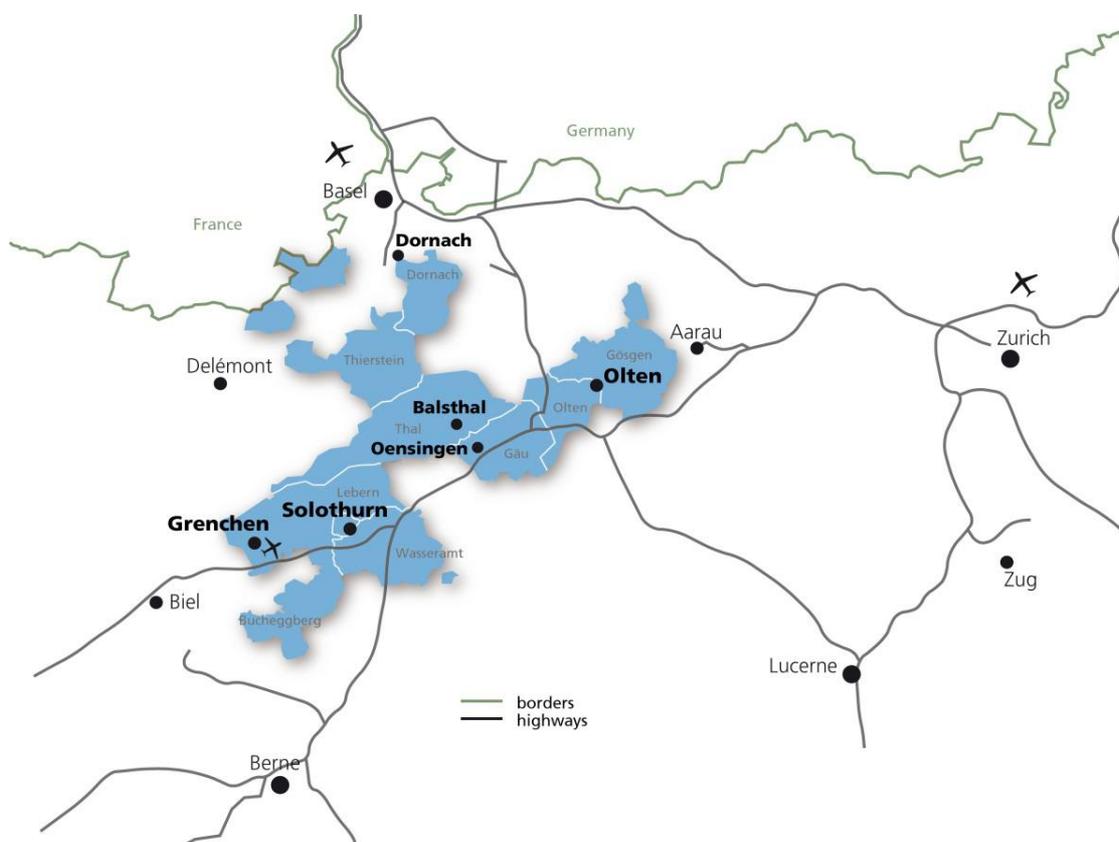




# The Canton of Solothurn – a fiscally attractive business location



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**Note:**

**This is an approximate translation of the document "Kanton Solothurn – fiskalisch ein attraktiver Unternehmensstandort" written in German. Legally binding is only the cantonal law on taxation.**

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## **1 Corporate taxation in the Canton of Solothurn**

### **1.1 Introduction**

The Canton of Solothurn has a modern and flexible system of corporate taxation law both at cantonal and communal levels. It is worth making a comparison. You can check what your current tax liability will be by using our tax calculator at:

[www.so.ch/departement/finanzen/steueramt.html](http://www.so.ch/departement/finanzen/steueramt.html)

You can also simulate the tax rates that will apply in the future.

### **1.2 Special features of Solothurn corporate taxation law**

Following special features are characteristic of Solothurn corporate taxation law:

#### **1.2.1 Generous depreciation policy and practice**

The rates of depreciation permitted for tax purposes (so-called standard rates) are among the highest in Switzerland and facilitate rapid investments in replacements. In addition to the standard depreciation rates, additional and one-off depreciation charges on moveable fixed assets may be arranged in consultation with the cantonal Tax Office, Legal Entities Section. Likewise depreciation facilities that could not be charged or used up in a previous year due to poor business results, can still be used in the following three years.

In the case of new commercial buildings and extensions to existing buildings, the depreciation rate is doubled in the year of construction and in the three following years. This depreciation practice applies equally to cantonal and communal taxation and to direct federal taxation.

In case of extraordinary impairments, appropriate value adjustments (not depreciations) must be made on the short- or long-term assets.

