Deloitte.

Taxation and Investment in Switzerland 2015

Reach, relevance and reliability

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1.0 Investment climate

1.1 Business environment

Switzerland is comprised of the federal state and 26 cantons, which are member states of the federal state. Political and administrative responsibilities are divided among the federal, cantonal and municipal levels of government. Each canton has its own constitution, code of civil procedure and chamber of parliament. Federal legislative power is vested in the Federal Council and the two chambers of the Federal Assembly of Switzerland. Several national referenda are held every year, and the need to build strong popular support for legislation has led to a consensual political process. The result is a stable and reliable political environment.

Located at the center of Europe, Switzerland has close economic ties with the EU and largely conforms to the economic practices of the EU, even though it is not an EU member. Switzerland is a member of the OECD, the World Trade Organization (WTO) and the European Free Trade Association. It has a free trade agreement with the EU.

OECD member countries		
Australia	Hungary	Norway
Austria	Iceland	Poland
Belgium	Ireland	Portugal
Canada	Israel	Slovakia
Chile	Italy	Slovenia
Czech Republic	Japan	Spain
Denmark	Korea (ROK)	Sweden
Estonia	Luxembourg	Switzerland
Finland	Mexico	Turkey
France	Netherlands	United Kingdom
Germany	New Zealand	United States
Greece		
Enhanced engagement countries		
Brazil	India	South Africa
China	Indonesia	
OECD accession candidate countries		
Colombia	Latvia	Lithuania
Costa Rica		

Switzerland has a modern market economy and one of the highest per capita GDPs in the world. With a highly skilled labor force, Switzerland has low unemployment rates, a highly developed service sector and advanced manufacturing. Significant industries are banking, insurance, machinery, chemicals (including health and pharmaceuticals), watches and other precision instruments, and tourism.

The Swiss economy is export-oriented, with exports of goods and services accounting for almost one-half of GDP.

EU member states are Switzerland’s main trading partners. Switzerland is a net importer of food and must purchase nearly all of its energy and industrial raw materials abroad. The export sector is focused on high value-added goods, e.g. in the chemicals, pharmaceutical and precision instruments industries.

Switzerland has a tradition of supporting free trade, and tariffs for industrial goods—insofar as they still exist—generally are low. Only agriculture remains protected by fairly high tariffs.

Price controls

Switzerland is a free-market economy and, in principle, no price controls exist.

Intellectual property

The protection of intellectual and industrial property is highly developed in Switzerland. Patents, industrial designs and models, trademarks and copyrights are legally recognized in Switzerland.

Patent protection is granted for a period of 20 years from the date of application, provided the annual patent fees are paid. Patent protection is not renewable.

Trademarks can be registered with the Federal Trademark Registry in Bern, which is part of the Federal Office for Intellectual Property. A trademark can be protected for 10 years and can be renewed as often as desired for 10-year intervals.

The owner of an industrial design or a model may be granted protection for five years from the date of application, and protection can be renewed for four terms of five years each. As a result, a design can be protected for a maximum of 25 years.

Copyright protection is granted for the author's lifetime plus 70 years. Computer software is protected for 50 years.

1.2 Currency

The monetary unit is the Swiss franc (CHF).

1.3 Banking and financing

The Swiss banking system remains among the world's strongest, boosted by continued efforts to adapt to market conditions and by a currency—the Swiss franc—that generally remains stable.

Swiss banks are responsible for their own lending practices, which are monitored by the Swiss Financial Market Supervisory Authority (FINMA).

Switzerland has committed to implement the automatic exchange of financial account information according to the OECD's Common Reporting Standard (CRS). Under the automatic exchange of information, Swiss financial institutions will be required to identify foreign (i.e. non-Swiss tax resident) account holders and controlling persons and report them to the Swiss authorities, which will subsequently exchange this information with Switzerland's partner jurisdictions. It is expected that the constitutional requirements will be fulfilled in time to enable the new standard to come into force on 1 January 2017.

Zurich is Switzerland's largest financial center, and Geneva is one of the world's most important centers for private banking.

1.4 Foreign investment

Switzerland welcomes foreign direct investment. Liberal policies, lack of controls over the repatriation of capital and profits, and federal and cantonal incentives for new investors mean that Switzerland is an attractive and popular investment location for a variety of multinationals and enterprises. The country frequently is used as a location for international headquarters, trading companies and other entities coordinating international functions and sales (principal companies, shared services and logistics centers, R&D facilities, etc.). Such firms are, in principle, treated in the same way as local companies, but often can benefit from tax and financial incentives (see below). For practical project support, investors are often assisted by the Cantonal Economic Development Agencies.

