LOYENS & LOEFF

The Swiss investment climate
Main tax features

The Swiss Investment Climate

Main Tax Features

Edition 2015

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Preamble

When you close your eyes and think of Switzerland, green valleys surrounded by snow-capped peaks will almost certainly come to mind. Maybe even the sound of cowbells, while cows graze on the side of a mountain. Typical Swiss scenery like this attracts vast amounts of visitors. Among them international investors, although they will probably be more interested in another attraction: the Swiss investment climate.

This booklet is meant for investors and their advisers. To inform them about the main features of the investment climate in Switzerland – what makes an investment in Switzerland worthwhile? We do so in general, by setting out the main benefits of operating your business from Switzerland. And, being a firm of lawyers and tax advisers, we specifically focus on the main tax aspects of investing in Switzerland. Not by giving a (theoretical) overview of Swiss tax law, but by explaining in practical terms what other investors have done. In other words, we describe Swiss tax in its applied form – how it works in action. Having read this booklet, also gives you sufficient background to help you talk with confidence to Swiss tax counsel (presumably, Loyens & Loeff).

Our home markets are in the Netherlands, Belgium, Luxembourg and Switzerland. Which is why we have similar publications for our other home markets, the Netherlands, Luxembourg and Belgium. We present each country without a bias for one particular country. If you want to compare specific countries, we recommend you get them. That allows you to take an informed decision on which country best fits your business and market.

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Enjoy the read!

Willem Jarigsma
Managing Partner, Loyens & Loeff

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Introduction

Switzerland is an important player in international business, due largely to its central location in the heart of Europe. Switzerland is ranked in various annual publications as one of the top countries in the world when it comes to its reputation and image abroad, and it is of course renowned globally for its banking industry, chocolate, beautiful tourist destinations, watchmaking, great quality of life, high salaries and neutrality.

This booklet forms part of a Loyens & Loeff series that focusses on our home markets. Alongside Switzerland, these include the Netherlands, Luxembourg and Belgium. This edition provides a snapshot of the main tax features that greatly contribute to the attractive Swiss investment climate. Each feature is touched upon in a high-level fashion to provide quick insights and facilitate communication with Swiss counsel.

Before focussing on the compelling main Swiss tax features, the first chapter, *Doing Business in Switzerland*, addresses the crucial non-tax-related features of doing business in Switzerland that characterize the highly desirable attributes that form the backbone of the attractive business and investment climate Switzerland maintains to date.

Doing Business in Switzerland

Foreign investment is welcomed in Switzerland and is afforded national treatment. A relaxed attitude has been adopted towards foreign investors, which allows Switzerland's 26 cantons to create and maintain sovereign policies that favour both Swiss and foreign investors. Many international businesses base their operations in Switzerland (e.g. European or regional headquarters) due to factors that include its central geographic location, unparalleled economic and political stability, and exceptional quality of life. Despite the difficult global economic climate, Swiss businesses have done remarkably well in recent years. This is largely due to the outstanding conditions that are in place to foster and ensure such a healthy business climate.

1 Stability

Switzerland is internationally renowned for its neutrality and is generally regarded as one of the world's safest countries. It is no coincidence that the country has hosted many international conferences, attracting world leaders to discuss topics ranging from peace to climate change to global economics. Additionally, the United Nations has a large presence in the Geneva area.

Switzerland is also known for both its political stability and its legal system. The Swiss court and arbitrage system is considered balanced and fair. The Swiss labour markets are considered peaceful, with historically very few strike actions taking place. As such, the country holds a definite competitive advantage over many other European labour markets.

Switzerland is also generally considered very stable from an economic perspective due to the balanced mix of (international) businesses in the fields of, for example, banking, pharmaceuticals, technology and high-end production. It also enjoys a reputation of business innovation, all of which leads to a diversification that has truly contributed to the manner in which Switzerland has maintained a strong performing economy during the turbulent past few years.

2 Infrastructure

Swiss infrastructure is generally ranked as the best in the world and viewed as a prime example by countries around the globe. The infrastructure is both excellent and extensive as it varies from on-time, well-performing transportation to facilitating

high-end scientific research. The public transport system is renowned for its efficiency and keeps up with the country's reputation for watchmaking. Switzerland also has excellent links to international transport systems with, for example, 180 direct international and intercontinental flights from Zurich airport.

3 Highly skilled workforce

Switzerland has a liberal labour market with an excellent dual-track system of vocational and professional education and training. Many top universities, research institutes and think-tanks are situated in Switzerland, which is both due to and also results in the availability of a highly skilled and qualified local workforce. Switzerland has top positions globally in education and training, research and innovation according to many international rankings, and it is also globally recognised as a leader in fields such as sustainable development and transportation.

Although Swiss workers are generally some of the most expensive in Europe, they are generally more motivated, have more international experience and are more productive than their European peers. As an example, Swiss senior managers are generally considered to have more international experience than any of their European and international counterparts.

4 International orientation

Switzerland is an internationally oriented business location, which is evidenced by the Swiss foreign economic policy focussing on the development and consolidation of economic relations with the European Union (EU) and non-European states. The Swiss population is multi-lingual because Switzerland has four official languages: German, French, Italian and Romansh. In addition to these official languages, the Swiss also have an excellent comprehension of English.

A great advantage of Switzerland is that it is part of the Schengen area, so only one visa is required for all the EU member states that form part of the Schengen agreement and Switzerland. There is free movement of labour between Switzerland and the EU member states that surround it, and there are free trade and bilateral treaties between Switzerland and the EU on many business topics.

5 Quality of life

The quality of life in Switzerland is among the highest in the world. Zurich and Geneva generally feature in the top 10 of global cities when it comes to annual quality of life surveys. The excellent living conditions in this alpine nation are combined with great outdoor activities such as hiking or winter sports.

Switzerland's rich cultural traditions also add to the quality of life through many of the international cultural events it hosts. These include Art Basel, the Montreux Jazz Festival and the Locarno International Film Festival. Besides these international cultural events, Switzerland also has rich local cultural and gastronomic traditions, which differ noticeably between the 26 cantons that make up the Swiss Federation.

Potential downsides to Switzerland are the high cost of living and corresponding high salaries, which are, naturally, closely intertwined with the high quality of life and the recent turmoil in the Eurozone that caused a drop in the exchange rate. Although general food items, such as milk, coffee and tomatoes, are generally more expensive, other items, such as electricity, public-transportation passes and mortgage rates, are cheaper than other Eurozone countries (for example, Germany).

6 Host of international business

Because of Switzerland's considerable benefits, many foreign multinationals have chosen and continue to choose Switzerland as the ideal location to base their European or regional headquarters. Switzerland hosts a number of important operations and services for foreign multinationals to take advantage of, and the banking industry places Zurich as one of the largest financial centres in the world.

Domestic and home-grown success is also booming, with 10 Swiss companies listed in the 2015 Global 500 list.

7 Tax features of the Swiss investment climate

Switzerland is committed to remaining and strengthening its attractiveness for businesses and assuring competitive conditions. In addition to the above-mentioned characteristics that make Switzerland so attractive for business and lifestyle, the country is also generally known for its attractive tax system. These competitive tax rates and beneficial tax regimes are naturally very appealing to businesses scouting out Switzerland.