#### **1.2.2 Tax exempt reserves for research, development, business conversions and business restructuring**

Self-employed persons and legal entities may claim tax exempt reserves (= provisions) for the purpose of scientific or technical research as well as for future development contracts awarded to third parties. In addition, by prior agreement with the Tax Office, as this affects cantonal and communal taxation, tax exempt reserves can be made to cover future investments in economically necessary business conversion and restructuring activities. These tax exempt reserves for business conversion and restructuring activities may be formed for 4 years in advance for up to a maximum of 75% of the sum invested. They must be dissolved for the earmarked purpose in the 5<sup>th</sup> year. By forming such a reserve, a higher level of self-financing of future investments can be achieved, and taxes can be deferred.

#### **1.2.3 Tax neutral restructuring activities (mergers, demergers, transformations, transfers of assets)**

Subject to certain legal requirements, which are normally easily met, mergers, demergers, transformations and transfers of assets can be carried out without giving rise to tax consequences. This also applies to conveyance tax. Refer to applicable retention periods.

#### **1.2.4 Tax exempt replacement purchases in Switzerland**

The replacement of essential fixed assets may be carried out with no consequences for federal, cantonal and communal taxation, subject to compliance with the statutory regulations, in accordance with the reinvestment theory. The hidden reserves realized can be allocated to the replacement asset, provided its value is not below the current book value and the asset is shown to be essential to operations.

Replacement purchases are permitted for all operational fixed assets (with the exception of real estate under movable fixed assets).

When replacing participations, hidden reserves can be allocated to a new participation provided the participation sold amounts to at least 10% of the basic or registered capital of the other company or there is

a right to 10% of profits or reserves and the participation has been held by the limited company or cooperative for at least one year. However, this does not apply to recontributed depreciations.

### **1.2.5 Deductibility of taxes in Switzerland**

Taxes due are deemed to be deductible expenditure for tax purposes and thus reduce the taxable net profit. The calculation can be made using the tax calculator (see Section 1.1).

### **1.2.6 Income and profits from real estate held as business assets**

Income and profits from real estate held as business assets are subject to ordinary corporate profit tax and are not taxed as separate capital gains on real estate (dualistic real estate profit tax system). This means that the tax liability is reduced and the assessment process is simplified. Capital gains tax on specific real estate properties is only levied on tax exempt institutions and private individuals.

### **1.2.7 Special taxation options (will probably be eliminated in 2019)**

The Canton of Solothurn offers companies with special structures or activities the opportunity to be granted special tax status. With special tax status (as a holding, domiciliary or management company), specific percentages of the profits can be included in the tax assessment which on balance leads to lower tax rates, so that certain percentages of the profits even remain tax exempt.

In the case of the holding companies, only income and profits from real estate are taxed. Other profits are exempt from cantonal and communal taxation tax, provided the requirements for the holding company privilege are met. In the case of direct federal taxation, a shareholder's allowance is allowed in respect of income and capital gains from participations provided the requirements are met, and this provides an indirect exemption for the net income and gains from participations.

### **1.2.8 Open dialogue with the tax authorities and pleasant tax climate**

An open dialogue with the tax authorities guarantees that tailor-made solutions can be devised and agreed in accordance with the current legislation.

## **2 Tax assessment and liability for operating companies (= Ordinary taxation for companies with business operations)**

### **2.1 Profit tax**

#### **2.1.1 Cantonal tax**

For the profit tax, what is known as a dual percentage tax rate applies:

- **5.0% on the first CHF 100,000 of the net profit,**
- **8.5% on the rest of the net profit.**

The first CHF 100,000 of the profit is taxed at only 5%. This means that the tax liability on new, young or less profitable businesses is significantly reduced. Taxable net profits in excess of CHF 100,000 are subject to a percentage tax rate of 8.5%.

The so calculated basic cantonal tax (=100%) amounts to 110% (Cantonal tax rate of 100% - subject to approval by the Cantonal parliament in December 2016) plus 10% surcharge for fiscal equalization tax). This results in an effective tax liability of between 5.5% and 9.35% for cantonal profit tax.

#### **2.1.2 Municipal taxation**

The municipalities levy (see Sections 2 and 3.1) municipal taxes of between 50% and 150% of the basic cantonal tax on "operating companies subject to standard taxation", and between 30% and 100% of the basic cantonal tax on "companies subject to privileged tax rates" (see Section 3.2 to 3.5). The tax multiples differ from municipality to municipality and can be accessed on the Internet under

[www.so.ch/departemente/finanzen/steueramt.html](http://www.so.ch/departemente/finanzen/steueramt.html)

### 2.1.3 Federal taxation

In addition, federal taxation must be paid at 8.5% (proportional tax rate).

