Key tax factors for efficient cross-border business and investment involving Switzerland

EU Member State

No. Please note that, in addition to Switzerland’s extensive Double Tax Treaty (“DTT”) network, a bilateral agreement with the EU (“EU-Swiss Savings Agreement”) allows Switzerland to benefit from rules similar to the EU Parent-Subsidiary Directive and the EU Interest and Royalty Directive.

Double Tax Treaties

With:

<table>
<thead>
<tr>
<th>Albania</th>
<th>Egypt</th>
<th>Italy</th>
<th>Montserrat</th>
<th>Sri Lanka</th>
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<tr>
<td>Algeria</td>
<td>Estonia</td>
<td>Ivory Coast</td>
<td>Morocco</td>
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<td>Argentina</td>
<td>Faroe(a)</td>
<td>Jamaica</td>
<td>Netherlands</td>
<td>Taiwan</td>
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<td>Armenia</td>
<td>Islands(a)</td>
<td>Japan</td>
<td>New Zealand</td>
<td>Tajikistan</td>
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<td>Austria</td>
<td>France</td>
<td>Rep. of Korea</td>
<td>Pakistan</td>
<td>Trinidad &amp; Tobago</td>
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<td>Azerbaijan</td>
<td>Georgia</td>
<td>Kuwait</td>
<td>Peru</td>
<td>Tunisia</td>
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<td>Bangladesh</td>
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<td>Ukraine</td>
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<td>China</td>
<td>India</td>
<td>Malaysia</td>
<td>Serbia(b)</td>
<td>Uruguay</td>
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<td>Indonesia</td>
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<td>Singapore</td>
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<tr>
<td>Ecuador</td>
<td>Israel</td>
<td>Montenegro(b)</td>
<td>Spain</td>
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Notes: (a) Denmark (1973) treaty also applies to the Faroe Islands.
(b) Treaty signed with former Serbia and Montenegro applies.
EU-Swiss Savings Agreement

Conditions (note that some DTTs provide more favorable conditions):

- Participation requirement: direct shareholding of at least 25 percent (dividends/interests/royalties) or direct third-party shareholding of at least 25 percent in both companies (interests/royalties);
- Minimum holding period: two years (Denkavit practice applicable: i.e., if the two-year requirement has not yet been met at the time of the dividend payment, tax will be withheld provisionally and reimbursed once the two-year period has expired);
- Cross-border transaction, i.e., one company being a tax resident in an EU Member State and the other in Switzerland;
- No company is tax resident in a third State based on a DTT with this third State;
- Companies are subject to corporate tax without being exempt;
- Both companies have the legal form of a limited company (or branch, in the case of interest/royalties).

On May 27, 2015, Switzerland and the EU signed an information exchange agreement, according to which Switzerland and the 28 EU Member States will automatically exchange information on financial accounts about one another's residents from 2018. This new agreement will replace the EU-Swiss Savings Agreement. It also contains the same regulation which allows Switzerland to benefit from the rules similar to the EU Parent-Subsidiary Directive and the EU Interest and Royalties Directive.

Forms of doing business

- Aktiengesellschaft (AG)
- Gesellschaft mit beschränkter Haftung (GmbH)

Legal entity capital requirements

- AG: CHF 100,000
- GmbH: CHF 20,000

Residence and the tax system

A company is a tax resident if its legal domicile is in Switzerland or if its effective management is exercised in Switzerland. Although resident companies are subject to tax on worldwide income, in practice a territorial tax system applies. Non-residents are subject to tax on Swiss source income.

Compliance requirements for CIT purposes

- Fiscal year is the same as the business year of the respective company.
- Income and capital tax: filing of tax return with cantonal tax authorities (annually).
- WHT: filing of WHT form with federal tax authority (annually).
- VAT: filing of tax returns with federal tax authority (quarterly).
**Tax rate**

Income taxes are levied at the federal, cantonal, and municipal level. Depending on the municipality of tax residence, the maximum standard income tax rates (on profit before taxes) vary between 11.32 and 24.43 percent. In some cantons, gains on immovable property may be subject to a separate real estate gains tax. Tax neutral reorganizations are possible.

Capital tax is levied at cantonal/municipal level only and varies between 0.02 and 0.6 percent (depending on the municipality of tax residence). Cantons may choose to credit corporate income taxes to the capital taxes levied in their territory.

Special effective tax rates apply for companies that are taxed according to the holding or mixed company regime, as basically no income taxes are due at the cantonal/communal level and a reduced capital tax rate applies. The effective income tax rate for holding companies is approximately 7.8 percent and for mixed companies approximately 8.5 - 11.7 percent. The capital tax rates for holding and mixed companies is approximately 0.001 - 0.05 percent.

**Withholding tax rates**

- **On dividends paid to non-resident companies**
  35 percent (exemption depending on applicability of DTT or savings agreement between the EU and Switzerland)

- **On interest paid to non-resident companies**
  0 percent on ordinary loans; 35 percent on interest payments on bonds, bond-like debt, or collective fundraising by Swiss companies (exemption depending on applicability of DTT or savings agreement between the EU and Switzerland)

- **On patent royalties and certain copyright royalties paid to non-resident companies**
  0 percent (exemption depending on applicability of DTT or savings agreement between the EU and Switzerland)

- **On fees for technical services**
  0 percent

- **On other payments**
  0 percent

- **Branch withholding taxes**
  0 percent

**Holding rules**

Dividend received from resident/non-resident subsidiaries

Provided that the participation deduction scheme is applicable, dividend income from qualified shareholdings are virtually exempt from income tax at the level of a Swiss corporate shareholder (including a branch). A shareholding in a company qualifies for the participation deduction scheme if it meets the following requirements:
■ Shareholding of at least 10 percent or
■ Fair market value of at least CHF 1,000,000, i.e., approximately EUR 800,000.