International developments have meant that some of the country's tax regimes have fallen under scrutiny from both the EU and the Organisation for Economic Co-operation and Development (OECD) through its base erosion and profit shifting (BEPS) project. As a result, Switzerland will abolish some of its beneficial regimes in the near future (2019 or later). However, in order to remain attractive, the Swiss Federal Government has proposed that Switzerland will introduce new internationally compliant regimes for mobile capital (i.e. patent box), reduce the overall cantonal corporate income tax (CIT) rates and amend or abolish certain tax charges that have a negative impact on the attractiveness of Switzerland (e.g. the abolition of the issue stamp tax on equity capital and comprehensive rules for disclosure of hidden reserves). All of these measures form part of the proposed Swiss Corporate Tax Reform III.

The following chapters will elaborate on the main features of the Swiss tax system and explore various ways to invest in or through Switzerland. For a high-level general overview of the Swiss corporate tax and legal system, please refer to the enclosed Annex.

Tax feature 1: International holding activities

Companies with holding activities in Switzerland can benefit from participation reduction for qualifying dividends and capital gains, which, in case of a pure holding company, would effectively result in an exemption. Additionally, a holding company in Switzerland could benefit from holding company status that results in a full exemption from Swiss cantonal and communal CIT for all its income.

1 Group holding activities

A Swiss company is often used for international group holding operations. The basic principle is that a foreign group uses a Swiss resident company as an investment platform to hold participations.

2 Participation reduction for qualifying dividends and capital gains

For Swiss CIT purposes, the participation reduction is granted for qualifying dividends and capital gains. Taxable income is based on worldwide income, including dividends and capital gains derived from participations. Subsequently, the CIT due on this taxable income is calculated.

On this overall CIT burden, a reduction is granted for dividends and capital gains derived from qualifying participations. Unrealised gains from the increase in value of a participation (i.e. without any share disposal) do not qualify for the participation reduction. The reduction is equal to that part of the income tax that is attributable to the net amount of dividends and capital gains. This net amount is calculated as the full gross amount of qualifying dividends and capital gains from participations (gross participation income) less:

- Attributed financing costs;
- The lower of (i) the actual management and administration costs or (ii) 5% of the gross participation income.

When a Swiss company only holds qualifying participations (see below) a full exemption of all income from those participations may be achieved.

There is no subject-to-tax requirement for the participation. As a result, dividends or capital gains derived from a participation in a company residing in a low-taxed country can still qualify for the participation reduction.

When applying for the participation reduction, a distinction is made between dividend income and capital gains:

- Dividends are 'qualifying' if they derive from a participation of which at least 10% of the nominal share capital is held or from profit rights that entitle the shareholder to at least 10% of the profits or reserves. Alternatively, if dividend income is derived from a participation which has a fair market value of at least CHF1 million, the participation reduction should be applicable. There is no minimum holding period.
- Capital gains are 'qualifying' if they derive from the disposal of at least 10% of the subsidiary's total nominal share capital or from the disposal of profit rights that entitle the shareholder to at least 10% of the profits or reserves. A minimum holding period of 12 months applies to divestment of shares or profit rights. For the 10% threshold, different disposals in one and the same financial year may generally be added up. If, after the sale of (part of a) participation (i.e. at least 10%) the remaining participation falls below the 10% threshold, the participation reduction will apply on further disposal if the remaining interest still has a market value of at least CHF1 million.

3 Holding company tax status

Swiss resident companies can benefit from the holding company tax status. Under this status a qualifying Swiss holding company benefits from a full exemption from cantonal and communal CIT for all its income, including dividends and capital gains derived from any kind of participation. The participation reduction described above only applies to qualifying dividends and capital gains and not to other categories of income. However, in case of qualification for the holding company status, other income of the company (besides qualifying dividends and capital gains) is also fully exempt for cantonal and communal CIT purposes.

For CIT purposes, the qualifying Swiss holding company is then only subject to federal CIT (effective tax rate of approximately 7.83%). Additionally, in respect of qualifying dividends and capital gains, the participation reduction described in the previous paragraph will be available for this federal CIT part.

Generally the holding company tax status also provides for reduced annual capital tax through application of reduced rates and/or reduced tax basis.

Due to international developments, the holding company tax status is also under scrutiny by both the EU and the OECD and is likely to be abolished in the near future (2019 or later). However, the Swiss Federal Government is adamant about remaining an attractive prospect for international business, and so it has proposed – all as part of the Swiss Corporate Tax Reform III – that the country introduces new internationally compliant regimes for mobile capital, reduces the overall cantonal CIT rates, and amends or abolishes certain tax charges that have a negative impact on the attractiveness of Switzerland (e.g. abolition of the issue stamp tax on equity capital).

Requirements

A Swiss company qualifies for the holding company tax status if:

- The statutory purpose of the company is the long-term management of participations;
- The company has no commercial activities in Switzerland; and
- At least two-thirds of its assets consist of participation assets or at least two-thirds of its income consists of participation income. This implies that a qualifying holding company can have up to a third of non-participation income, which will also benefit from the exemption from cantonal tax.

It is noted that if the formal thresholds are not met for a limited period of time, the holding regime may generally remain applicable provided the holding company can demonstrate the long-term character of its participations.

The holding company tax status should generally be confirmed by the cantonal tax authorities in an advance tax ruling (see Tax feature 8).

4 Annual capital tax

Swiss companies (and branches) are subject to cantonal and communal capital tax, which is levied annually on the value of the equity existing at the end of the fiscal year. There is no exemption for equity related to participations. The annual capital tax rates vary by canton (approximately between 0.001% and 0.5%) (see Tax feature 6). Companies benefiting from a special regime, such as the holding company status, may be subject to annual capital tax at substantially reduced rates.

Tax feature 2: International finance activities

Companies with finance activities in Switzerland could benefit from the mixed company tax status, which provides for a reduced tax basis for non-Swiss source income for cantonal and communal CIT purposes. In addition, in case of a Swiss finance branch, a notional interest deduction may be applied.

1 Beneficial tax treatment for group financing activities

A Swiss company or branch is often used for international group financing operations, where the Swiss company or branch grants loans to various companies within the group.

The basic principle is that a foreign group uses a mainly equity-financed Swiss resident company to grant loans to (non-Swiss) group companies, to invest in short- or long-term deposits, or to make other types of investments as part of treasury-like operations. Where the Swiss company or branch is (also) engaged in borrowing and on-lending activities within the group, a spread should be reported on the basis of the fixed spreads publicised by the SFTA.

A Swiss branch is often used for international group financing operations where the Swiss branch is used to grant loans to various companies within the group. No Swiss (dividend) withholding tax is due on remittance of branch profits to its foreign head office, and the allocation of assets by the foreign head office company to the Swiss branch is not a taxable event for issue stamp tax purposes. The Swiss branch will be used to grant loans to (non-Swiss) group companies, to invest in short- or long-term deposits, or to make other types of investments as part of treasury-like operations. Should the Swiss branch (also) be engaged in borrowing and on-lending activities within the group, a spread should be reported.

2 Mixed company tax status

Swiss resident companies or Swiss branches of foreign companies can benefit from the mixed company tax status, provided their business activities predominantly take place abroad, and the activities in Switzerland are of minor importance. In general, this is assumed to be the case if at least 80% of the total income is from non-Swiss sources, and at least 80% of the total expenses are from non-Swiss sources (some cantons apply a somewhat different percentage than the mentioned

80%). The mixed company tax status does not have an influence on the federal tax position, but it does provide for a reduced tax basis for non-Swiss source income for cantonal/communal CIT purposes. Generally it also provides for reduced annual capital tax through application of reduced rates and/or reduced tax basis. Companies or branches benefitting from mixed company tax status have an effective CIT rate of between 8.7% and 12%, depending on their domicile, the split between Swiss and non-Swiss source income and other factors (e.g. number of employees). Mixed company tax status must be confirmed by the cantonal tax authorities in an advance tax ruling (see Tax feature 8).