## 2.2 Capital tax

### 2.2.1 Cantonal tax

Capital tax is payable on taxable shareholders' equity, which comprises basic capital, the open and the taxable hidden reserves, the capital contribution reserves and balance sheet profits or losses. The basic cantonal tax is charged at 0.08%. 110% of the resulting basic cantonal tax is billed (see cantonal tax multiple and surcharge under Section 2.1.1). The profit tax due is taken into account when calculating the capital tax. i.e. depending on the taxable net profit, no capital tax is due.

### 2.2.2 Municipal taxation

The municipalities levy between 50% and 150% of the basic cantonal tax in communal tax. The tax multiples vary from town to town (see Section 2.1.2). The profit tax due is taken into account when calculating the capital tax.

### 2.2.3 Federal taxation

There is no capital tax at the federal level.

## 2.3 Overall tax liability

### 2.3.1 Profit tax

	<u>min.</u>	<u>max.</u>
<u>Cantonal taxation</u>		
= Basic cantonal tax (100%)	5.00%	8.50%
= Effective cantonal tax (110%)	<u>5.50%</u>	<u>9.35%</u>
 <u>Municipal taxation (e.g. in Härkingen)</u>		
= Effective communal tax (100% of the basic cantonal tax)	<u>4.45%</u>	<u>7.56%</u>
 <u>Federal taxation</u>		
= Effective federal tax	<u>8.50%</u>	<u>8.50%</u>
= Overall corporate profit tax due on <u>after</u> tax profits	<u>18.45%</u>	<u>25.41%</u>
= Overall corporate profit tax due on <u>before</u> tax profits	<u>15.72%</u>	<u>20.26%</u>

### 2.3.2 Capital tax

	<u>min.</u>	<u>max.</u>
<u>Cantonal taxation</u>		
= Basic cantonal tax (100%)	0.0800%	0.0800%
= Effective cantonal tax (110%)	<u>0.0880%</u>	<u>0.0880%</u>
 <u>Communal taxation (e.g. in Olten)</u>		
= Effective communal tax (100%)	<u>0.0712%</u>	<u>0.0712%</u>
= Total capital tax due	<u>0.1592%</u>	<u>0.1592%</u>

You can calculate and simulate your own liability under:

[www.so.ch/departemente/finanzen/steueramt.html](http://www.so.ch/departemente/finanzen/steueramt.html)

(Steuerberechnung/Steuerfüsse).

### **2.3.3 Deduction of profit tax from capital tax**

The profit tax due is taken into account when calculating the capital tax. A minimum tax of CHF 200 must be paid by any legal entity that is liable to tax in the canton due to personal affiliation (registered office or actual administration), and at least CHF 100 must be paid by any legal entity with a simple economic affiliation to the canton.

## **3 Special taxation options**

### **3.1 Companies with participations (=parent company)**

Companies with participations include ordinary production and trading companies that have qualifying participations (participations). In order to qualify, participations must amount to at least 10% of the basic or registered capital of another company, have a market value of at least CHF 1 million, or give rise to the right to at least 10% of the profits and reserves of another company.

The profit tax on income from such participations is reduced in accordance with the ratio of the net income from the participations to the entire taxable net profit of the company. The net income from participations corresponds to their income less a pro rata share of administrative costs, normally 5%, and a pro rata share of the interest on debts. Negative net income from participations is not taken into account.

In the case of qualified participations (= 10% share of participations or the right to 10% of the profits and reserves of another company or if the requirements for the taxation of residual participations are fulfilled and the participations have been held for at least one year), the capital gains on participations and proceeds from sales of subscription rights are indirectly exempted by means of the shareholder's allowance.

### **3.2 An attractive location for holding companies**

#### **3.2.1 Definition**

Holding companies under Article 99 of the SO Taxation Act (Canton of Solothurn Taxation Act) are limited companies (companies limited by shares, companies partly limited by shares, limited liability companies) and cooperatives whose main object under the articles of association is the long-term management of participations, and which do not carry on any business operations in Switzerland. The object of being a holding company must be stated in the articles of association and must actually be pursued.

#### **3.2.2 Aim of the taxation**

The aim of the tax provisions on holding companies is to prevent the profits from domestic and foreign participations from being taxed three or more times. This also applies to free-float participations, provided that the tax subject is ultimately a holding company and not an asset management company.

#### **3.2.3 Definition of participations**

Participations include shares, participation certificates, capital contributions to limited liability companies, shares in cooperatives, profit-sharing certificates, LLCs, shares in the capital of an investment company with fixed capital (SICAF) and long-term loans to subsidiaries that qualify as hidden shareholders' equity at the level of the subsidiary.

The following do not qualify as participations: shares in partnerships, bonds, internal group loans and advances, hybrid financial instruments (e.g. subordinate loans) and shares in Swiss and foreign collective capital investments, and shares in the capital of an investment company with variable capital (SICAV).