Foreign firms do not need formal approval for direct investment in Switzerland, and no particular office oversees investments. Government permission is required, however, in certain sectors (e.g. to establish a bank or an insurance company). In most areas of business, no overall restrictions apply to the percentage of equity that foreign firms may hold.

1.5 Tax incentives

Various tax privileges exist at the cantonal level, for example, there are regimes for holding companies and mixed companies. At the federal tax level, such companies remain subject to ordinary taxation. Incentives at the federal level include the principal company tax regime and tax holidays.

Holding company: Holding company status is granted at the cantonal/communal level to a Swiss company (or a permanent establishment of a foreign company) whose primary purpose is to hold substantial investments in the capital of other corporations, and whose income essentially consists of investment income. To qualify as a holding company, the following requirements must be met:

- At least two-thirds of the holding company's total assets must consist of substantial investments in subsidiaries or, alternatively, at least two-thirds of the company's total income must be derived from qualifying investments; and
- The company may not engage in an active trade or business in Switzerland (although activities such as managing the company and its investments may be carried out).

A company benefiting from the holding company regime is exempt from cantonal and communal income taxes. The effective federal income tax rate on income other than from qualifying participations is 7.83%. Although no specific holding company regime is available at the federal level, such companies may benefit from the participation exemption on qualifying participations.

Mixed company: The mixed company tax regime is available to companies with predominantly foreign business activities. A mixed company is allowed to carry out subordinate business activities in Switzerland and to have its own personnel and office in Switzerland. The main requirement for mixed company status, which is granted through a ruling, is that at least 80% of the company's total gross income must derive from foreign sources and at least 80% of its expenses must relate to non-Swiss counterparties. A company that qualifies for mixed company status can request the following tax treatment:

- Foreign-source income is taxed at a combined effective rate of typically between 8% and 11% (including federal tax).
- Swiss-source income is taxed at ordinary rates for cantonal/communal and federal income tax purposes.
- Qualifying income (e.g. dividends, capital gains) from participations is exempt.

The Nidwalden intellectual property (IP) box, which is available in that canton, leads to essentially the same tax benefits as mixed company status, as it results in a tax rate of 8.84% that can be effectively reduced to between 1% and 3% by IP amortization and interest expense. The difference between the Nidwalden IP box and mixed company status is that, under the mixed company regime, only a portion of foreign-source income will be taxed at a cantonal level; under the Nidwalden IP box, only 20% of all IP income will be taxed for cantonal/communal tax purposes, regardless of whether it is of foreign or domestic source.

Principal company: The Swiss principal company model is one way to structure multinational companies on a regional basis and improve efficiencies by restructuring certain procurement, distribution and sales activities around a "Swiss principal" company, which becomes the counterparty to the company's vendors and customers. For direct federal tax purposes, the principal company's profit is split between profit from production and profit from trade. For manufacturing principals, i.e. principal companies that own production through toll or contract manufacturing, 30% of the income is deemed to be income from production and 70% is deemed to be income from trade. While the profit from production is treated as ordinary taxable income, the profit from trade may be up to 50% allocated abroad, resulting in a 35% maximum income allocation abroad. The income allocated abroad is exempt from the Swiss tax base for direct federal tax purposes. For trading principals that do not own the manufacturing process, the income allocation abroad is 50%.

At a cantonal level, principal companies usually qualify as mixed companies. Depending on the location and on whether the principal is a manufacturing or a trading principal, the resulting effective combined federal, cantonal and communal tax rate is roughly between 5% and 8%. The

principal company tax status is subject to various conditions and restrictions, and is granted only through a formal tax ruling.

Other: Other tax advantages may be obtained through a tax ruling, such as the tax-privileged status of a finance branch. Tax holidays also may apply.

A federal tax holiday is available for up to 10 years for companies that bring economic value-adding activities to Switzerland, but is limited to specific regions in Switzerland. Most cantons also grant tax holidays for up to 10 years to companies that bring economic value-added functions and create a significant number of new jobs.

See section 3 for a discussion of the proposed corporate tax reform.

1.6 Exchange controls

Switzerland does not have foreign exchange controls.

There are no distinctions between resident and nonresident accounts, and no limitations on borrowing from abroad. Likewise, local borrowing by foreign-controlled firms from banks and related (or unrelated) companies is freely permitted.

The Anti-Money Laundering Act provides penalties (including prison and fines) for those that engage in money laundering activities or the financing of terrorism, or that do not undertake sufficient diligence in financial transactions. Intermediaries in financial transactions (such as banks, financial institutions, lawyers and accountants) are subject to detailed due diligence and reporting obligations under the Anti-Money Laundering Act.