International developments have meant the mixed company tax status is under scrutiny by both the EU and the OECD and is likely to be abolished in the near future (2019 or later). However, as previously mentioned, in order to remain attractive, the Swiss federal government has proposed that Switzerland will introduce – as part of the Swiss Corporate Tax Reform III – new internationally compliant regimes for mobile capital. This includes reducing the overall cantonal CIT rates and amending or abolishing certain tax charges that have a negative impact on the attractiveness of Switzerland (e.g. abolition of the issue stamp tax).

3 Notional interest deduction for qualifying financing activities

In addition to the above-mentioned, for group financing activities a notional interest deduction could apply if the finance activities are performed through a Swiss branch of a foreign company (i.e. Swiss finance branch). Such notional interest deductions will further minimize the effective tax rate. The Swiss overall effective tax burden, including CIT and annual capital tax, could amount to approximately 1.5% to 2.0%. In principle, a minimum balance sheet total of CHF100 million is required.

It is our experience that it suffices if this minimum balance sheet total of CHF100 million is expected to be reached within two years from the commencement of operations. Another condition is that the income must, for at least 75%, consist of financial income, and that the average balance sheet total must, for at least 75%, consist of financial assets. Patents and shares, in principle, do not qualify as financial assets. Please note that we have not taken into account the position of the foreign head office. Notional interest deduction for qualifying financing activities must be confirmed in an advance tax ruling (see Tax feature 8).

The mixed company tax status and the notional interest deduction for Swiss finance branches are envisaged to be abolished in the near future (2019 or later), as already noted in the previous paragraph.

4 Foreign withholding tax on interest

It is possible that the jurisdiction of the debtor levies a withholding tax on interest payments to the Swiss company or branch. If the debtor is located in a jurisdiction that has a tax treaty with Switzerland (or with the country of the company's head office in case of a Swiss branch), a reduction or exemption in withholding tax might be available.

Apart from tax treaty relief, on the basis of the Savings Tax Agreement between Switzerland and the EU, an interest payment made by a debtor resident in an EU country can, in principle, benefit from an exemption, provided the conditions are met. Such an exemption on an interest payment made by a debtor resident in an EU country need not only be claimed by a Swiss company but also by a Swiss branch of a foreign company under the Savings Tax Agreement, provided that the conditions are met.

5 Annual capital tax

Swiss companies (and branches) are subject to cantonal and communal capital tax, which is levied annually on the value of the equity existing at the end of the fiscal year. The annual capital tax rates vary per canton (approximately between 0.001% and 0.5% – see Tax feature 6). Companies benefiting from a special regime, such as the mixed company tax status, and also Swiss finance branches (see paragraph 3 above) may be subject to annual capital tax at substantially reduced rates.

Tax feature 3: International licensing activities

Companies with licensing activities in Switzerland could benefit from the mixed company tax status, which provides for a reduced tax basis for non-Swiss source income for cantonal and communal CIT purposes. Alternatively, the canton of Nidwalden offers a patent box regime, which results in a reduced cantonal and communal CIT rate on licensing income.

1 Beneficial tax treatment for licensing activities

A Swiss company is often used for international licensing operations in respect of intellectual property (IP) and the royalty income is then generally taxed in Switzerland at a low effective tax rate.

2 Mixed company tax status

Swiss resident companies or Swiss branches of foreign companies can benefit from the mixed company tax status provided their business activities predominantly take place abroad and the activities in Switzerland are of minor importance. In general, this is assumed to be the case if at least 80% of the total income is from non-Swiss sources and at least 80% of the total expenses are from non-Swiss sources. Some cantons apply a somewhat different percentage than the mentioned 80%. The mixed company tax status does not have an influence on the federal tax position, but it provides for a reduced tax basis for non-Swiss source income for cantonal/communal CIT purposes. Generally, it also provides for reduced annual capital tax through application of reduced rates and/or reduced tax basis. Companies benefitting from mixed company tax status have an effective CIT rate of between 8.7% and 12%, depending on their domicile, the split between Swiss and non-Swiss source income and other factors (e.g. number of employees). Mixed company tax status must be confirmed by the cantonal tax authorities in an advance tax ruling (see Tax feature 8).

Due to international developments, the mixed company tax status is under scrutiny of both the EU and the OECD and is envisaged to be abolished in the near future (2019 or later). However, in order to remain attractive, the Swiss Federal Government has proposed – all as part of the Swiss Corporate Tax Reform III – that Switzerland introduce new internationally compliant regimes for mobile capital (i.e. patent box), reduce the overall cantonal CIT rates and amend or abolish certain tax charges that

have a negative impact on the attractiveness of Switzerland (e.g. comprehensive rules for disclosure and step-up in basis in respect of hidden reserves). This to-be-introduced patent box regime would then apply in all Swiss cantons and should not be confused with the current Nidwalden patent box described in the paragraph below.

3 Nidwalden patent box

On 1 January 2011, the canton of Nidwalden introduced the patent box, which could be applied by companies (or branches), as an alternative to the mixed company regime. The canton of Nidwalden, located in the centre of Switzerland, is the only canton to have introduced such a patent box regime. Under the patent box regime, the cantonal tax rate (i.e. 6% in Nidwalden) on licence income is reduced by 80%, resulting in a 1.2% flat tax rate for Nidwalden cantonal (and communal) tax purposes, and an effective overall tax rate (including federal taxes) of approximately 8.8%.

Under the patent box regime, the definition of licence income is equivalent to Article 12, paragraph 2 of the OECD Model Tax Convention, and may therefore be considered as being rather broad (i.e. license income from patents, trademarks, copyrights and models). For determining the taxable base for which the reduced rate may be applied, the net licensing income should be taken into account, meaning that expenses in relation to (the generation of) the licence income should also be taken into account (such as (inter alia) related financing costs, administrations costs and amortization). Capital gains on the disposal of IP also fall under the scope of licensing income.

It should be noted that both existing IP and newly created IP qualify for the patent box, and that no distinction is made with respect to the country of origin of the licence payments. This means that both foreign source and Swiss source licence income fall under the scope of the patent box. As a result, the patent box regime may be considered as an attractive alternative to the mixed company regime. The patent box is only applicable for companies (or branches) residing in the canton of Nidwalden and is solely granted upon request.

4 Foreign withholding tax on royalties

Source countries in which the licensee resides may levy withholding tax on outbound royalty payments to the Swiss company or branch. If the licensee is located in a jurisdiction that has a tax treaty with Switzerland (or with the country of the company's

head office in case of a Swiss branch), a reduction or exemption in withholding tax might be available.

Apart from tax-treaty relief also on the basis of the Savings Tax Agreement between Switzerland and the EU, a royalty payment made by a licensee resident in an EU country can, in principle, benefit from an exemption, provided the conditions are met. Such an exemption on a royalty payment made by a debtor resident in an EU is not only applicable to a Swiss company, but also to a Swiss branch of a foreign company under the Savings Tax Agreement, provided the conditions are met.

Note that Switzerland applies rather stringent domestic anti-abuse rules in granting the Swiss company the benefits of the tax treaty. The Swiss company must, for example, meet an active trade or business test or an anti-base erosion test (i.e. in principle, not more than 50% of treaty-protected income is allowed to be paid to entities or individuals not entitled to the benefits of the Swiss tax treaties, though exceptions may apply). In addition, the domestic anti-abuse rules and any possible anti-abuse rules in the respective tax treaties may need to be taken into account.

