status

Mixed company taxation will be abolished due to international pressure. It is expected that this will happen as of 1 January 2020 or as of 1 January 2021. A transitional regime, which allows taxation at an equivalent level for 5 to 10 years, shall be offered. The specifics depend on the relevant canton.

After abolishment of the privileged mixed company status, such entities will be taxed at ordinary CIT rates (instead of privileged overall effective tax rates of currently 9% to 12% - see above). In order to avoid corporate migration due to the abolishment of the privileged mixed company status, various cantons have announced to reduce their CIT rates significantly. Due to this, it is important for companies which now are being taxed privileged as mixed companies to plan their tax situation pre-ahead of the abolishment of the privileged mixed company status and to consider a relocation to a canton/community with expected low CIT rates, before abolishment of the privileged mixed company status. The following table shows an overview of selected cantons and their current as well as their expected effective CIT rates:

	Current Ordinary CIT rates	Announced CIT rates
Berne	21.6%	16.4 - 17.7%
Geneva	24.2%	13.5%
Lucerne	12.5%	no reduction
Schaffhausen	16.0%	12 – 12.5%
Schwyz (Wollerau)	12.5%	outstanding
St Gallen	17.4%	14.0%
Thurgau	16.4%	13.0%
Zug	14.6%	+/- 12.0%
Zurich	21.2%	18.2%

The above table shows that even after abolishing the privileged mixed company status, Switzerland will offer very competitive CIT rates.

Within Switzerland, Schaffhausen is expected to have one of the lowest CIT rates in Switzerland after abolishment of the privileged mixed company status. Thus, a relocation of a mixed company from the current domicile to Schaffhausen before abolishment of the privileged mixed company status may be very beneficial from a CIT perspective.

The relocation of a company within Switzerland is possible without any tax consequences. Please be aware that also Swiss internally the OECD principles apply (tax domicile coincides with place of effective management, permanent establishment).

We will be pleased to further assist in this matter. Please do not hesitate to contact us in case of further questions.

Best regards,

Tax Partner AG

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