Neither an active business test nor a subject-to-tax test applies.

**Capital gains obtained from resident/non-resident subsidiaries**

Provided that the participation deduction scheme is applicable, capital gains on qualified shareholdings are virtually exempt from income tax at the level of a Swiss corporate shareholder (including a branch). A shareholding in a company qualifies for the participation deduction scheme if it meets the following requirements:

■ Shareholding of at least 10 percent is sold, or less if the shareholding has decreased to below 10 percent as a result of an earlier sale of shares (provided that the remaining shares have a fair market value of at least CHF 1,000,000 at the end of the fiscal year preceding the year of the sale);

■ Minimum holding period of 1 year;

■ If the tax book value is lower than the historic acquisition costs, the difference is not subject to the participation deduction scheme, i.e., no tax exemption (e.g. recaptured depreciation).

Neither an active business test nor a subject-to-tax test applies.

**Tax losses**

Commercially justified losses may be carried forward 7 years. No carry-back is possible. Generally, there is no restriction on the amount of tax losses carried forward after a change of ownership (exception: dormant company).

Losses of a foreign permanent establishment may be offset against profits realized in Switzerland on a provisional basis. Provided that the losses are not taken into account within 7 years in the state where the permanent establishment is situated, the loss set-off becomes definite for Swiss tax purposes.

**Tax consolidation rules/Group relief rules**

No. Only possible for VAT purposes.

**Registration duties**

1 percent (first CHF 1,000,000 is exempt). No stamp duty is levied on capital contributions in the case of a tax neutral reorganization.

Stamp duty is also levied on the issuance and increase of bonds or bond-like debt by a Swiss debtor. Depending on the type of bond or bond-like debt, the rate varies between 0.06 and 0.12 percent.

Debt is bond-like if more than 10 non-bank lenders (including sub-participations) grant loans at equal conditions or if more than 20 non-bank lenders (including sub-participations) grant loans at variable conditions and the relevant debt exceeds the total amount of CHF 500,000 (approximately EUR
Transfer duties
On the transfer of shares
The acquisition and sale of taxable securities by a securities dealer is subject to a securities transfer tax of 0.075 to 0.3 percent (depending on the type of transaction). No securities transfer tax is levied in the case of incorporation, a tax neutral reorganization, and a group internal transfer of a shareholding of at least 20 percent.

A company generally qualifies as a securities dealer for Swiss tax purposes if its assets consist of taxable securities with a book value in excess of CHF 10,000,000 (approximately EUR 8,000,000).

On the transfer of land and buildings
Real estate transfer tax is levied by some cantons. No real estate transfer tax is levied in the case of a tax neutral reorganization.

Stamp duties
1% on capital contributions (tax neutral reorganizations are possible)

Real estate taxes
Some cantons levy a minor tax on owned real estate.
There is no tax with regard to the ownership of real estate at the federal level.

Controlled Foreign Company rules
No

Transfer pricing rules
General transfer pricing rules
There is no specific transfer pricing legislation. Related party transactions must be at arm’s length and must be substantiated upon request. Safe haven interest rates are published by the tax authorities on an annual basis.

Documentation requirement
There are no specific documentation regulations.

Thin capitalization rules
Thin capitalization rules are applicable on related party loans and third party debt with guarantees provided by related parties. In accordance with the tax authorities’ safe haven guidelines, the thin capitalization of a company is generally determined based on the fair market value of its assets.

General Anti-Avoidance rules (GAAR)
Unilateral anti-avoidance rules with regard to DTTs have been published by the Federal Tax Authority. The basic rules are: (a) distribution of at least 6 percent of equity or 25 percent of received amounts benefiting from appropriate DTTs (avoidance of income retention in Swiss company; no distribution is required, if a foreign shareholder holds no more than 80 percent of the shares of the Swiss company); (b) tax deductible transfer of max. 50 percent of received amounts
benefiting from appropriate DTTs, unless the Swiss company meets the ‘active company test’, the ‘stock exchange test’ or the ‘holding test’.

<table>
<thead>
<tr>
<th>Specific Anti-Avoidance rules/Anti-Treaty Shopping Provisions</th>
<th>Bilateral anti-avoidance rules contained in various DTTs. The bilateral rules take precedence over the unilateral anti-avoidance rules.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advance Ruling system</td>
<td>Yes. In principle, advanced tax rulings can be obtained on all relevant tax issues.</td>
</tr>
<tr>
<td>IP / R&amp;D incentives</td>
<td>IP Incentives: available in the canton of Nidwalden (IP box); reduction of cantonal income tax rate on license income by 80 percent. Compared to rules in other countries, the definition of license income is very broad.</td>
</tr>
<tr>
<td>Other incentives</td>
<td>Tax holidays available if certain conditions are met (e.g. creation of jobs, investment in infrastructure, etc.).</td>
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<tr>
<td>VAT</td>
<td>The standard rate is 8 percent, and the reduced rate is 2.5 percent (e.g. for food, etc.). A special rate of 3.8 percent is applicable for accommodation.</td>
</tr>
<tr>
<td>Other relevant points of attention</td>
<td>Tax expenses are deductible for Swiss income tax purposes. Consequently, the effective income tax rate is calculated by including the deductibility of the tax expenses in the income tax rate applied to profit after taxes. All income tax rates of this country profile refer to profit before taxes.</td>
</tr>
</tbody>
</table>

Source: Swiss federal, cantonal, and municipal tax law and local tax administration guidelines, updated 2015.