5 Annual capital tax

Swiss companies (and branches) are subject to cantonal and communal capital tax, which is levied annually on the value of the equity existing at the end of the fiscal year. The annual capital tax rates vary per canton (approximately between 0.001% to 0.5% – see Tax feature 6). Companies benefiting from a special regime, such as the mixed company tax status, may be subject to annual capital tax at substantially reduced rates.

Tax feature 4: International trading activities

Companies with trading activities in Switzerland could benefit from the mixed company tax status, which provides for a reduced tax basis for non-Swiss source income for cantonal and communal CIT purposes. Alternatively, a Swiss company could be used as a principal company, which could then also benefit from a reduced tax basis for federal CIT purposes.

1 Beneficial tax treatment for international trading activities

A Swiss company is often used for international trading operations. An example can be commodity trading activities, but also central purchasing activities. In such cases, Switzerland is used as a base for the international trading operations of the group, whereby a margin is taxed in Switzerland at a low effective tax rate.

2 Mixed company tax status

Swiss resident companies or Swiss branches of foreign companies can benefit from mixed company tax status, provided their business activities predominantly take place abroad and the activities in Switzerland are of minor importance. In general this is assumed to be the case if at least 80% of the total income is from non-Swiss sources and at least 80% of the total expenses are from non-Swiss sources. Some cantons apply a somewhat different percentage than the mentioned 80%. The mixed company tax status does not have an influence on the federal tax position, but it provides for a reduced tax basis for non-Swiss source income for cantonal/ communal CIT purposes. Generally it also provides for reduced annual capital tax through application of reduced rates and/or a reduced tax basis. Companies benefitting from mixed company tax status have an effective CIT rate of between 8.7% and 12%, depending on their domicile, the split between Swiss and non-Swiss source income and other factors (e.g. number of employees). Mixed company tax status must be confirmed by the cantonal tax authorities in an advance tax ruling (see Tax feature 8).

3 Principal company regime

A more substantial trading operation may also benefit from a reduction in taxable base for federal tax purposes in the case of qualifying for the principal company

regime. In such a situation, a Swiss company is the (regional) head office of an international sales (and sometimes also production) enterprise (i.e. the principal company). The Swiss company would be the principal contractor in the commercial and/or production phase and perform the central management activities. The principal company sells its goods in a number of regional markets via local group companies acting as dependent sales agents, the so-called commissionaires or limited-risk distributors.

In the case of a typical principal/commissionaire, all risks related to the goods, their commercialisation and the financing lie with the principal company. Generally, the principal company would assume the following functions and related risks: purchase of goods, R&D, quality control (including warranties), marketing strategy, pricing policy, holding and managing inventory, sales, credit risk, accounting and administration. The distributing and/or sales affiliates would then merely act as commissionaires. The commissionaires would enter into the sales contracts with the customers in their own name, but for the risk and account of the principal company, who normally remains the owner of the goods until the goods are delivered to the (local) customer. It is important that the remuneration of the principal company and the limited-risk distributors is substantiated by an at-arm's-length transfer pricing analysis. A qualifying principal company could achieve an overall effective tax rate of between approximately 6% and 7%.

Due to the international developments, the mixed company tax status and the principal company regime are under scrutiny by both the EU and the OECD and are envisaged to be abolished in the near future (2019 or later). However, in order to remain attractive, the Swiss Federal Government has proposed that Switzerland will introduce – as part of the Swiss Corporate Tax Reform III – new internationally compliant regimes for mobile capital, reduce the overall cantonal CIT rates and amend or abolish certain tax charges that have a negative impact on the attractiveness of Switzerland.

4 Annual capital tax

Swiss companies (and branches) are subject to cantonal and communal capital tax, which are levied annually on the value of the equity existing at the end of the fiscal year. The annual capital tax rates vary by canton (approximately between 0.001% to 0.5% – see Tax feature 6). Companies benefiting from a special regime, such as the mixed company tax status, may be subject to annual capital tax at substantially reduced rates.

Tax feature 5: Tax holiday regime

Companies setting up new activities in Switzerland may qualify for a federal and/ or cantonal/communal tax holiday. If so, the traditionally low Swiss CIT and annual capital tax will be even further reduced.

1 The federal tax holiday regime

The Swiss government actively promotes and incentivises economic and business development in Switzerland, and one of their tools is the federal tax holiday regime. As of 1 January 2008, the Swiss federal law on New Regional Policy (NRP) and its related decrees entered into force (which replaces the Lex Bonny and the respective ordinances). With the NRP, the federal council aims to improve the economic attractiveness of rural and/or less-developed areas in Switzerland. By granting a federal tax holiday, the aim is to increase economic development in these rural and/ or less-developed areas through spin-off effects such as job creation.

It is important to note that the federal tax holiday will only be granted if a tax holiday is also granted at the cantonal level. The duration and extent of the federal tax holiday is directly linked to and dependent on the cantonal/communal tax holiday.

Conditions to fulfil to obtain a federal tax holiday

A newly incorporated company, or an existing company which modifies its activities, may qualify for a tax holiday at the federal level – on top of a tax holiday at the cantonal/communal level – if the following conditions are fulfilled:

- The business is in the general interest of the local economy. The following criteria are taken into consideration: creation of new jobs or preservation of existing jobs, planned investments, creation of added value, innovation, the volume of purchases and orders of goods and services, collaboration with research and education institutes, etc.
- The business is regarded as industrial enterprise or a production-related service enterprise (financial or advisory services are excluded from the federal tax holiday).
- The business is located in certain predetermined geographical areas, based on a list composed by the Swiss federal government of rural and/or less-developed areas in Switzerland, which is updated regularly.

Scope of the federal tax holiday / exemption from CIT

The federal tax holiday may be granted for a maximum of ten years. The NRP contains an anti-abuse provision based on which the payment of the taxes which were not levied under the federal tax holiday regime will become due if the company does not comply with the key elements of the business plan (see paragraph above in respect of the business plan) agreed upon when obtaining the tax holiday, or gives up its business activities during the tax holiday period or shortly thereafter. The cantons must also have a similar anti-abuse provision, otherwise no tax holiday is granted at the federal level.

The federal tax holiday may be a full or a partial tax holiday and works on a case-by-case basis.

Example following from the decree:

- Companies creating 20 jobs and which fulfil the other conditions mentioned above may obtain a tax holiday granting, in principle, a tax reduction of 50% per year, during a maximum period of ten years. However, this percentage may be increased if more jobs are created, or if it is particularly significant for the local area.
- Companies creating 100 jobs and which fulfil the other conditions mentioned may obtain a tax holiday granting a tax reduction of up to 100% per year, during a maximum period of 10 years.

The federal tax holiday cannot be more generous than the cantonal/communal tax holiday. Thus, the conditions negotiated with the cantonal administration will set the maximum incentives that will be granted for federal tax purposes.

Procedure for the federal tax holiday

To apply for a federal tax holiday, companies must first apply for a cantonal tax holiday. If the canton grants the incentive, the canton will submit the request for the federal tax holiday to the State Secretariat for Economic Affairs. The tax holiday request must contain a business plan showing that the relevant conditions for obtaining a tax holiday are met. The business plan should cover a period of approximately ten years. It must describe the planned investments, the creation of workplaces and the development of the business. It must also be accompanied by an evaluation of whether the business plan is achievable, which must be prepared by a bank or an independent expert.

