

GHR TaxPage – February 2017

## USR III has failed – what's to be done?

### The voting results

It was the dominant topic this week: The referendum against the corporate tax reform III (“USR III”) was accepted by public vote with 59.1% of the votes. Only the Cantons of VD, NW and ZG accepted the reform.

Much was written during the first few days after the vote. The political Left is celebrating its first referendum victory in years and the Centrist parties vacillate between frustration and defiance.

However, what does this result mean to all the entrepreneurs who think in scenarios and must plan the future of their companies? We dare make a fiscal, apolitical forecast. This follows on from our TaxPage of May 2016.

(<http://www.ghr.ch/index.php?section=downloads&cmd=15>)

### Reasons for the failure

Of necessity, rejecting the USR III will require a USR IV. To forecast its contents in rough outline, the reasons for the voting result must be analysed briefly. Only in this way will it be possible to determine which concepts and which instruments will possibly be presented once again and what needs to be sacrificed to political compromise.

The submission was too complex and the financing only partially secured or distributed to the wrong population groups. The companies were eased too much and this brought with it the danger of a load distribution to the detriment of the tax-paying population.

### What to expect...

#### *Factually*

The tax privileges of Holding-, Domicile- and Management companies (“privileges”) will have to be abolished. This will cause relief on the level of company taxation. Otherwise the risk of declining tax revenues and job losses would be too high.

Financing the reform must be balanced. Companies and shareholders will have to bear the greater part of the costs of the reform. It is likely that the instrument of interest-adjusted corporate profit tax will not make it into the new submission. In addition, the rebates in

taxing dividends will be set at a consistently lower level throughout Switzerland to avoid multiple economic burdens on corporate profits. We still assume a rebate of 40%.

The abolition of the emissions levy will also be dismissed, which, although not part of the USR III package, should however be negotiated in the Councils.

#### *Time frame*

In 2017, the EU will draft its periodic report on the tax situation in the EFTA states. That will bring about Switzerland's inclusion in the so-called black list. One hopes that the flurry caused by that last time will not recur.

By the end of 2017 at the earliest but probably in 2018 the Federal Council will forward a new submission for consultation. Voting on a possible new referendum seems unlikely before 2021.

The EU wants the privileges to be abolished by 2019.

### Recommendations for companies

As always in uncertain times it is important to stay calm. What held true in the past still applies: Structure your company principally in line with economic, and not primarily according to tax criteria. Optimising tax is the last, not the first step.

Holding capital not necessary for business is not rewarded and its distribution will be taxed more heavily in future. Hence collect capital non-necessary in the long term in prudent progression.

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