2.0 Setting up a business

2.1 Principal forms of business entity

The most frequently used company form is the corporation, the *société anonyme* (SA)/*Aktiengesellschaft* (AG). The Swiss limited liability company—the *société à responsabilité limitée* (SARL)/*Gesellschaft mit beschränkter Haftung* (GmbH)—historically was used less often as a vehicle for conducting international business; however, its use has significantly increased in international business, largely because, unlike the SA/AG, the SARL can be disregarded for US tax purposes under the check-the-box rules.

Since Switzerland is neither a member of the EU nor a member of the European Economic Area (EEA), it is not possible to establish a European Company (SE) or a European Economic Interest Grouping (EEIG) with a registered seat in Switzerland.

Formalities for setting up a company

To form a corporation, the founders must hold an incorporation meeting before a notary public where the articles of incorporation are resolved. The incorporation meeting is documented in a public deed. The corporation is then registered in the commercial register. The commercial register authorities will notify the responsible tax administration, which automatically will lead to registration for corporate tax purposes. In the case of a permanent establishment, the taxpayer is required to notify the tax authorities.

Forms of entity

Requirements for an SA/AG

Capital: The minimum capital is CHF 100,000 and the minimum nominal value of an SA/AG share is CHF 0.01. At least 20% of the nominal value of each share (or CHF 50,000, whichever is more) must be paid in by the time of the first shareholders' meeting. Contributions in kind, such as contributions of real property, machinery, patents and know-how, are possible. In the case of contributions in kind, the founders are required to draw up a detailed report, which must be approved by the auditors.

Before dividends may be distributed, 5% of the annual net profits must be placed in a legal reserve until the reserve reaches 20% of paid-in capital. Thereafter, 10% of any distributed amount that exceeds 5% of paid-in capital also must be placed in the reserve fund. These amounts must be appropriated until the reserve equals 50% of authorized and issued capital (this additional reserve allocation requirement does not apply to holding companies).

Founders, shareholders: There must be at least one founding shareholder, who need not be a Swiss citizen or resident. Swiss law requires that the shareholders meet at least once annually to hold the ordinary general meeting of the shareholders. The meeting must be held no later than six months after the close of the corporation's financial year.

Management: The executive body is the board of directors who are elected (and dismissed) at the shareholders' meeting. There are no requirements regarding the nationality of board members, but at least one Swiss resident board member or executive director is required. There is no legal requirement that meetings of the board of directors be held in Switzerland, although the articles of incorporation may require that meetings be held within the Swiss territory. The board appoints the management of the company.

Types of shares: Registered shares and bearer shares are permitted, but a share must be fully paid up so that it can be converted from a registered to a bearer share. A corporation may restrict the negotiability of registered shares to a certain extent. Common shares and a limited number of preferred shares are permitted, but nonvoting shares are not permitted. Companies can use participation certificates (up to double the share value) in place of shares to raise nonvoting capital.

Control: Important decisions (e.g. changing the purpose of the corporation, issuing new preferred shares, increasing capital and restricting shareholder subscription rights) require approval by more than two-thirds of the votes and 51% of the capital present at the annual general meeting (a "double majority").

Taxes and fees: The contribution of capital into a Swiss resident corporation is subject to Swiss issuance stamp duty of 1% on the contributed amount that exceeds CHF 1 million nominal share capital (various exemptions apply, such as in the case of a restructuring, or the contribution of participations or of a business or business unit), and there is a nominal commercial register/notary fee.

Branch of a foreign corporation

Foreign companies may conduct business in Switzerland through a branch. A branch must be registered in the commercial register of the canton where it is located. It may engage in all the same forms of business activity as a corporation.

Branches of foreign companies in Switzerland are taxed at the same rates as domestic companies. Switzerland does not levy a branch profits tax. However, the rules on the computation of taxable income of a Swiss branch of a foreign entity may be affected by an applicable tax treaty.

Representative office

A representative office is deemed not to be engaged in trade, manufacturing or other commercial activities, but rather to perform auxiliary functions, such as providing an office where a client can be introduced to the services offered by, for example, a bank or other financial institution. No further activities, such as rendering advice or carrying out transactions, are allowed to be carried out. A representative office, to the extent it creates a permanent establishment in Switzerland, generally is taxed on a cost-plus basis (a ruling is required).

2.2 Regulation of business

Mergers and acquisitions

Firms planning a merger must notify the Federal Competition Commission before the transaction takes place if the merger exceeds certain turnover thresholds. These thresholds apply when one of the companies involved has total sales of at least CHF 2 billion or sales in Switzerland of at least CHF 500 million, or if at least two of the firms involved have a turnover in Switzerland of CHF 100 million each.

The Federal Competition Commission can stop a merger if there is a risk that it will create a market-dominating position. As a general rule, however, the Commission imposes conditions on mergers rather than blocking them. The Federal Council can allow a merger upon request if it deems the merger to be of overriding public interest.