2 The cantonal tax holiday regime

Nearly all cantons grant cantonal/communal tax holidays, based on article 23 (3) of the Federal Law on the Harmonisation of direct cantonal and communal taxes. The development of their respective cantonal economy and creation of jobs is important for each canton due to the certain autonomy that the cantons enjoy within the Swiss Federation and the impact this has on the cantonal and communal taxes levied. The cantonal tax holiday covers the cantonal and communal CIT and the cantonal and communal capital tax.

Conditions to fulfil to obtain a cantonal tax holiday

A newly incorporated company or an existing company that has modified its activities may qualify for a cantonal/communal tax holiday if the following conditions are fulfilled:

- The business is in the economic interest of the canton. The following criteria are taken into consideration: creating new jobs, technological development, opening of new markets and production of new goods or production of goods that are complementary to existing goods. The wording for the cantonal tax holiday is somewhat different compared to those for the federal tax holiday. In practice, the creation of jobs is the most important element that is taken into account both at the federal and at the cantonal level.
- The business is in the 'secondary sector', typically in manufacturing. However, commercial, financial and/or service-related business may qualify if they are deemed to be complementary to the local and regional industrial sectors or other sectors that are essential to economic development.

Business which would be in competition with other well-established activities (e.g. banks, finance companies, investments managers etc.), holding companies, auxiliary companies, service companies, real-estate companies and enterprises that already take advantage of other forms of government aid do not, in principle, qualify for the cantonal tax relief.

As opposed to the federal tax holiday, which requires that a newly incorporated company or an existing company be situated in certain predetermined geographical areas, such a requirement does not apply in respect of cantonal tax holidays and is open to discussions with the responsible cantonal tax authorities.

Scope of the cantonal tax holiday / exemption from CIT and annual capital tax

The cantonal tax holiday may also be granted for a maximum period of 10 years, which, in principle, includes the year of incorporation of the Swiss company or branch, and the following nine fiscal years.

The scope of the cantonal tax holiday differs from one canton to another and is dependent on the merits of the case. It can be a total or partial tax exemption, a degressive tax exemption, or both.

At the cantonal level, there is also, in principle, an anti-abuse provision based on which of the payments of the taxes which were not levied under the cantonal/communal tax holiday regime are due if the company does not comply with the key elements of the business plan agreed upon in the ruling, or gives up its business activities or transfers its residency or a major part of its activities to another jurisdiction, during the tax holiday period or shortly thereafter.

Procedure for the cantonal tax holiday

Companies considering applying for a cantonal tax holiday should carefully select the appropriate business location within Switzerland as not all cantons grant a similar cantonal tax holiday. In addition, the procedure to follow (i.e. to which department the request should be addressed and which documents are required) varies from one canton to another.

Tax feature 6: CIT and annual capital tax rates

Switzerland has, in practically all cantons, competitive CIT rates compared to most European and international jurisdictions.

1 Choice of canton

For the Swiss CIT treatment, a specific Swiss canton must be chosen. Beneficial tax regimes, such as the mixed company tax status, have no impact on the federal CIT position of a Swiss company but merely on the cantonal CIT position, and must be discussed with the respective cantonal tax authorities and confirmed by them in an advance tax ruling (see Tax feature 8). Also required for incorporation of a Swiss company is that a specific canton must be chosen, as company requires a domicile prior to incorporation. Since Swiss taxes are deductible when calculating the taxable income, the effective rate differs from the statutory rate.

Please note that selecting a specific canton does not have to be final, and that it is possible to transfer a Swiss company from one canton to another, and that such transfer to another canton will be neutral in a Swiss corporate tax perspective.

2 Tax rates selected cantons

The Swiss cantons and communities annually publish their respective corporate income and capital tax rates, which can differ slightly from year to year. The table below depicts the effective combined CIT rates (i.e. federal (8.5%), cantonal and communal) and combined annual capital tax rates (i.e. cantonal and communal) for the capital cities of selected cantons for the year 2014:

City (Canton)	Effective combined CIT tax rate	Combined annual capital tax rate
Zurich (Zurich, ZH)	21.1%	1.72‰
Lucerne (Lucerne, LU)	12.3%	1.85‰
Schwyz (Schwyz, SZ)	14.3%	1.45‰
Zug (Zug, ZG)	14.6%	0.75‰
Basel (Basel, BS)	22.2%	5.25‰
Schaffhausen (Schaffhausen, SH)	16.0%	2.10‰
Lausanne (Vaud, VD)	24.0%	0.70‰
Geneva (Geneva, GE)	24.16%	4.01‰

Please note that in canton Vaud, the CIT paid is credited towards the annual capital tax. In canton Geneva, the annual capital tax is deducted from the amount of the CIT due, but this reduction in Geneva cannot exceed CHF8,500.

Tax feature 7: Swiss tax treaty network

The Swiss tax treaty network encompasses more than 80 double tax agreements to provide for reduced withholding tax rates on payment of interest, dividends and royalties.

1 Extensive tax treaty network

The Swiss economy is very business and internationally orientated, which manifests itself in an extensive tax treaty network. To date, Switzerland has concluded more than 80 double tax agreements. The double tax agreements generally provide for reduced withholding tax rates on payment of interest, dividends and royalties to Swiss entities, and they protect Swiss entities from foreign taxation on capital gains on foreign shares.

Switzerland has, for example, concluded attractive double tax agreements with some South American countries such as Colombia and Peru, which do not have many tax treaties with other European countries.

2 Benefits of the tax treaty

Note that Switzerland applies rather stringent domestic anti-abuse rules in granting a Swiss company the benefits of a tax treaty.

For foreign shareholders resident in a country with which Switzerland has signed a tax treaty, the treaty will generally provide for a full or a partial reduction of withholding tax on dividends, so long as the shareholder is the true beneficial owner of the participation in the Swiss company and no anti-abuse provision applies. In respect of other income for which the benefits of a tax treaty are claimed, the Swiss company must meet, for example, an active trade or business test or an anti-base erosion test (i.e. in principle not more than 50% of treaty protected income is allowed to be paid on to entities or individuals not entitled to the benefits of the Swiss tax treaties – though exceptions may apply).

Besides the domestic anti-abuse rules, the anti-abuse rules in the respective tax treaties also need to be taken into account.

3 Overview of tax treaties

Below you will find an overview of the double tax agreements concluded by Switzerland as of 1 January 2015:

Albania, Algeria, Argentina (not yet in force), Armenia, Australia, Austria, Azerbaijan, Bangladesh, Belarus, Belgium, Bulgaria, Canada, Chile, China, Colombia, Croatia, Czech Republic, Cyprus, Denmark, Egypt, Germany, Ecuador, Estonia, Finland, France, Georgia, Ghana, Greece, Hong Kong, Hungary, India, Indonesia, Iran, Ireland, Iceland, Israel, Italy, Ivory Coast, Jamaica, Japan, Kazakhstan, Kirgizstan, Kuwait, Latvia, Liechtenstein, Lithuania, Luxembourg, Malaysia, Malta, Morocco, Macedonia, Mexico, Moldova, Mongolia, Montenegro, New Zealand, the Netherlands, Norway, Pakistan, Peru, Philippines, Poland, Portugal, Qatar, Romania, Russia, Sweden, Serbia, Singapore, Slovakia, Slovenia, Spain, Sri Lanka, South Africa, South Korea, Tadzhikistan, Taiwan, Thailand, Trinidad and Tobago, Tunisia, Turkey, Turkmenistan, Ukraine, Uruguay, Uzbekistan, United Arab Emirates, United Kingdom, United States, Venezuela, and Vietnam.