### **3.2.4 Ban on business operations in Switzerland**

As they are banned from conducting business operations in Switzerland, holding companies are in principle not permitted to participate in commercial transactions with non-affiliated entities through industrial or commercial activities as a producer or supplier of goods, intellectual property or services.

### **3.2.5 Permitted ancillary functions**

As part of the management of participations, certain activities are however permitted as ancillary functions, provided they stem from an effort to achieve the main object of managing the company's own participations appropriately and successfully. These activities include running a centralized management and reporting system for the company group, providing legal and tax advice at group level, human resources consulting in relation to management staff, group communications, investor relations, group financing by the centralized raising of funds on the capital market, and the financing of subsidiaries. The administration of intellectual property rights is permitted as an ancillary function provided this activity is negligible in comparison with the participation-related activities and is only carried on in relation to companies within the group.

The expenditure incurred by the holding company for so-called group management responsibilities can be charged to the subsidiaries on market terms and conditions, normally according to the cost-plus method with a market compliant allowance added to the net costs. The compensation must be according to the arm's length principle.

### **3.2.6 Qualitative requirements**

The participations or the income from the participations must in the longer term represent at least 2/3 of the entire assets or income (including the income from real estate subject to ordinary taxation). If an essential participation is held, the free-float can also be included when making the calculation. The quantitative requirements must only be fulfilled as one of two alternatives (either on the asset or income side).

In order to ascertain the ratio of the participations to the total assets, in principle the profit tax values (book values plus hidden reserves taxed as profits) at the end of the financial year are decisive. Taxable companies may demonstrate that they meet the requirements on the basis of market values, whereby in this case all assets must be shown at their current market values.

The assessment is made on the basis of a balance sheet corresponding to the minimum company law layout requirements. The principles of balance sheet clarity and of the prohibition of setting off must be complied with. Loans given and loans taken within the group of companies may also be set off against each other. However no additional offsetting is permitted.

On the income side, it must be remembered that not only actual income from participations (dividends), but also capital gains on participations must be included.

### **3.2.7 Taxation of real estate**

Under Article 99 of the SO Taxation Act, holding companies may also own real estate in Switzerland. The related income is taxed at a simple percentage rate of 7% (see insert sheet 20 "Supplementary sheet for real estate held by holding companies") as part of a separate divisional account.

### **3.2.8 Capital tax rate**

Subject to Section 3.2.7, holding companies do not pay profit tax, but simply a reduced capital tax:

- 0.02% on the first CHF 50 million (but at least CHF 200),
- 0.01% on the next CHF 50 million and
- 0.005% on shareholders' equity exceeding CHF 100 million.

These tax rates again result in basic cantonal tax (= 100%), which is multiplied by the factor 1.1 (= 110%).

Certain municipalities in the Canton of Solothurn apply special low tax multiples to privileged companies (i.e. holding-, domiciliary and management companies). These multiples amount to between 30% and 100% (see [www.so.ch/departement/finanzen/steueramt.html](http://www.so.ch/departement/finanzen/steueramt.html), assessment, tax multiples) of the basic cantonal tax. In

addition, the communal tax rate for holding companies may amount to a maximum of only 100% of the basic cantonal tax.

### **3.3 Domiciliary companies**

#### **3.3.1 Definition**

Limited companies, cooperatives and foundations that carry on management activities in Switzerland but have no business operations are taxed as domiciliary companies. There is no requirement for such companies to be under foreign control.

#### **3.3.2 Administrative activities**

A domiciliary company in Switzerland may carry on management activities, but must have no business operations. It may own real estate in Switzerland.

Management activities primarily include the administration of interests that the company already possesses and which it acquires without any active commercial activity. In this respect there is a difference from a holding company, in that the latter must be primarily involved in the management of participations.

In the affiliated group, the management, sale and brokerage of intellectual property rights is deemed to be permitted as long as the domiciliary company does not carry on its own value creation activities and its sphere of activity lies predominantly abroad. Auxiliary activities such as billing, debt collection, acquiring information and financing are compatible with the privilege of domiciliary company status.

#### **3.3.3 Ban on business operations in Switzerland**

Business operations comprise manufacturing, trade, the provision of services, the exercise of fiduciary activities, and the acquisition, marketing and brokerage of business. Any form of business operations abroad is allowed. What is decisive is the place of activity. This means, for example, that transactions between two foreign locations are permitted. Commercial activities must also take place exclusively in foreign markets. For services, the place where preparations are made is decisive. This normally means that employees working in Switzerland may only carry out management activities and not business operations.