Monopolies and restraint of trade

The Federal Law on Cartels provides a mechanism to prevent the unlawful restraint of competition. Agreements between enterprises that significantly affect competition in the market for certain goods or services and that are not justified on grounds of economic efficiency, as well as agreements that lead to the suppression of effective competition, are unlawful.

A company holding a dominant market position violates Switzerland's cartel law if it engages in illegal competition-restricting activities. Practices are illegal if a company, through the abuse of its position, prevents other companies from entering into or competing in the market, or when a company discriminates against trading partners. In particular, the following activities may constitute unlawful practices: refusal to trade (e.g. refusal to supply or buy goods); discrimination against trading partners with regard to prices or other conditions of trade; the imposition of unfair prices or other unfair conditions of trade; the undercutting of prices or other conditions directed against a specific competitor; the imposition of restrictions on production, sales or technical development; and the conclusion of contracts only on the condition that partners agree to supply additional goods or services. Some exceptions apply, and limits on competition may be legal when justified by overriding legitimate interests and when the results do not adversely affect public welfare.

2.3 Accounting, filing and auditing requirements

Companies must present accounts for the current and the preceding financial year to the general meeting of shareholders. Companies listed on the stock exchange or with outstanding bond issues must publish annual and consolidated accounts approved by the annual general meeting and the auditors' report in the Swiss Commercial Gazette, or must provide such information upon request.

Additionally, companies listed on the stock exchange must publish consolidated accounts based on an international accepted accounting standard (IFRS, Swiss GAAP FER, US GAAP or IPSAS) if required by the stock exchange, or if the company has a certain economic relevance. For Swiss tax purposes, only Swiss GAAP accounts are relevant.

Depending on the size of the corporation and on whether it qualifies as a public company, the shareholders must elect a supervised auditing firm, an admitted audit expert or an admitted auditor.

According to the Swiss commercial law, a company is subject to a full audit if it qualifies as a public company or if it meets two of the three following thresholds in two consecutive business years:

- A balance sheet total of CHF 20 million;
- Revenue of CHF 40 million; and
- 250 full-time employees.

A full audit for a public company must be conducted by an admitted Swiss audit expert, and a supervised audit firm must be elected. For nonpublic companies that meet two of the above criteria, only an admitted Swiss audit expert can be elected.

A company that is not subject to a full audit generally will be subject to a limited audit, which can be carried out by an elected admitted auditor. A company that does not have more than 10 full-time employees can opt out of a limited audit.

Shareholders may elect one or more auditors. The auditors must be independent, which means they may not be board members or employees, and at least one must be resident in Switzerland.

Auditors must prepare a report for the board of directors and must be present at the annual general meeting, unless the shareholders unanimously waive their presence.

3.0 Business taxation

3.1 Overview

According to the constitution, all cantons have the full right of taxation except for taxes that are exclusively reserved for the federal government. As a result, tax is imposed in Switzerland at the federal and the cantonal/communal levels.

The Federal Tax Harmonization Law (FTHL) generally has harmonized the tax systems of the 26 cantons with respect to the tax base, as well as with the federal income tax law. While the FTHL harmonizes the major tenets of cantonal/communal tax systems, one significant aspect is not harmonized—the tax rates, which may be independently set by the cantons and municipalities. The taxation can vary significantly from one canton to another, and there are a number of tax advantages available at the cantonal level. As a result, the tax burden on a Swiss company depends not only on its income and assets, but also on where its registered office is located and the nature of its operations. The tax authorities have established rules for allocating tax liability among the cantons to prevent double taxation.

Swiss tax rates for multinationals generally are favorable compared with the rates in other European countries.

Entities liable for direct federal tax and cantonal and communal taxes on income are corporations, limited liability companies, partnerships limited by shares, cooperative societies established under Swiss law and comparable foreign entities.

Other federal taxes include withholding tax, stamp issuance and transfer tax and value added tax (VAT). At the cantonal/communal level, companies also are subject to capital taxes on net equity and real estate taxes, based on the relevant tax legislation. As explained above (see 1.5), various tax privileges exist at the cantonal level, in particular, for holding companies and mixed companies. At the federal tax level, such companies remain subject to ordinary taxation.

Switzerland has concluded several agreements with the EU. The savings tax agreement provides for measures equivalent to those in the EU savings tax directive, as well as measures similar to the EU parent-subsidiary and interest and royalties directives. As a result, dividends, interest and royalty payments between qualifying entities in Switzerland and EU member states are not subject to withholding tax if certain requirements are met. Most recently, Switzerland signed an agreement with the EU to meet the OECD's global standard for the automatic exchange of financial account information.