An up-to-date overview of the applicable rates of withholding tax on dividends, interest and royalties paid by companies domiciled in countries with which Switzerland has signed a double tax agreement to Swiss residents can be found on the website of the Swiss Federal Tax Authorities (SFTA) www.estv.admin.ch.

Tax feature 8: Swiss ruling practice

Switzerland has an efficient and straightforward process with regard to providing legal certainty to taxpayers in the form of rulings through ATRs and APAs on both the federal and the cantonal level.

1 Efficient ruling practice

The Swiss tax authorities on both the federal and the cantonal level are known for being efficient and straightforward with regard to providing legal certainty to taxpayers in the form of advance tax rulings and pricing agreements. This ruling practice has provided Switzerland with a clear advantage over other jurisdictions. This efficient and straightforward process is achieved through regular and constructive exchanges between the Swiss tax authorities at both the federal and cantonal level, as well as the taxpayers and their tax advisers. These constructive exchanges undoubtedly add to the business-friendly climate for which Switzerland is known globally.

2 Filing and issuance of an ATR or APA

Depending on the sort of taxes it concerns, ruling requests for respectively advance tax rulings (ATRs) or advance pricing agreements (APAs) in Switzerland should be filed in writing with either the federal or the cantonal tax authorities. Both the SFTA and the respective cantonal tax authorities have developed practices that exemplify how certain cases should be dealt with, which gives guidance to both taxpayers and their tax advisers in respect of filing ruling requests.

Please note that no fees are charged by either the SFTA or the respective cantonal tax authorities.

Federal rulings filed with the SFTA

Ruling requests in respect of, for example, the notification procedure for withholding taxes and for advance pricing agreements must be filed with the SFTA in Bern. Such ruling requests can be filed with the SFTA in writing in either German or French, though depending on the respective department of the SFTA where such requests must be filed, there is generally a preference to have the requests filed in the language of the respective SFTA employees in the department. Generally, the SFTA issues a ruling within four to eight weeks after the filing of the ruling request. However, the turnaround period may exceed this range in highly complex situations

and if the SFTA requires any additional information. There are no statutory deadlines for issuing rulings, and a negative ruling or a refusal cannot be appealed in court.

Cantonal rulings filed with the respective cantonal tax authorities
Other ruling requests, for example for mixed company status or holding company status, should be filed with the cantonal tax authorities of the respective Swiss canton in which the company or branch is established. Such ruling requests must be filed in writing in the respective language of the canton (i.e. German, French or Italian). Generally the cantonal tax authorities issue a ruling within four to eight weeks after the filing of the ruling request. However, the turnaround period may exceed this range in highly complex situations, and if the cantonal tax authorities require any additional information. There are no statutory deadlines for issuing rulings, and a negative ruling or a refusal cannot be appealed in court.

3 Publication and exchange of information

Rulings from both the SFTA and the respective cantonal tax authorities are not publicly disclosed.

The EU has proposed automatic exchanges of information between EU member states on their tax rulings. Switzerland is excluded from this proposed automatic exchange of information on tax rulings within the EU based on the current agreements concluded between Switzerland and the EU. However, it cannot be assumed that the EU will not seek to negotiate a broadening of the scope of information to be exchanged with Switzerland in the future.

4 Applicability and binding effect of a ruling

A ruling from either the SFTA or the respective cantonal tax authorities reflects a reasonable interpretation of the Swiss tax law (and case law) applicable at the time when such a ruling is issued. Through such a ruling, the taxpayer is, in principle, protected against a subsequent reversal of this interpretation.

The binding effect of a concluded ruling should continue as long as the facts on the basis of which it was obtained continue to be correct, and the statutory provisions of Swiss tax law (and case law) on the basis of which it was given have not changed.

5 Term of a ruling

Rulings in Switzerland generally do not contain a term and are, as such, valid as long as the facts and circumstances described in the filed ruling request and Swiss tax laws have not changed. Please note that there are exceptions, such as permissions to be able to apply notification procedure for withholding taxes that generally only apply for a period of three years.

Tax feature 9: Lump-sum taxation for individuals

Switzerland has a special attractive taxation regime for foreign nationals not pursuing an economic activity in Switzerland, which is generally referred to as lump-sum taxation.

1 Income and net wealth tax for individuals

In Switzerland, income taxes are levied at three different levels: federal, cantonal and communal. As communal taxes are linked to the cantonal taxes, we will, in the following, refer to both taxes together as cantonal taxes. Net wealth tax is only levied on a cantonal and communal level.

The tax systems vary substantially from one canton to another, and the rates vary by canton and even by community. Therefore, the effective tax burden may be significantly different between cantons and even between communities within the same canton. Traditionally cheap cantons for income and net wealth tax are, for example, cantons in the Innerschweiz, among others Zug and Schwyz. The cantons Vaud, Zurich and Geneva are relatively expensive.

Income and net wealth tax is levied on the worldwide income and wealth of the taxpayer, with the exception of income from permanent establishments or real estate situated outside Switzerland. The Swiss cantons and communities annually publish their respective corporate income and capital tax rates, which can differ slightly from year to year. Below you will find a table with the maximum 2014 combined income tax rates (i.e. these rates are progressive) for five selected cantons.

Canton	Rate in capital city	Lowest cantonal rate	Highest cantonal rate
Zurich	40.0%	33.9% (Rüschlikon)	40.4% (several)
Geneva	45.0%	41.1% (Genthod)	46.0% (several)
Schwyz	23.7%	18.6% (Wollerau)	25.0% (several)
Zug	22.9%	22.5% (Walchwil)	23.6% (Menzingen)
Lucerne	30.6%	26.0% (Meggen)	33.7% (several)

Below you will find a table with the maximum 2014 net wealth tax rates for five selected cantons.

Canton	Rate in capital city	Lowest cantonal rate	Highest cantonal rate
Zurich	0.66%	0.52% (Rüschlikon)	0.67% (several)
Geneva	1.01%	0.92% (Genthod)	1.03% (several)
Schwyz	0.17%	0.10% (Wollerau)	0.19% (several)
Zug	0.28%	0.27% (Walchwil)	0.30% (Menzingen)
Lucerne	0.25%	0.19% (Meggen)	0.29% (several)

Capital gains realised by an individual taxpayer on the sale of movable and privately held assets are, in principle, exempt from income tax.

Dividends are, in principle, only partially taxed with respect to a qualifying participation (stake of at least 10%). At the federal level, only 60% of the dividends are taken into account as a tax base. Most cantons also provide for a partial taxation of qualifying participations.

Special tax regime for foreigners – lump-sum tax regime

Both the federal and the cantonal tax laws provide for a special lump-sum tax regime (in German 'Pauschalbesteuerung' or in French 'Impôt d'après la dépense') for:

- Foreigners who come to live in Switzerland for the first time (or after an absence of at least 10 years); and
- Those who will not be gainfully active in Switzerland and have not been working in Switzerland for at least the last 10 years (it is, in principle, possible to work outside Switzerland).

There is an exception to the requirement for an absence of at least 10 years if the individual has merely resided but has not performed professional activities in Switzerland during the past 10 years (e.g. the individual lived in Switzerland previously within this 10- year period under the lump-sum tax regime).