#### **3.3.4 Other income from abroad**

Other income from abroad includes all income which is not income from participations or other income from Switzerland. This includes in particular passive income from foreign sources such as interest, dividends, provided they do not come from a qualifying participation, and license fee income, together with remuneration from foreign companies within the group for the exercise of auxiliary functions. This income is subject to basic taxation in Switzerland according to the importance of the management activities in Switzerland. For a simple domiciliary company without staff and without office infrastructure, the taxable portion of the foreign income may fall below 10%. Where the company has a more active business presence, the portion of other income from abroad liable to taxation will be set between 10% and 25%.

#### **3.3.5 Other income from Switzerland**

Other income from Switzerland that is subject to basic taxation includes income or capital gains from Swiss real estate, securities of Swiss debtors, remuneration from Swiss companies within the group for carrying out auxiliary functions and license fee income from Swiss sources. Income and revenues are not eligible for reduced profit tax where relief is claimed from foreign taxes at source or an international treaty requires that basic taxation be levied in Switzerland.

#### **3.3.6 Granting of the domiciliary tax privilege**

Legal entities that wish to be taxed as a domiciliary company for the first time must file a written application with the Cantonal Tax Office. The application should describe the group structure, the ownership relationships, and transactions relating to goods, services and finances, and include a request to be recognized as a domiciliary company.

The Tax Office decides on whether to grant the privilege and fixes the portion of other income from abroad that is taxable. Income from Switzerland is taxed in full.

Domiciliary and management companies must draw up and submit separate profit and loss accounts for each differently taxed division (Switzerland, abroad, participations) in accordance with insert sheet 14 (see [Tax Office website](#)) for their tax declaration.

### **3.3.7 Profit and capital tax rates**

The profit tax rate for the taxable categories amounts to 7%. Taxable shareholders' equity is subject to the following capital tax rates:

- 0.02% on the first CHF 50 million (but at least CHF 200),
- 0.01% on the next CHF 50 million and
- 0.005% on shareholders' equity exceeding CHF 100 million.

These tax rates again result in basic cantonal tax (= 100%), which is multiplied by the factor 1.1 (= 110%).

Certain communes in the Canton of Solothurn apply special low tax multiples to privileged companies (i.e. holding-, domiciliary and management companies). These multiples amount to between 30% and 100% (see [www.so.ch/departement/finanzen/steueramt.html](http://www.so.ch/departement/finanzen/steueramt.html), assessment, tax multiples) of the basic cantonal tax. In addition, the communal tax rate for holding companies may amount to a maximum of only 100% of the basic cantonal tax

Profit tax is set off against capital tax. Depending on the amount of profit tax, no capital tax may be due.

## **3.4 Management companies**

### **3.4.1 Definition**

In contrast to domiciliary companies, the business activities of management companies are not exclusively foreign-related but primarily so. Because they may have subsidiary Swiss business operations, taxation as a domiciliary company is not an option.

The remarks on domiciliary companies (see Section 3.3) also apply to a large extent to management companies. The following remarks are limited to the recognizable differences.

### **3.4.2 Primarily foreign-related business operations**

Firstly, the income must primarily originate from foreign sources, and secondly the company's contribution to the services provided as well as that of any third parties must be come primarily from abroad. In principle, the sale, purchase, production and consumption of services must primarily take place abroad. The term "primarily" is understood to mean at least 80%.

To summarize, both the income and the expenditure of the service provider must be taken into account when assessing whether the business operations are primarily carried on abroad. On the income side at least 80% must originate from abroad. At the same time, at least 80% of the company's own or a third party's contribution to the provision of services must in principle come from abroad. The gross amounts are decisive. It is possible in justified individual cases for the extent of the foreign element of business operations to be defined in a different way. Any activity, with the exception of expenditure on administrative activities, may be considered to be a contribution to the provision of services if it qualifies as a business operation.

### **3.4.3 Other income from abroad**

In application of the general principles, the company's taxable net profit is ascertained first of all. The results of domestic activities are separated from this as they are subject in full to Swiss taxation, as is income from participations that is tax exempt. If income from investments from Switzerland (interest, licenses, dividends) or income from real estate is included in the taxable net profit, this is separated first of all as domestic income. The allocation of interest income is in practice based on the treatment of interest in the case of

withholding tax. The financing and management costs are allocated on the basis of the profit and loss account for the division concerned.

The profit from foreign business operations is taxed according to the extent of business operations in Switzerland. In view of the subordinate nature of business operations in Switzerland, in contrast to a domiciliary company, a complete exemption from tax for foreign income is not justified. The portion of other income from abroad liable to tax thus varies between 5% and 40%, depending on the importance of the management activities in Switzerland. Where there is a risk of double taxation due to unilateral foreign taxation provisions or domicile claims, the portions may be increased at the company's request and/or certain income can be allocated to the Swiss category (= full taxation).