In addition to the FTHL, Swiss taxation is regulated under ordinances, circulars, instructions and notes. It generally is possible to obtain a binding advance tax ruling from the competent tax authorities covering the tax implications of a specific fact pattern or transaction.

While the Federal Tax Administration (FTA) ultimately is responsible for assessing and collecting federal taxes, direct federal taxes are assessed and collected by the cantonal authorities under the supervision of the FTA.

Proposed corporate tax reform

The Swiss Federal Council has concluded that certain cantonal tax regimes (e.g. regimes for holding, domiciliary and mixed companies, as well as the administrative practices relating to Swiss finance branches and principal allocation) are no longer in line with international standards and, therefore, have proposed the abolition of these regimes as part of the "Corporate Tax Reform III." To maintain and enhance the competitiveness of the Swiss tax environment and ensure that Switzerland is in compliance with international norms, the following measures are proposed:

- Introduction of a patent box at the cantonal level that would apply to all patented IP for which the R&D spend occurred in Switzerland (based on the OECD "modified nexus" approach);
- Introduction of R&D incentives in the form of increased R&D deductions (super deductions) at the discretion of the individual cantons;
- Abolition of the one-time capital issuance tax on capital contributions;

- Allowing a step-up (including for self-created goodwill) for direct federal and cantonal/communal tax purposes upon the migration of a company or of additional activities and functions to Switzerland;
- Allowing the tax-privileged release of hidden reserves for cantonal/communal tax purposes for companies transitioning out of tax-privileged cantonal tax regimes (such as mixed or holding companies) into ordinary taxation in a manner that would reduce the cantonal/communal tax rate over a five-year period, such that in some cantons the previous tax-privileged rate could be maintained for five years.

The cantons/communes would have discretion to reduce their corporate tax rates.

If approved, the new measures would become effective in 2019, at the earliest.

Switzerland Quick Facts for Companies	
Corporate income tax rate (federal)	8.5% (7.83% effective)
Branch tax rate (federal)	8.5% (7.83 % effective)
Capital gains tax rate (federal)	0%/8.5% (7.83% effective)
Basis	Worldwide
Participation exemption	Yes
Loss relief	
− Carryforward	7 years
− Carryback	No
Double taxation relief	Yes
Tax consolidation	No
Transfer pricing rules	No formal transfer pricing rules
Thin capitalization rules	No, but safe harbor rules apply
Controlled foreign company rules	No
Tax year	Financial year
Advance payment of tax	No
Return due date	Varies
Withholding tax	
− Dividends	35%
− Interest	0%/35%
− Royalties	0%
− Branch remittance tax	0%
Capital tax/net wealth tax	0.001%-0.5%
Social security contributions	Yes
Real estate tax	Cantonal level tax
Transfer tax	0.15%/0.3%
Stamp tax	1%/2.5%/5%
VAT	8%

3.2 Residence

A company that has its legal seat (registered office) or its place of effective management in Switzerland is considered a resident for tax purposes.

3.3 Taxable income and rates

Resident companies are taxed on their worldwide income, except for profits derived from foreign permanent establishments/branches and foreign immovable property, which are exempt from the

tax base in Switzerland. Nonresident companies are taxed on permanent establishment/branch income and/or immovable property located in Switzerland.

Corporate income tax is levied on a company's net profits, which consist of business/trading income, passive income and capital gains. Foreign-source income is included in taxable income, but relief is granted for dividend income from qualifying participations. Business expenses are deductible in computing taxable income. Gains and losses from the conversion of financial statements from a functional currency into Swiss francs are disregarded for tax purposes.

The federal statutory tax rate of 8.5% is levied on net income. However, since income and capital taxes are deductible in determining taxable income, the effective tax rate that a company pays on its profits before tax is 7.83%. Branches of foreign companies in Switzerland are taxed at the same rates as domestic companies.

Liability for cantonal and communal taxes is based on principles similar to those that apply for direct federal tax purposes. As mentioned above, the cantonal/communal level rates vary, depending on the place of legal seat or management of the company. Most cantons apply a flat base rate (although a few apply a progressive tax rate mostly related to the total amount of taxable profit). The base tax is then subject to the cantonal and communal multiplier, which is reviewed annually. Although the base rates and multipliers have decreased in recent years, the cantons have used tax holidays and privileges to attract investment (see section 1.5 above). For companies subject to the ordinary tax rules, the maximum combined effective tax rates on profits before tax range from approximately 12% (Canton of Lucerne, Canton of Obwalden, Canton of Appenzell Ausserrhoden and Canton of Schwyz) to approximately 24% (Canton of Geneva), with an average of approximately 18%.