The lump-sum taxation system implies that income tax and net wealth tax are not levied on the basis of the taxpayer's real income and net wealth, but on amounts of income and net wealth which are related to the level of expenses and the lifestyle of the taxpayer (e.g. housing, employees, cars, boats). Currently, lump-sum income must, in principle, amount to at least five times the annual rental value or five times the annual rental expenses paid in respect of the taxpayer's Swiss residence.

Where a reduction or exemption of foreign (withholding) tax has been obtained in accordance with tax treaties concluded by Switzerland, the annual amount of tax payable under lump-sum taxation must exceed or equal the income tax which would be due over income from Swiss sources and income from foreign sources. If the total of the Swiss tax ordinarily due on the above-mentioned income is higher than the total tax burden on lump-sum income, the higher amount of tax will be due.

Recently, lump-sum taxation faced political pressure both at the federal level and in various cantons. As a result, on 30 November 2014, a Swiss federal referendum on the abolition of lump-sum taxation regime was held. The outcome of this referendum was that the Swiss voters decided to retain the lump-sum taxation regime. As a result, this regime will remain available in Switzerland, with the exception of the five cantons that had already abolished the regime at their respective cantonal level prior to this federal referendum (i.e. Zurich, Appenzell Ausserroden, Schaffhausen, Basel Land and Basel Stadt). It should be noted, however, that some measures aimed at tightening the lump-sum tax regime will now enter into force as of 1 January 2016:

- The above-mentioned requirements for individuals to be able to apply for the lump-sum taxation regime will in the case of spouses that live together apply to both;
- The tax base for calculating direct federal and cantonal tax will be determined as seven times the annual rental value or seven times the annual rental expenses paid in respect of the taxpayer's Swiss residence;
- For direct federal tax, a minimum taxable income of CHF400,000 will apply;
- Cantons must, at their own discretion, define their own minimum taxable base;
- There is a five-year transitional period for taxpayers already under the lump-sum taxation regime (e.g. for those taxpayers, the new rules come into effect as of 1 January 2021).

Note that in practice, most of the above-mentioned measures have already been applied in the cases of new requests for application of the lump-sum taxation regime. In addition, most cantons will wait until 1 January 2016 to implement these conditions in their own legislation but could decide to implement such changes at an earlier date.

In addition to the federal referendum on the abolition of the lump-sum taxation regime, there have also been cantonal referendums in Bern, Glarus, Lucerne, Nidwalden, Sankt Gallen, Thurgau and Geneva confirming the lump-sum taxation regime at a cantonal level with a minimum threshold having been set. In this respect, the minimum taxable income in canton Geneva for the lump-sum taxation regime will be set at CHF600,000 as of 1 January 2016.

2 Special tax regime for wealthy individuals – tax shield

Canton Vaud has a special provision in the law to limit the taxation of wealthy individuals who are not taxed based on the lump-sum system. Under this tax shield, the total cantonal and communal income and net wealth tax may not exceed a certain percentage (60%) of the net income.

3 Social security contributions

Foreign nationals moving to Switzerland will, in principle, have to contribute to Swiss social security until the age of 65 (until the age of 64 for women). In Switzerland, social security contributions are not capped at a certain amount of income but are, instead, due over the total annual amount of income. However, the maximum annual contribution for individuals who are not pursuing an economic activity is fixed at

approximately CHF24,000 per person. This amount of CHF24,000 is the maximum amount for 2015, based on a minimum taxable income of at least CHF420,000. If a lower taxable income should be applicable, then the amount of social security contributions will be lower.

4 Gift and inheritance tax

In Switzerland, gift and inheritance taxes are only levied by the cantonal and communal authorities and not at the federal level. The rates vary from one canton to another. Gift and inheritance tax usually applies to the worldwide assets of a person who lives or had his last domicile in Switzerland.

Most of the cantons and communities abolished gift and inheritance tax between spouses and from parents to their children.

Tax feature 10: VAT Regime

Switzerland has a VAT system that is generally similar to the EU VAT system. The standard VAT rate in Switzerland is only 8%, which is much lower than the applicable VAT rate in any EU country, given that the minimum VAT rate in the EU is at least 15%.

1 Swiss VAT system

The value added tax (VAT) is a general consumption tax that is levied on all phases of production, distribution and services provided in Switzerland (domestic VAT), on the acquisition of services supplied by companies domiciled abroad (acquisition VAT) as well as on the import of goods (import VAT).

The tax liability for VAT is generally triggered by an independent occupation or a commercial activity for which the purpose is to generate income, as long as the sum of its deliveries, services and its private domestic consumption exceeds CHF100,000 per year. Furthermore, tax liability applies to those who procure domestically services from companies abroad for more than CHF10,000 per calendar year (so long as those individuals are not subject to VAT in Switzerland) as well as to importers of goods (import VAT).

The basis for calculation of the tax on domestic deliveries and services is the agreed upon gross payment, or, alternatively, the collected gross payment. Taxable entities can deduct VAT paid on inputs (including imports). This input VAT deductibility avoids multiple taxation (taxable purchase and taxation of the turnover). This principle is breached in the case of deliveries that are tax exempt, as the supplier of such deliveries cannot take advantage of (full) input VAT deductibility.

Since the VAT is intended to be borne by the consumer, it will generally be shifted to him or her by way of its inclusion in the sale price or as a separate item on the invoice.

In addition, taxpayers can obtain rulings from the SFTA in respect of the Swiss VAT aspects of envisaged transactions (see Tax Feature 8).

2 Swiss VAT rates

The standard Swiss VAT rate amounts to 8.0%. Due to this low VAT rate, Switzerland would be a beneficial location to establish activities and operations for which no refund of input VAT can be obtained and where VAT due is a genuine cost item.

On certain categories of goods and services (e.g. comestible goods not served in a restaurant or hotel, medicine and newspapers), a reduced rate of 2.5% is applied, which is also lower than any EU rate, as the minimum reduced rate in the EU must be at least 5.0%.

A special rate of 3.8% applies to overnight stays (including breakfast) in the hotel and lodging industry.

3 Exemptions

Several types of transactions are exempt from VAT in Switzerland. An exemption means that no VAT should be charged on these transactions, as a result of which, in some cases, no corresponding input VAT can be deducted. This is, for instance, the case for most financial transactions/services.

4 Simplified VAT procedure

The SFTA offers a simplified tax return for taxpayers with an annual turnover of up to CHF5.02 million, and whose VAT burden does not exceed CHF109,000 per year. It is a lump-sum settlement based on a net tax rate for certain lines of business. When this net tax rate is applied – which is consistently lower than the standard rate of 8.0% – there is no need to determine an input VAT claim, as input VAT has already been taken into account when determining the net tax rate.

5 The VAT-free zone

The VAT-free zone is a regime that, under certain conditions, allows for an exemption for supplies of goods. It is particularly advantageous for companies dealing with traded commodities whose ownership can be quickly transferred during short periods; no VAT registration is required for either the seller or the buyer of goods stored in this VAT-free zone. It is also intended for transactions in high-value goods such as works of art.

The entry, storage, maintenance and improvement services carried out in the VAT-free zone benefit from a VAT suspension, which can be paired with customs duty or excise suspensions. The physical transfer of goods out of the VAT-free zone may constitute a taxable event for VAT, customs and excise purposes.

Switzerland has a long tradition in respect of VAT-free zones and is especially known for its sophisticated fine-art storage facilities, which are regarded as the premier facilities in the world in this respect. Millions of works of art, bottles of fine wine and gold bars worth billions are stored in such zones in high-security warehouses. The main zones in Switzerland are located in Geneva, Zurich, Basel and Chiasso.

