Tax incentives in the Canton of Vaud (Switzerland)

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Chapter 1

Overview of the Tax System in Switzerland and the Canton of Vaud

High-level Overview

- Companies that have their registered seat in Switzerland are liable to tax on an unlimited basis (subject to properties and business abroad). They shall pay profit and equity tax.
    - In general, profit tax is levied on the net profit after tax as per the statutory accounts. Some adjustments may take place based on specific tax rules. The average effective profit tax rate ("ETR") in the Canton of Vaud is approx. 22%. Special status and tax holidays may apply reducing significantly this rate.
    - Equity tax is levied on the total net equity of the company at year-end. The average rate in the Canton of Vaud is approx. 0.068%. Profit tax can be credited against equity tax in most cases (except holding status).
- Profit tax is levied at 3 different levels (Federation, Canton and Commune) whereas equity tax is levied at cantonal and communal levels only.
- Dividend (formal and constructive) as well as interest paid on bonds issued by a Swiss-based entity are subject to withholding tax (35%). Foreign shareholders can obtain the refund of withholding tax if they are able to enjoy treaty protection.
- Issuance of shares and additional contributions from direct shareholders are subject to federal issuance stamp duty (1%). Exemptions may apply in the context of national or international restructurings.
- Transactions on shares, bonds and other types of securities may be subject to turnover stamp duty if a Swiss Security Dealer is involved in the transaction.
- Switzerland levies value added tax (VAT) at the general rate of 7.7%. Other rates may apply in specific cases.

Chapter 2

Overview of the Profit and Equity Tax in the Canton of Vaud

The Big Picture (1)

- Depending on the type of activities performed by the company, tax holidays or special tax regimes may be available. This may reduce the effective tax burden.
- In parallel with BEPS related changes taking place globally, Switzerland has initiated an important corporate tax reform ("CTR") at federal level.
- Under the federal CTR, the existing cantonal special tax regimes (such as base (mixed) company, holding company, finance branch and principal company regimes) are expected to be abolished and replaced by full BEPS-compliant tax incentives. The draft bill is about to be submitted to the Swiss Parliament. The federal CTR should enter into force in the Canton of Vaud in 2019 at the earliest, but more probably in 2020 or even 2021 in case of referendum.
- Irrespective of the implementation of the federal CRT, the average effective profit tax rate ("ETR") (federal tax included) in the Canton of Vaud will be reduced from 22% to 13.79%[1] as from January 1, 2019. Other measures may reduce the ETR if accepted at federal level in the context of the CTR (step up, patent box and R&D deductions mostly).
- Special tax regimes should remain available as long as the federal CTR is not implemented by the Canton of Vaud.
- Group and companies considering the Canton of Vaud as their next investment location could benefit from a variety of tax incentives cumulative with any other business or innovation incentives (such as grants and funding for innovation for example).

[1] *To the extent the level of tax varies depending on the exact location within the canton, the ETR may be slightly lower or higher.*

The Big Picture (2)

Federal & cantonal **tax holidays**

Depending on the number of jobs created, the level of investments, the economic sector, the location and the type of company : tax holiday up to 100% during a period of up to 10 years

Currently

Average Effective Tax Rate ("ETR") (ordinary regime) of approximately 22%

Special regimes (until end of 2018 or even end of 2019-2020) → lower ETR if any of the special tax regimes in the right side box applies.

Rates may vary in 2019 and 2020.

- Holding company regime: ETR of approximately 0.4% to 7.83%
- Base company regime: ETR of approximately 9-14% on foreign profit
- Principal company regime combined with Base Co : ETR of approximately 6.5% - 8.5% on foreign profit
- Finance branch regime combined with Base Co : ETR of approximately 2% to 3%

Cantonal CTR as from 2019

Average ETR of 13.79%. Lower ETR achievable where any of the specific tax measures in the right side box applies if accepted by the Swiss parliament (and possibly population).

In addition, until the implementation by the canton of the federal CTR, the special regimes such as mixed company or holding company may still be available under conditions which are yet unknown.