Taxable income defined

The base for federal and cantonal/communal income tax is, in principle, a company's worldwide income, including dividends, interest, royalties and capital gains. Income from foreign branches and foreign real estate is unilaterally exempt from the Swiss tax base.

Although dividends received from domestic or foreign subsidiaries fall within the scope of business income, dividends from qualifying investments benefit from participation relief. A qualifying investment exists where a Swiss company holds at least 10% of the nominal capital of the subsidiary or the investment has a market value of CHF 1 million; where applicable, participation relief is available in proportion to the ratio of net participation income to total net income. Net income from participations is defined, for this purpose, as gross participation income less (1) financing costs relating to the dividend-paying participation, and (2) an allowance equal to 5% of the dividend income for administration costs (unless actual administration costs are lower). All cantons grant the same reductions under similar conditions.

Gains resulting from foreign exchange fluctuations on import and export transactions, foreign currency loans and forward exchange contracts are taxed as ordinary income. Losses on such transactions are tax deductible. Unrealized gains and losses from the translation of financial statements kept in a functional currency into Swiss francs are disregarded for tax purposes.

Deductions

To calculate taxable income, companies may deduct normal business expenses, depreciation and the federal, cantonal and communal taxes on both income and capital paid or accrued during the period of calculation. For any deduction to be tax effective, it must be accounted for in the current year financial statements.

Interest generally may be deducted, subject to arm's length and thin capitalization rules. Indirect taxes (such as import duties) and foreign taxes (not covered under unilateral or tax treaty relief provisions) are deductible.

Depreciation

All assets normally used in a business are depreciable in accordance with "commercial use." Both the straight-line and the declining-balance method are acceptable, but depreciation may be taken only on the basis of historical cost. Accelerated depreciation is available for certain assets.

Official guidelines for depreciation percentages are published by the federal tax authorities. Typical annual declining-balance rates are 3%-4% on commercial buildings; 7%-8% on industrial buildings;

25% on office equipment and furniture; 30% on machinery and vehicles other than cars; 40% on patents, goodwill, cars, electronic data processing equipment and machinery subject to abnormal use; and 45% on hand tools and smaller equipment. These rates are halved if the straight-line method is used.

Cantons are free to establish their own depreciation rates, but normally follow the federal rules.

Inventory must be valued at cost or market price, whichever is lower. Taxpayers may establish an additional inventory reserve of as much as one-third of this valuation.

Losses

Losses may be carried forward for seven fiscal years and may be set off against any income, including capital gains. Losses may not be carried back.

3.4 Capital gains taxation

There is no specific capital gains tax levied at the federal level. Capital gains on the sale of assets (including real property) are treated as ordinary business income (and losses are deductible), regardless of how long the assets have been held. If assets are sold to a shareholder or related company at a less than a fair market price, gains may be reassessed for tax purposes.

Where the participation exemption applies, capital gains will be exempt from tax. To qualify, the participation must be at least 10% and been held for more than one year. Participation relief is granted, however, only on the capital gain exceeding the investment cost of the sold participation (e.g. not on recaptured depreciation).

Revaluation gains (i.e. on inventory and stock of raw materials) must be added to ordinary profits and taxed with such profits. Rollover relief is available for the replacement of long-term assets.

Cantonal tax rules vary with respect to the treatment of capital gains. The cantons generally tax corporate capital gains as ordinary income. However, many cantons apply special rules to gains from the sale of local real property; these may be taxed as ordinary income or may be subject to a special gains tax.

3.5 Double taxation relief

Unilateral relief

Foreign-source income is included in taxable income, but relief is granted for qualifying dividend income. Foreign-source income is taxed net of foreign taxes; no credit is given for foreign taxes paid (except for nonrefundable withholding taxes on dividends, interest and royalties under applicable tax treaties).

Tax treaties

Switzerland has a broad tax treaty network, with most treaties following the OECD model tax treaty. Switzerland is adapting its policy regarding information exchange in connection with tax fraud and tax evasion, and has amended many of its tax treaties accordingly.

To obtain benefits under one of Switzerland's tax treaties, the payer of income, the recipient and the tax authorities in the treaty partner country must sign a form that certifies the residence of the recipient and confirms that the information about the recipient is accurate. The form must be submitted to the FTA before the payment is made.

Foreign-owned Swiss companies that benefit from a tax reduction under tax treaties are subject to special unilateral measures against treaty abuse if the relevant treaty does not include specific abuse provisions. These rules apply where the taxpayer receives dividends, interest or royalties on which withholding taxes were reduced or waived in the country of origin under a tax treaty.