#### **3.4.4 Granting the privilege of management company status**

Legal entities claiming taxation as a management company for the first time must submit a written application to the Cantonal Tax Office. The application should describe the group structure, the ownership relationships, and transactions relating to goods, services and finances, and include a request to be recognized as a management company.

The Tax Office decides on whether to grant the privilege and fixes the portion of other income from abroad that is taxable. Income from Switzerland is taxed in full.

Management companies must draw up and submit separate profit and loss accounts for each differently taxed division (Switzerland, abroad, participations) in accordance with insert sheet 14 (see [Tax Office website](#)) for their tax declaration.

#### **3.4.5 Profit and capital tax rates**

The profit tax rate for the taxable categories amounts to 7%. Taxable shareholders' equity is subject to the following capital tax rates:

- 0.02% on the first CHF 50 million (but at least CHF 200),
- 0.01% on the next CHF 50 million and
- 0.005% on shareholders' equity exceeding CHF 100 million.

These tax rates again result in basic cantonal tax (= 100%), which is multiplied by the factor 1.1 (= 110%).

Certain municipalities in the Canton of Solothurn apply special low tax multiples to privileged companies (i.e. holding, domiciliary and management companies). These multiples amount to between 30% and 100% (see [www.so.ch/departement/finanzen/steueramt.html](http://www.so.ch/departement/finanzen/steueramt.html), assessment, tax multiples) of the basic cantonal tax. In addition, the communal tax rate for management companies may amount to a maximum of only 100% of the basic cantonal tax

Profit tax is set off against capital tax. Depending on the amount of profit tax, no capital tax is due.

### **3.5 Business foundations (or trusts)**

#### **3.5.1 Definition**

A business foundation is a special form of foundation that is not subject to statutory regulation but which has developed through everyday practice. Legally, it is a foundation in accordance with Article 80 et seq. of the Swiss Civil Code, i.e. an autonomous special entity with its own legal personality, which uses its own assets to pursue objects laid down by its founders and which cannot be modified. A business foundation contrasts with other foundations through its close involvement in commercial activities. It pursues a special asset investment policy, in that it has a special affiliation to a company.

There are two forms of business foundation: the corporate management foundation and the holding foundation. A corporate management foundation runs another company without the intermediation of any other legal entity and is directly responsible for that company. In a holding foundation, there is no direct relationship between the foundation and the company, but "only" an indirect relationship. Assets are given to

the foundation in the form of shares in a company that carries out legal transaction in a form provided for by law.

There are various reasons why business people may wish to set up a business foundation, but basically these fall into three categories: social, business or family/personal reasons.

### **3.5.2 Taxation of corporate management foundation**

The taxable net profits of an (irrevocable) corporate management foundation are liable to cantonal and communal taxation at a percentage tax rate of 5% (= basic cantonal tax) and to federal taxation of 4.25%. Taxable profits under CHF 5,000 are not taxed. An indirect exemption for income and profits from participations through a form of shareholder's allowance is not possible.

Capital tax at cantonal and communal levels amounts to 0.08%. Taxable shareholders' equity under CHF 200,000 is tax exempt. Profit tax may be set off against capital tax. There is no capital tax at federal level.

### **3.5.3 Taxation of holding foundations - Granting of the privilege of management company status**

Under Article 100 of the SO Taxation Act, a holding foundation may be granted the privilege of management company status (see Section 3.4) if the relevant requirements are met. Foundations with non-economic purposes and holding foundations may normally be taxed as management companies. Holding foundations must draw up and submit separate profit and loss accounts for each differently taxed division (Switzerland, abroad, participations) in accordance with insert sheet 14 (see [Tax Office website](#)) for their tax declaration. The category of participations is exempt from cantonal and communal taxation. In relation to federal taxation, the shareholder's allowance does not apply to income and profits from participations.

The profit tax rate for the taxable categories amounts to 7% (= basic cantonal tax) for cantonal and communal taxation with tax exempt allowance and to 4.25% for federal taxation with a tax exempt allowance of CHF 5,000. Taxable shareholders' equity is subject to the following capital tax rates:

- 0.02% on the first CHF 50 million (but at least CHF 200),
- 0.01% on the next CHF 50 million and
- 0.005% on shareholders' equity exceeding CHF 100 million.

These tax rates again result in basic cantonal tax (= 100%), which is multiplied by the factor 1.10 (= 110%).