Abbreviations and Definitions

APA	Advance pricing agreement.
ATR	Advance tax ruling.
BEPS	Base erosion and profit shifting, the G20-OECD initiative to counter perceived harmful tax avoidance and aggressive tax planning on a multilateral scale.
CHF	Swiss Franc, the official currency of Switzerland.
CIT	Corporate income tax levied in Switzerland at either federal, cantonal, communal or at all three levels.
EU	European Union, which currently comprises the following 28 member states: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.
IP	Intellectual property.
NRP	Switzerland's federal law on New Regional Policy.
OECD	Organisation for Economic Co-operation and Development.
SFTA	Swiss Federal Tax Authorities.
Tax treaty	A treaty for the avoidance of double taxation with respect to taxes on income and on capital concluded between Switzerland and another state.
VAT	Value-added tax.

Annex – General overview Swiss corporate tax and legal system

Please find below a high-level general overview of certain aspects of the Swiss corporate tax system and some of the forms of business mostly used in Switzerland.

1 CIT

The Swiss Federation consists of 26 cantons, each of which are divided into several political communities. In Switzerland, taxes are levied at three levels: federal, cantonal and communal.

At the federal level, CIT is levied at a statutory rate of 8.5%. The cantonal and communal tax rates vary from canton to canton and, within a canton, from community to community. Therefore, it is not possible to quote one rate that is generally applicable. Effective CIT rates are in the range of between about 12.3% and 24.2% (combined federal, cantonal and communal rates). Since Swiss taxes are deductible from taxable income, the effective CIT rate is lower than the statutory tax rate.

2 Issue stamp tax

Contributions to the equity of Swiss companies are generally subject to 1% issue stamp tax. An exemption applies to contributions up to CHF1 million (in total). Under certain conditions, an exemption may be available; for example, in the case of qualifying reorganisations.

3 Transfer stamp tax

In the case where a Swiss company holds securities (Swiss or foreign, and also including regular shares) with a book value in excess of CHF10 million, it qualifies as a securities dealer for Swiss transfer stamp tax purposes. The transfer stamp tax is levied on the transfer of Swiss (0.15%) and foreign (0.30%) securities in which securities dealers for Swiss transfer stamp tax purposes act as intermediaries or parties.

4 Dividend withholding tax

A Swiss company is required to retain 35% dividend withholding tax on dividends distributed to its shareholders.

Swiss resident shareholders can, in principle, reclaim the full amount of this dividend withholding tax. For foreign shareholders resident in a country with which Switzerland has signed a tax treaty, the treaty will generally provide for a full or partial reduction of withholding tax on dividends, provided the shareholder is the beneficial owner of the dividends and no anti-abuse provision applies.

5 Interest withholding tax

Switzerland generally does not levy withholding tax on interest.

However, exceptions apply to interest derived from deposits with Swiss banks, bonds and bond-like loans that are subject to the general 35% Swiss withholding tax rate. In addition, loans provided by non-Swiss residents secured by Swiss real estate are subject to a special federal and cantonal withholding tax. For foreign shareholders resident in a country with which Switzerland has signed a tax treaty, the treaty will generally provide for a full or a partial reduction of withholding tax on interest, provided the shareholder is the beneficial owner of the interest and no anti-abuse provision applies.

6 Royalty withholding tax

Switzerland does not levy withholding tax on royalties.

7 Annual capital tax

Swiss companies are subject to cantonal and communal capital tax that is levied annually on the value of the equity at the end of the fiscal year. There is currently no exemption for equity related to participations, with the exception of the cantons of Argovia and Sankt Gallen, which have special arrangements in this respect. The cantonal and communal tax rates vary from canton to canton and, within canton, from community to community (approximately between 0.001% and 0.5%). Companies benefiting from a special regime may be subject to annual capital tax at substantially reduced rates.

8 Value added tax

Switzerland has a VAT system that is generally similar to the EU VAT system. The standard VAT rate is 8.0%.

9 Functional currency

Swiss companies are allowed to use a foreign currency other than CHF to prepare their financial statements. In this way, fluctuations between the CHF and the functional currency in question will be neutral for tax purposes and translation results will not be taxed.

10 Safe harbour interest rates on inter-company loans

Each year the SFTA publishes circulars with safe harbour interest rates applicable to intercompany loans – one for loans denominated in CHF, and one for loans denominated in other currencies. The interest rates published by the SFTA should, in principle, be applied unless the taxpayer can demonstrate that a lower rate for loan receivables or a higher rate for loan payables should, in a particular case, be considered at arm’s length.

11 Thin capitalisation rules

Switzerland applies thin capitalisation rules to legal entities that are tax resident in Switzerland, due to the difference in Swiss tax treatment between interest expenses (i.e. deductible) and dividends (i.e. non-deductible). These rules provide specific thresholds for various classes of assets between the levels of equity and debt financing that are allowed by Swiss legal entities (e.g. participations can be financed with a maximum of 70% of debt and receivables with a maximum of 85%). Only debt that has been provided either directly or indirectly by the shareholders or related parties is subject to these Swiss thin capitalisation provisions, and third-party debt will not fall under these provisions.

12 Controlled foreign company

The Swiss corporate tax system does not contain controlled foreign company legislation.

13 Forms of doing business in Switzerland

Besides the above high-level overview of the Swiss corporate tax system, we would also like to note the forms of business mostly used in Switzerland. These are as follows:

- The share corporation: *Aktiengesellschaft* in German, *Société Anonyme* in French or *Società Anonima* in Italian;
- The private company with limited liability: *Gesellschaft mit beschränkter Haftung* in German, *Société à responsabilité limitée* in French or *Società a garanzia limitata* in Italian; and
- The branch or permanent establishment of a foreign corporation: *Zweigniederlassung* in German, *succursale* in French or *succursale* in Italian.

The question of 'which Swiss entity should be used?' must be answered on a case-by-case basis. The share corporation is the most widely used Swiss legal entity. This is due, in our practical experience, to the fact that a share corporation may, in certain cases, be regarded as more serious by concerned parties (e.g. by business partners, banks, authorities etc.). However, the private company with limited liability has, in recent years, become more commonly used, and today it plays an important role in Swiss business operations.

The use of a branch of a foreign company instead of a Swiss corporate entity can sometimes be advantageous from a tax point of view, since there is no issue stamp duty on contributions to a branch, and the Swiss dividend withholding tax is (generally) not applicable on distributions by the branch to its head office. In other respects, the Swiss income-tax treatment of Swiss corporate entities and branches of foreign corporate entities is the same.

Generally, no license is required to do business in Switzerland, except for certain types of businesses such as banking, insurance activities, etc.; and there are no restrictions as to the nationality or residence of shareholders or founders of Swiss companies. Anyone engaged in business in Switzerland must be registered with the trade register in the canton where they are established, and before a business can be registered, a name-check must be done with the Swiss Federal Commercial Registry Office.

The incorporation of a Swiss company takes generally no more than a few weeks. A branch office of a foreign corporate entity is established by the relevant board decision of the head office followed by the start of its commercial activities in Switzerland. Branch offices can officially start their commercial activities as soon as they have been established, and so the registration in the trade register is not a prerequisite in this respect. Companies obtain their legal personality once they have been registered in the trade register. For the opening of bank accounts, registration for VAT purposes etc., proof of registration in the trade register by means of an extract from the register is generally required (also for branch offices).

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