Switzerland Tax Treaty Network			
Albania	Faroe Islands	Liechtenstein	Slovenia
Algeria	Finland	Lithuania	South Africa
Anguilla	France	Luxembourg	Spain

Antigua & Barbuda	Gambia	Macedonia	Sri Lanka
Armenia	Georgia	Malawi	St. Kitts & Nevis
Australia	Germany	Malaysia	St. Lucia
Austria	Ghana	Malta	St. Vincent & the Grenadines
Azerbaijan	Greece	Mexico	Sweden
Bangladesh	Grenada	Moldova	Taiwan
Barbados	Hong Kong	Mongolia	Tajikistan
Belarus	Hungary	Montenegro	Thailand
Belgium	Iceland	Montserrat	Trinidad & Tobago
Belize	India	Morocco	Tunisia
British Virgin Islands	Indonesia	Netherlands	Turkey
Bulgaria	Iran	New Zealand	Turkmenistan
Canada	Ireland	Norway	Ukraine
Chile	Israel	Pakistan	United Arab Emirates
China	Italy	Philippines	United Kingdom
Colombia	Ivory Coast	Poland	United States
Croatia	Jamaica	Portugal	Uruguay
Czech Republic	Japan	Qatar	Uzbekistan
Denmark	Kazakhstan	Romania	Venezuela
Dominica	Korea (ROK)	Russia	Vietnam
Ecuador	Kuwait	Serbia	Zambia
Egypt	Kyrgyzstan	Singapore	Peru
Estonia	Latvia	Slovakia	

3.6 Anti-avoidance rules

Transfer pricing

Although Switzerland does not have formal transfer pricing legislation or documentation requirements, all related party transactions with Swiss entities must be on arm's length terms. In general, Switzerland follows the OECD transfer pricing guidelines; all OECD transfer pricing methods are accepted with no preference.

Under the Swiss tax code, taxpayers must provide evidence about their transfer prices at the request of the tax authorities. In general, a taxpayer has 30 days to submit the documentation, although time extensions may be granted if necessary. The cantonal tax authorities are increasingly requesting transfer pricing documentation. Although no specific format is prescribed, taxpayers should consider preparing documentation, particularly when changing the business model or engaging in transactions with low-tax jurisdictions and offshore entities.

Advance pricing agreements are possible.

Thin capitalization

The Swiss thin capitalization rules are not defined in the tax law per se. However, the FTA has issued a circular letter that sets out safe harbor rules that apply to related party debt. An asset-based test is used to determine whether a company is adequately financed. The safe harbor rules require a minimum equity ratio for each asset class (e.g. receivables may be debt-financed by 85%, investments by 70%, intellectual property by 70%). If the company has loans from related

parties and the total amount of the debt exceeds the allowable debt calculated according to the percentages in the FTA circular, the excess amount is recharacterized as dividends (taxable at the 35% withholding tax rate) and is nondeductible for corporate income tax purposes.

Controlled foreign companies

Switzerland does not have a CFC regime.

3.7 Administration

Tax year

The tax year generally is the calendar year, unless a company uses a different financial year. Federal and cantonal/communal income tax is assessed each year on income of the current year.

Filing and payment

There is combined tax return filing for both federal and cantonal/communal income tax purposes. A self-assessment procedure applies. Federal income tax must be paid by 31 March of the year following the tax year; the due date for the payment of cantonal/communal income tax varies in the cantons.

Consolidated returns

There are no provisions in Swiss law at the federal or cantonal level allowing affiliated companies to file a consolidated tax return. Combining profits and losses of affiliated companies and transferring losses between them is not possible, irrespective of whether the companies are Swiss or foreign.

Statute of limitations

The general statute of limitations for a tax assessment and the collection of tax in the ordinary assessment procedure is five years after the end of the relevant tax period/after the assessment has become final and nonappealable. The limitations period will not commence or run during a protest, appeal or revision proceeding; where the tax claim is secured; or where the taxpayer is not resident in Switzerland. The limitations period will start anew in certain cases. In any case, the statute of limitations for a tax assessment expires 15 years after the end of the relevant tax period, and the statute of limitations for the collection of tax expires 10 years after the end of the year in which the assessment becomes final and nonappealable.

The statute of limitations for cases where an assessment was not issued, or not correctly issued because the tax authorities were not provided with the required information, is 10 years and the statute of limitation for the collection of such tax debt is 15 years.

Tax authorities

As noted above, the FTA ultimately is responsible for assessing and collecting federal taxes, but federal income, as well as cantonal/communal income, and capital taxes are assessed and collected by the cantonal authorities under the supervision of the FTA.

Normally, both cantonal and communal authorities are charged with the administration of cantonal and communal taxes. Responsibilities vary from canton to canton.

Rulings

Advance rulings can be obtained from the tax authorities on the federal and cantonal tax consequences of a planned transaction or the tax-privileged treatment of a company. Advance rulings normally are binding.