- New tax incentives expected to be fully compliant with the BEPS:
  - step up
  - patent box
  - R&D specific deductions

Overview

Status	Availability	Canton, Commune & Federation effective profit tax rate (« ETR ») (cantonal average)		Cantonal equity tax rate (cantonal average)	
Tax holiday	Currently available No change foreseen	Canton & Commune Up to 100% tax holiday	Federation 0 to 7.83%[1]	Canton & Commune Up to 100% tax holiday	Federation --------------
Ordinary regime	Current ordinary tax rates	22%		0 to 0.068% [2]	
Base company regime	Until end of 2018 If still valid in 2019-2020	9% to 14% on foreign profit 9% to 13.79% [3]		0 to 0.0225% [2] ------------------[3]	
Holding company regime	Until end 2018 If still valid in 2019-2020	0.4% to 7.83% 0.4% to 7.83%		0.17% --------[3]	
Principal company regime combined with base company	Until end of 2018 If still valid in 2019-2020	6.5% to 8.5% on foreign profit 6.5% to 13.79% [3]		0 to 0.0225%[2] ---------------[3]	
Finance branch regime combined with base company	Until end of 2018 If still valid in 2019-2020	1% to 3% on foreign profit 1% to 13.79% [3]		0 to 0.0225%[2] ---------------[3]	
Ordinary regime	As from 2019[3]	13.79%[4]		0.14%[2]	

[1] A tax credit of CHF 95,000 per year per full-time new position may be granted for the federal tax holiday if the project is located in certain communes.

[2] Cantonal and communal profit tax can be credited against equity tax. There is no equity tax at federal level.

[3] The exact rates are unknown since they imply a legislative process still to be implemented.

[4] Other measures may reduce the ETR if accepted at federal level (step up, patent box and R&D deductions mostly).

Chapter 3

Tax Holidays

Introduction

- Tax holidays are very attractive for companies carrying out activities that serve the economic interest of the Canton. Under the practice of the tax authorities, one distinguishes between start-ups, production companies, HQs acting as trading hub ("HQ Sales") and Shared Service Center".
- The tax holiday is applicable to cantonal and communal tax on profit and/or capital. Additional federal tax holiday exemption may be obtained in certain cases (*cf*. slides 19 to 21).
- Tax holidays available in the Canton of Vaud may be full or partial, granted for a **period up to 10 years** (divided into 2 periods of 5 years each):
  - claw-back period usually ends 5 years after the end of the tax holiday (freeze period);
  - information duty if significant variations vis-à-vis the information mentioned in the tax holiday request; and
  - annual reporting to the competent authorities.
- The tax holiday is granted by the State Council of Vaud: formal procedure to be initiated based on a business plan and financial forecasts. Federal tax holidays are granted by the Federal Agency for Economy on the basis of an application filed by the cantonal authorities.

Chapter 4

Overview of Cantonal (Vaud) Tax Holidays

Benefits and Conditions

Qualifying companies – overview per category				
	Start-up	**Production company**	**HQ Sales**	**Shared Service Center**
Benefits	Up to 100% tax holiday	Up to 100% tax holiday	Maximum tax holiday of 50% in the districts of Morges and Nyon and 75% in other regions	Up to 100% tax holiday
Common conditions	✓ New business (appraised from an economic point of view) ✓ Activities included in the scope of areas favoured by the Economic Development Law ✓ Commitment over 2 consecutive periods of 5 years ✓ Claw-back provision (freeze period) ✓ Limitation of dividend distribution may apply ✓ Information duty in connection with business plan filed with the request (discrepancies to be announced)			
Specific conditions	✓ Start-up (development phase) ✓ IP owned by the applicant ✓ Collaboration – relationships with local educational or research institutes (e.g. EPFL, UNIL, IMD, etc.) ✓ No specific tax status	✓ Industry or cutting edge technology (IT) ✓ No mandatory IP ownership ✓ Creation of FTE 10 jobs within 5 years ✓ CHF 1 million in long term real estate lease (10 years) or investments of CHF 1 million (Vaud subcontractors qualify as well) ✓ No specific tax status	✓ Regional/ Global HQ with commercial activities ✓ FTE 40 jobs (50% of local contracts) within 5 years ✓ CHF 4 millions in long term real estate lease (10 years) or investments of CHF 4 millions (Vaud subcontractors qualify as well) ✓ Financial cooperation of at least CHF 0.5 million granted to local public institutions in the field of culture, education, R&D, sports, etc.	✓ Data center, R&D, administrative and HQ services ✓ Provides services to group companies ✓ FTE 25 jobs within 5 years ✓ CHF 2.5 millions in long term real estate lease (10 years) or investments of CHF 2.5 millions (Vaud subcontractors qualify as well) ✓ No specific tax status
Geographic areas	No geographic restriction	No geographic restriction	No geographic restriction as such but variation in amount of incentive (cf. "Benefits" above)	No geographic restriction