Certain municipalities in the Canton of Solothurn apply special low tax multiples to privileged companies (i.e. holding, domiciliary and management companies). These multiples amount to between 30% and 100% (see [www.so.ch/departement/finanzen/steueramt.html](http://www.so.ch/departement/finanzen/steueramt.html), assessment, tax multiples) of the basic cantonal tax. Profit tax can now be set off against capital tax. In addition, the communal tax rate for management companies (holding foundations) may amount to a maximum of only 100% of the basic cantonal tax

## **4 Exceptions to standard taxation are possible**

Subject to certain requirements, even lower tax liabilities can be achieved in the Canton of Solothurn, for example by changing the basis for assessment (taxation as a privileged company, principal company or finance branch) or through a variety of economic incentive measures (tax holidays and measures under the Federal Act on Regional Policy).

### **4.1 Taxation as a privileged company**

At cantonal and communal level, holding, domiciliary and management companies are privileged companies. All these corporate forms are subject to basic tax only on net profits achieved in Switzerland. Net profits realized abroad are only taxed in part or are not taxed at all. In this way, the effective tax liability is between 8.5% - 12.5%.

#### **4.2 Taxation as a principal company**

This leads to a lower tax liability in respect of direct federal taxation. A principal company centralizes all its functions and risks in Switzerland. The basis for assessment for this form of taxation is income obtained with foreign commercial agents. The effective tax liability is around 5% – 12.%.

#### **4.3 Taxation as a Swiss finance branch**

A finance branch is a foreign company that carries out financing activities via operating establishments in Switzerland. Through margin taxation, this form of taxable entity enjoys a considerably lower tax liability.

#### **4.4 Tax concessions – Tax holidays from cantonal and communal taxation**

Under Article 23 paragraph 3 of the Tax Harmonization Act and subject to certain requirements, tax concessions at cantonal and communal level may be requested for up to ten years. These tax concessions may lead to a reduction in or total exemption from profit tax. The requirements are met by companies that have been newly set up and companies that benefit the Canton in economic terms. A fundamental change in operational activity may be regarded as equivalent to a setting up a new company.

#### **4.5 Tax concessions – Tax holidays from direct federal taxation**

In addition, tax concessions are possible in respect of direct federal taxation in accordance with the Federal Act on Regional Policy. In certain communes (Grenchen, Bettlach, Thal and Steinhof) in the Canton of Solothurn, businesses may be exempted from direct federal profit tax for a certain period.

The tax concessions at federal, cantonal and communal levels by means of the two measures mentioned above can lead to a complete tax exemption for a limited period of a maximum of ten years.

The written request for a tax holiday according to chapter 4.4 or 4.5 must be submitted to the Cantonal Tax Office or the Solothurn Economic Development Agency. It must include a detailed project description, business plan and the specific request for a tax holiday.

## **5 Forecast**

### **5.1 Corporate Tax reform III**

The reform aims to strengthen Switzerland as a business location, focusing on innovation, value creation and jobs. The proposed measures are compatible with the current international standards and will increase legal and planning certainty for companies. At the same time, the reform ensures that companies will make an appropriate contribution to the tax revenue of the federal government, the cantons and the communes also in the future.

#### **5.1.1 Introduction / Implementation in Switzerland and in the Canton of Solothurn**

The final bill on the Corporate Tax Reform III has been passed by Swiss Parliament in the summer session of June 2016. The new legislation is subject to Swiss popular vote on February 12, 2017 and will enter into effect – if approved – on January 1<sup>st</sup>, 2019. At this point, the Cantons must adapt their cantonal tax legislation accordingly. Some measures are compulsory and must be implemented in the Cantons, some others are optional. Thus, each Canton has its own implementation of the CTR III. It adapts the Cantonal tax legislation to its specific requirements and situation.

In the framework of the Corporate Tax Reform III the cantonal tax regimes for holding, domiciliary and management companies are to be abolished. At the same time, international standards in relation to the international profit allocation of principal companies and Swiss Finance Branch are eliminated. These rulings have in the past enhanced Switzerland's attractiveness. However, they do not any more meet international standards and have become disadvantageous for transnational companies.

The Swiss corporate tax reform bill (CTR III) replaces certain privileged regimes by a number of internationally accepted tax measures. The new legislation will greatly reduce the overall tax burden and as such ensures that Switzerland continues to be an attractive location for international companies but without being characterized as a location known for tax base erosion and profit shifting. For this purpose, Switzerland wants to offer planning security for the future and at the same time ensure application of international tax calculation rules.

These new measures should primarily encourage innovation. Income derived from patents and similar rights will benefit from the introduction of the patent box. A deduction will be granted for research and development expenses that is higher than the actual research and development expenses.

On November 3<sup>rd</sup>, 2016, the cantonal finance department under the lead of Roland Heim, financial director, presented its strategy and main points for the implementation of CTR III into the cantonal tax legislation. The main measure of the plan is the reduction of the corporate income tax rate to 12,9% (including federal tax). In addition to this, further tax efficient measures such as the patent box, an increased Research and Development deduction and an interest-adjusted corporate income tax on capital surplus.

