Kanton Zug

Departement of Finance

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INFORMATION
(Office Translation)

Information from the Department of Finance on the introduction of the supplementary tax in Switzerland as part of the OECD G20 minimum taxation

1. In brief
At its meeting on December 22, 2023, the Federal Council decided to levy the Qualified Domestic Minimum Top-up Tax (QDMTT) from January 1, 2024. This will prevent tax revenue from flowing abroad. Based on a transitional provision in the Federal Constitution (referendum on June 18, 2023), the minimum taxation of 15 percent for large, internationally active corporate groups with a minimum turnover of EUR 750 million will be implemented by ordinance in the form of a national supplementary tax. Without the introduction of the supplementary tax by the Federal Council, Swiss branches of multinational corporations would have to pay higher taxes in their home country, leading to an outflow of tax revenue to other countries.

It was introduced on January 1, 2024, as most EU states and other industrialized nations such as the UK, Australia, Canada, Japan, and South Korea are implementing the rules on the same date. In contrast, the international supplementary taxes IIR (Income Inclusions Rule) and UTPR (Undertaxed Payments Rule) are currently not being implemented.

2. IIR and UTPR
IIR (Income Inclusion Rule): This rule aims to recognize the profits of subsidiaries of domestic corporate groups or intermediate holding companies if they are taxed at less than 15 percent in their country of domicile. This applies both to domestic corporate groups with low-taxed foreign subsidiaries as well as foreign corporate groups that have an intermediate holding company in Switzerland.

UTPR (Undertaxed Payments Rule): With the UTPR, a state records the companies domiciled with it for any other (too) low-taxed foreign group companies. For example, the UTPR covers the profits of subsidiaries of a foreign group of companies that also has a branch in Switzerland. If no state levies the QDMTT or IIR, other states in which a group company is located can levy the UTPR.

For the following reasons, these rules will not be introduced in Switzerland at this time:
The IIR is considered less suitable for preventing an outflow of tax substrate abroad. Its application would lead to a tax increase without the threat of such an increase from abroad. Switzerland has, therefore, refrained from introducing the IIR to maintain its attractiveness as a holding location.

The UTPR is not expected to be applied by any state, including the EU member states, in 2024.

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3. Implementation in the Canton of Zug
Due to the introduction of the supplementary tax, the Canton of Zug can expect additional annual revenue of around CHF 200 million (net) from 2026. The Canton of Zug is an attractive business location characterized by stability, low taxes, qualified specialists, good accessibility, internationality, and a high quality of life. Zug has an efficient administration, high-quality services, and an excellent infrastructure, which makes it competitive both nationally and internationally. The introduction of the OECD minimum tax threatens this attractiveness. To compensate for this potential loss of attractiveness, the plan is to return the additional revenue from the minimum tax in full to the population and economy and to invest it in measures to promote the location. The model of measures includes three areas: social policy measures (1), direct investments in education, infrastructure, and innovation (2), and direct support for companies (3). This strategy is intended to ensure that Zug remains competitive even without the tax advantage and continues its role as an attractive business location.

The Cantonal Government's plan is to issue a framework resolution outlining the above-mentioned model of measures. At the same time, a proposal to the Cantonal Council for the introduction of a subsidy contribution system is currently being drafted (topic area 3). A lean location development law (introduction of a subsidy contribution system) with comprehensive delegation powers to the Cantonal Government is planned so that the Canton of Zug can adapt flexibly to the changing framework conditions of the OECD. Individual Cantonal Council proposals are planned in each of the topic areas 1 and 2.

The Cantonal Government will deal with the topic in detail as part of a workshop and discuss the framework resolution and the Cantonal Council bill relating to the Location Development Act (introduction of a subsidy system). The municipalities will be involved through the Conference of Municipal Presidents and the Conference of Chief Financial Officers. The Cantonal Council bill will then be submitted for external consultation.

The Department of Finance currently assumes that the application for the framework decision and the Cantonal Council bill regarding the Location Development Act will probably be completed by the end of February 2024 and can be submitted to the Government Council for consultation. The Location Development Act is scheduled to come into force on January 1, 2026.

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