Qualifying Companies – Start-up

- New companies as real start-up (development phase) for instance R&D, production or commercialization in the region and that are mostly funded for the start of their business.
- Has a more or less long phase of developing a product, testing an idea, validation of a technology or an economic model.
- IP owned by the applicant in Switzerland.
- Collaboration with local educational or research institute.
- No specific tax status.
- In principle eligible for full tax holiday.

Qualifying Companies – Production/Manufcturing

- New companies active in the industry or cutting edge advanced technology (IT)
- Existing companies may qualify if they manufacture new innovative pruducts within a new autonomous department of activity
- Activity exercised on Swiss territory
- No mandatory IP ownership
- No special tax status

Qualifying Companies – HQ Sales

- These companies are often engaged in services / contract (toll) manufacturing with third parties and / or subsidiaries.
- IP can be owned directly or licensed from affiliates
- Products are sold to end-customers directly or through related commissionaires / limited risk or third-party distributors.
- These companies centralize the core entrepreneurial functions of the group for a specific geographical area (e.g. EMEA – Worldwide)
- Most of the time, they benefit from the status of base company and / or principal company.

Qualifying Companies – Shared Service Centers

- Captive companies within a group of companies.
- Provides services to group companies – data center, R&D center, administrative services.
- Their remuneration is determined by transfer pricing methods recognized by the OECD principles.
- No special tax status is applicable since the company is usually taxed on the basis of an adequate margin (intra-group transfer pricing review).

Procedural and Filing Requirements

- Tax holidays requests are submitted to the Office for Economic Affairs ("SPECo") and to the Cantonal tax administration ("ACI").
- These requests are treated confidentially.
- The tax holiday decision is taken by the State Council of Vaud (i.e. Vaud Government) on the basis of an advanced notice of the SPECo, the ACI and of the Commune where the company is located.
- The application for the Cantonal tax holiday is to be introduced through a formal tax holiday request and must notably include the following documents and information (non exhaustive list):
  - presentation of the company;
  - business plan and overview of the financial situation of the company (balance sheet, profit & loss account, share capital, liabilities, risks, etc.);
  - description on the economic impact of the activities of the company: added value for the regional economy, number of new jobs created, payroll, volume of investments, partnerships with subcontractors, collaborations with academic or research institutions, etc.; and
  - a signed engagement form such as to comply with the existing collective workplace agreements if relevant (http://www.vd.ch/themes/economie/developpement-economique/promotion-economique/).

Duration and Claw-back Provisions

- The maximum duration of a tax holiday is 10 years, usually split into a first period of 5 years that is extended for a second period of 5 years if all the conditions set forth in the tax holiday decree are met.

- The cantonal tax holiday is subject to claw-back provisions. The claw-back period usually ends up five years after the end of the tax holiday. The total commitment is thus 15 years for creating and maintaining the business.

- The claw-back clause is generally triggered if the Canton revokes the cantonal tax holiday or if the conditions and requirements laid down in the tax holiday decree are not or no longer met, for instance if the announced number of jobs has not been created or has not been maintained within the given time frame.

