

The holding company after 2020

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For the classic holding company, the reform changed above all the form of taxation. Since 1 January 2020, a holding company in Zug is taxed on its profits at the ordinary rate. Dividends and capital gains from qualifying participations, however, are relieved by the participation deduction, which reduces the tax on the net income from such participations in proportion to their share of the company's total net profit.¹ A pure holding company, whose income consists almost entirely of such dividends and gains, therefore pays little profit tax under the ordinary regime. The capital tax, formerly reduced by the privilege, is now reduced by the 98 per cent relief on qualifying participations.

The practical consequences for the adviser are threefold. The first is that the holding company must be examined for income that does not qualify for the participation deduction, such as interest on intra-group loans, management fees or royalties, which is now taxed at the ordinary rate. The second is that the international context has changed: foreign tax authorities scrutinise the substance of holding companies, while treaty benefits, relief under the European Union's Parent-Subsidiary Directive and the application of controlled foreign company rules in the parent's state of residence all depend on whether the holding company has genuine management and economic substance in Zug.² The third is that the global minimum tax, discussed below, applies to large groups irrespective of the cantonal rate, which means that a holding company that is part of such a group may be subject to a top-up tax.

1 Notes

1. DBG, Art. 69 and Art. 70 para. 4 (SR 642.11), and StHG, Art. 28 paras. 1–1bis (SR 642.14), droit-bilingue.ch: reduction of profit tax in proportion of net participation income to total net profit for participations of at least 10 per cent or with a market value of at least

CHF 1 million; for capital gains, a participation of at least 10 per cent held for at least one year. ↩

2. Loyens & Loeff, "Switzerland deposits ratification instrument for the Multilateral Instrument (MLI) – entry into force on 1 December 2019", 4 September 2019, [loyensloeff.com](https://www.loyensloeff.com): the MLI in force for Switzerland from 1 December 2019, Switzerland adheres to the principal purpose test; PwC, Worldwide Tax Summaries, "Switzerland – Corporate – Withholding taxes", taxsummaries.pwc.com: Art. 9 of the Swiss–EU AEOI agreement, which replaced the savings agreement, relieves dividends between associated companies (direct holding of at least 25 per cent for at least two years, both companies subject to corporate income tax), subject to Swiss and foreign abuse provisions. Council Directive (EU) 2016/1164 of 12 July 2016 (Anti-Tax Avoidance Directive), Art. 7(2)(a), eur-lex.europa.eu (CELEX 32016L1164): the controlled foreign company rule does not apply where the controlled foreign company carries on a substantive economic activity supported by staff, equipment, assets and premises. Treated in Part C. ↩

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