In order to preserve and enhance Solothurn's competitiveness, the Government of Solothurn plans within the framework of CTR III to implement the following key measures into cantonal legislation:

#### **5.1.2 Reduction of corporate income tax rate to an internationally and nationally most competitive rate**

The current corporate income tax rate of at the most 21,86% will be reduced to 12,95% (including federal tax). This internationally and nationally very highly competitive tax rate will ensure that the Canton of Solothurn belongs to the worldwide most attractive business locations.

With the additional measures of CTR III, the effective tax burden may even be reduced to 10,5%.

#### **5.1.3 Patent box (output promotion)**

Another element of the package is the introduction of a patent box regime according to OECD standard (including modified NEXUS approach, qualification of privileged patents and other similar rights). The cantonal tax relief for deductible patent box income amounts to 90%.

#### **5.1.4 Increased Research and Development deduction**

Furthermore, the increased research and development deduction concept shall be implemented in order to stimulate innovation and research and development activities in the Canton of Solothurn. The R&D deduction should amount to 150% of the deductible R&D expenses.

#### **5.1.5 Notional interest deduction**

In addition to the above mentioned measures, the Government of the Canton of Solothurn also plans on implementing a notional interest deduction on capital surplus on the Cantonal level according to the implementation on the federal level.

The goal is to offer an attractive instrument for existing group wide finance companies and to promote group wide financing and corporate management functions in the Canton of Solothurn.

#### **5.1.6 Reduced capital tax**

Since the tax regime for privileged capital tax rate must be abolished, a new competitive capital tax rate will be introduced. On the one hand, participations, patents and corporate loans will be introduced at a reduced rate into the calculation, and on the other hand, the corporate tax rate of 0.08% will be reduced to 0.02%. The prospective tax rate will thus be lower than today's privileged companies.

### **5.1.7 Disclosure of hidden reserves when moving to or out of Switzerland, at the beginning or the end of the taxation liability**

The CRT III introduces a new rule allowing companies to disclose hidden reserves (including self-generated goodwill) without triggering corporate income taxes when transferring their headquarters or functions from abroad to Switzerland with according mentioning in its tax balance. The disclosed hidden reserves have to be depreciated with the depreciation rates provided for tax purposes. Self-generated goodwill has to be amortized over a maximum of ten years. In case of relocation, the hidden reserves not yet taxed will be taxed according to the same procedure.

### **5.1.8 Transition for special regime companies**

Holding, domiciliary or mixed management companies benefitting currently from a special tax regime can disclose their hidden reserves partially or completely after the implementation of the cantonal tax status (5.1.9)

### **5.1.9 Disclosure of hidden reserves (previous law)**

Hidden reserves, including goodwill generated during the time of the cantonal tax status may be disclosed at the end of the cantonal tax status without influence on the corporate income taxation. The as income designed hidden reserves are disclosed and can be depreciated after the onset of ordinary taxation tax efficiently. The general commercial valuation rules must be respected in the tax balance. The disclosed hidden reserves are subject to capital taxation, insofar as they had not been depreciated tax efficiently in the previous years. The disclosure of hidden reserves is possible till the last tax period before the entry into force of the corporate tax regime III.

### **5.1.10 Limitation of cantonal tax relief**

The Government of the Canton of Solothurn plans to limit the maximal cantonal tax relief thanks to the Patent box (5.1.3), increased R&D deductions (5.1.4), the notional interest deduction (5.1.5) and the disclosure of hidden reserves according to previous law (5.1.9) to 60 – 70% of net corporate profits (before loss account and net income from participations).

### **5.1.11 Flat rate tax credit for Swiss branches of foreign companies**

The flat rate tax credit avoids international double taxations. Swiss branches of foreign companies should now also be able to profit from this rule.

This measure also contributes to increase the competitiveness of Switzerland.

## 6. Conclusions

The Canton of Solothurn has a modern and flexible corporate taxation regime. The implementation of the Corporate tax reform III subject to approbation of the law reform by the Swiss, respectively Solothurn voters will lead to a substantial tax relief for companies.

Thanks to all these measures, Solothurn becomes one of the leaders in the international and national tax competition. The Government of Solothurn views the CTR III as a great opportunity for the Canton of Solothurn and plans to realize its forward strategy by implementing other important elements such as a concentrated economic development, education and planning policies. The advance provisions are considered as an investment into the further development of Solothurn as a work, industry and innovation location. We would be pleased to realize this strategy with you. You are very welcome.

The relationship between the Tax Office and tax payers is akin to a partnership and characterized by mutual trust.

***You are most welcome to locate your business  
in the Canton of Solothurn!***

***We look forward to answering your questions.***