- The cancellation of the tax holiday may be full or partial depending on the level of achievement of the conditions set forth in the tax holiday decision.

Chapter 5

Overview of Federal Tax Holiday in Vaud

Benefits and Conditions

Qualifying companies – overview per category				
	Start-up	**Production company**	**HQ Sales**	**Shared Service Center**
Benefits	✓ Tax relief will depend mostly on new jobs created or preserved. For each newly created job, a maximum tax credit of CHF 95'000 per year and for each job preserved a maximum tax credit of CHF 47'500 per year can be granted. FTE positions are the basis for this tax credit and if work contract is governed by Swiss law. ✓ The tax credit will be applied against the federal profit tax in the respective tax period. In case the tax credit exceeds the amount of federal profit tax due for a given tax year, it can be carried forward within the agreed tax holiday period (maximum of 10 calendar years).			
Common conditions	A new business activity with importance for the regional economy meeting at least four of the eight regional economy conditions mentioned below : ✓ as main condition the creation of new jobs or the reorientation of existing jobs with the view to maintain them on a long term basis ✓ investments within the region ✓ integration into the cantonal economic development strategy; ✓ purchase and orders or acquired services within the region; ✓ collaboration with local research or educational institutes with a direct connection to the planned project; ✓ regional training opportunities ✓ innovative solutions related to the improvement of production/manufacturing of new goods or new processes; or ✓ sales market reaching beyond the region where the tax holiday is granted **The federal tax holiday cannot be granted at more advantageous conditions than the ones prevailing at cantonal level.**			
Specific conditions	10 FTE jobs to be created within a period of 5 years	10 FTE jobs to be created within a period of 5 years	40 FTE jobs to be created within a period of 5 years	25 FTE jobs to be created within a period of 5 years
Geographic areas	In Canton of Vaud, the federal tax holiday is available in the following communes only : Aigle, Bex, Château-d'Oex, Cheseaux-Noréaz, Grandson, Lavey-Morcles, Montagny-près-Yverdon, Moudon, Rennaz, Sainte-Croix, Valeyres-sous-Montagny, Vallorbe and Yverdon-les-Bains.			

Base Filing and Procedural Requirements - Public Information

- In accordance with the Federal Law on Regional Policy, the cantons are responsible for submitting the applications for the federal tax holidays.

- A tax holiday applicant may only obtain a federal tax holiday if the canton of residence has already granted a tax holiday at cantonal/municipal levels.

- The information relating to the name of the company benefitting from the federal tax holiday, the place of implementation and a rough estimate of the jobs is publicly accessible.

- There are deadlines for submitting and being granted the federal tax holiday, for instance in lien with the generation of the first turnover.

- Regarding the Canton of Vaud, SPECo provides advice about the procedure.

Chapter 6

Comparison with Other Cantons

Tax Rates and Tax Holidays

- Geneva profit tax rate is currently 24.17% (ETR). No bill has been approved yet to reduce such rate in the context of the implementation of the federal CTR. Geneva does also levy an equity tax (profit tax can only be very partially credited against equity tax). A professional tax is levied by the municipalities. Federal tax holiday is not available.

- Zurich profit tax rate is currently 21.15%. No bill has been approved yet to reduce such rate in the context of the implementation of the federal CRT. The expected profit tax should be 18.19% in the future. There is no credit for profit tax against equity tax. Federal tax holiday can be available in only two municipalities.

- By contrast, the canton of Vaud has passed a bill implementing an average ETR of 13.8% as from January 1, 2019. Profit tax can be fully credited against equity tax. Federal tax holiday is available in certain municipalities (*cf*. slide 20).

For any questions please feel free to contact:

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Thank You

The above slides aim to provide with a high level overview of tax aspects and incentives that may be of interest to the Group and its stakeholders. The information contained herein is of general nature only. While the presentation covers many relevant areas, it can of course not be exhaustive. It is emphasized that it is not designed to provide the comprehensive information necessary to take decisions. Tailor-made counsels are thus to be sought in each individual case. In particular, figures mentioned are only examples and they do not constitute warranties nor representations.

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