

Transitional rules: the step-up and the special rate

*Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland), Solicitor (Hong Kong),
Solicitor (England & Wales)*

The abolition of the privileged regimes raised the question of how to treat hidden reserves that had accumulated under them. Two transitional mechanisms were available. Under the special rate solution of the StHG transitional provisions, hidden reserves existing at the end of the privileged status include self-created goodwill. They are taxed at a special reduced rate when they are realized within five years after the loss of the status.¹ Several cantons had introduced the alternative of a step-up in their own law before 2020. Under it the company could disclose its hidden reserves in the tax balance sheet upon the change of status without immediate taxation. It then depreciated them over the following years, reducing taxable profit at the ordinary rate. TRAF also introduced a general step-up for companies that move to Switzerland. When a company relocates its seat or business to Switzerland, its hidden reserves, including goodwill, may be disclosed tax-free and depreciated. Hidden reserves are correspondingly taxed on emigration.²

For trading companies in Ticino that had been mixed companies until 2019, the fiveyear period of the special rate ran until the end of 2024. Trading companies hold few assets with long depreciation periods, and their goodwill, which lies in the relationships and know-how of the traders, is difficult to value. In practice the transitional rules therefore mattered more for holding companies and for groups with valuable participations than for the trading houses themselves. The step-up on immigration remains relevant when a trading group moves its seat from Italy, the United Kingdom or another country to Lugano. A careful valuation at the time of the move can produce depreciation that reduces Swiss taxable profit for several years. The exit tax in the state of departure may tax the same reserves, as Chapter H.II describes for Italy.³

1 What remains for the trading house

A trading company has few patents and does little research. The new instruments of TRAF therefore offer it almost nothing, and since 2020 its tax burden has been determined by the ordinary cantonal and communal rate, the federal rate and the rules on the allocation of profit. The federal direct tax on corporate profits is levied at a flat rate of 8.5 per cent of profit after tax. Because the tax itself is deductible, this corresponds to about 7.8 per cent of profit before tax.⁴ The cantonal and communal taxes add the rest. The question for a trader choosing between Lugano, Geneva and Zug is therefore a simple comparison of ordinary rates, adjusted for the minimum tax for large groups and for the costs of personnel, offices and living. For traders that were mixed companies, the change was considerable. A mixed company in Ticino had paid cantonal tax on only part of its foreign income, so that its overall effective rate could fall below 12 per cent. After 2020 it paid the ordinary rate, which in Ticino was then about 19 per cent. The cantons with large trading communities reacted differently. Geneva reduced its rate to about 14 per cent from 2020, Zug kept its rate close to 12 per cent, while Ticino decided on a gradual reduction that was completed only in 2025.⁵ The next section examines that reduction and the rates that apply in Lugano today.

Essentials. TRAF, approved by the people on 19 May 2019 and in force since 1 January 2020, abolished the cantonal holding, domicile and mixed company regimes and the federal principal company and finance branch practices. Its new instruments (patent box, research deduction, notional interest deduction) are of little use to trading companies, which since 2020 are taxed at the ordinary rate. Transitional relief came through a special rate on hidden reserves realized within five years and through step-ups. The federal profit tax is a flat 8.5 per cent of profit after tax.

2 Notes

1. Kantonales Steueramt Zürich, Zürcher Steuerbuch No. 73.4, Sondersteuer auf realisierten stillen Reserven von Holding-, Domizil- und gemischten Gesellschaften, <https://www.zh.ch/de/steuern-finanzen/steuern/treuhaender/steuerbuch/steuerbuch-definition/zstb-73-4.html> (taxation at a special rate of hidden reserves realized within five years after the end of the status). The federal basis is StHG, Art. 78g, <https://www.droit-bilingue.ch/fr-de/6/64/642.14-78g-138.html>. ↩

2. Federal Act on Direct Federal Taxation of 14 December 1990 (DBG), SR 642.11, Art. 61a and 61b; StHG, Art. 24c and 24d (disclosure of hidden reserves including self-created added value on the beginning of tax liability, taxation on its end, including the transfer of the seat or effective management abroad), text at [droit-bilingue.ch](https://www.droit-bilingue.ch/fr-de/6/64/642.11-61a-70.html), [https://www.droit-bilingue.ch/fr-de/6/64/642.11-61a-70.html](https://www.droit-bilingue.ch/fr-de/6/64/642.11-61b-71.html), <https://www.droit-bilingue.ch/fr-de/6/64/642.11-61b-71.html> and <https://www.droit-bilingue.ch/fr-de/6/64/642.14-24c-41.html>. ↩
3. Presidential Decree No. 917 of 22 December 1986 (Testo unico delle imposte sui redditi, TUIR), Art. 166 (Imposizione in uscita), para. 1 lit. a, para. 3 lit. a and para. 4 (transfer of tax residence abroad; taxation of the difference between market value and tax basis), text at [Brocardi.it](https://brocardi.it/testo-unico-imposte-redditi/titolo-iii/capo-ii/art166.html), <https://brocardi.it/testo-unico-imposte-redditi/titolo-iii/capo-ii/art166.html>; see Chapter H.II. ↩
4. Federal Act on Direct Federal Taxation of 14 December 1990 (DBG), SR 642.11, Art. 68 ("8,5 Prozent des Reingewinns") and Art. 59 para. 1 lit. a (federal, cantonal and communal taxes as deductible expenses), text at [droit-bilingue.ch](https://www.droit-bilingue.ch/fr-de/6/64/642.11-68-79.html), <https://www.droit-bilingue.ch/fr-de/6/64/642.11-68-79.html> and <https://www.droit-bilingue.ch/fr-de/6/64/642.11-59-67.html>. ↩
5. KPMG Switzerland, press release of 20 May 2025 (above) (Geneva raised from 14 to 14.7 per cent in 2025; Zug 11.85 per cent); laRegion, 28 February 2023 (above) (Zug, Nidwalden and Lucerne at about 12 per cent). ↩

For general information only. This article does not constitute legal or tax advice, does not replace advice on an individual case and creates no lawyer-client relationship. It reflects the legal position as of September 2026.

Online version: helveticaregister.com/lugano-transitional-rules-the-step-up-and-the-special-rate