3.8 Other taxes on business

See discussion under section 5.8, below.

4.0 Withholding taxes

4.1 Dividends

The domestic withholding tax rate on dividend distributions (as well as deemed profit distributions) is 35%. Under the Switzerland-EU savings agreement, which provides Switzerland access to benefits similar to those in the EU parent-subsidiary directive, withholding tax is reduced to 0% on cross-border payments of dividends between related companies residing in EU member states and Switzerland provided the parent company holds at least 25% of the capital of the distributing company and certain other criteria are satisfied. In addition, many of Switzerland's tax treaties provide for a 0% or 5% residual withholding tax rate for qualifying investments. The repayment of nominal share capital and capital surplus is exempt from withholding tax.

4.2 Interest

Switzerland generally does not levy withholding tax on interest. Exceptions apply to interest derived from deposits with Swiss banks, bonds and bond-like loans, which are subject to a 35% withholding tax at the federal level. Interest paid to a nonresident on receivables secured by Swiss real estate is subject to tax at source. The 35% withholding tax levied under domestic law can be reduced under a tax treaty, to typically 0% or 10% with most investor countries.

4.3 Royalties

Switzerland does not levy withholding tax on royalties.

4.4 Branch remittance tax

Switzerland does not impose a branch remittance tax.

4.5 Wage tax/social security contributions

Employment income is subject to personal income tax at progressive rates, depending on the canton of residence, marital status, number of children and church affiliation.

A wage withholding tax at source applies to any employee working for a Swiss employer who is not a C-permit holder, not a Swiss citizen and not married to a C-permit holder or to a Swiss citizen. The monthly tax at source deduction contains all three levels of income taxes for individuals (federal, cantonal and communal income taxes).

All social security contributions are equally divided between the employer and employee; the total contribution is 10.3% on total employee remuneration (with no ceiling) for old age and disability insurance; 2.2% on remuneration up to CHF 126,000 for unemployment insurance, and 1% on remuneration above CHF 126,000 (with no ceiling) for unemployment insurance . The employer is required to deduct contributions from salary payments and remit the total amount to the tax authorities/social security authorities (see also section 7.2).

4.6 Other

Nonresident members of the board of directors and members of the management of Swiss resident companies and nonresident companies that have a permanent establishment in Switzerland are subject to federal (and cantonal) withholding taxes on related fees. The federal tax is 5% on gross income. The cantonal rates are between 16% and 25%.

5.0 Indirect taxes

5.1 Value added tax

Switzerland levies an EU-style VAT that applies to the supply of goods and services within the Swiss VAT territory (i.e. Switzerland and the Principality of Liechtenstein) and to imports of goods and services into Switzerland. Exports of goods and services, in principle, are zero-rated with an input VAT credit.

The standard VAT rate is 8%. Certain goods and services are subject to a reduced rate of 2.5%, and others (such as most banking and insurance services) are VAT-exempt without an input VAT credit. A special 3.8% rate applies to accommodation services.

Enterprises whose annual turnover exceeds CHF 100,000 must register for VAT purposes.

An enterprise registered for VAT is liable for VAT on all supplies (output tax) and will incur VAT on purchases for the business (input tax). Input taxes generally may be deducted from the amount of output taxes due and, therefore, do not represent an additional burden for a business. The burden of VAT is on the end-consumer who is unable to recover input tax.

VAT returns must be filed quarterly, and the relevant VAT amount must be remitted to the FTA. In the case of regular input VAT credits, the taxpayer can request to make monthly VAT filings.

Swiss group companies can form a consolidated group for VAT purposes and file joint returns.

5.2 Capital tax

Federal stamp taxes are levied on the issuance and transfer of shares, as discussed below under section 5.5.

5.3 Real estate tax

Some cantons levy real property tax.

5.4 Transfer tax

Transfer tax on immovable property is levied by most cantons and sometimes by the municipalities, but not by the federal government.

The transfer of securities with the involvement of a Swiss securities dealer is subject to a securities transfer tax (see section 5.5 below).

5.5 Stamp duty

There are three federal stamp taxes: tax on the issuance of shares, tax on the transfer of shares and tax on insurance premiums.

Resident companies issuing Swiss shares must pay 1% of the contributed amount (stamp duty on bonds was abolished in 2012). Reorganizations, such as mergers, spin-offs of corporate assets or transfers of a company's domicile from abroad to Switzerland, are exempt from stamp tax in certain cases.

The transfer of taxable shares by securities dealers is subject to a 0.15% tax on the transfer of Swiss titles and 0.3% on foreign titles. For intragroup reorganizations, it often is possible to execute such transfers on a tax-neutral basis.

A 5% stamp duty is levied on premiums paid for domestic insurance and for insurance contracts between Swiss residents and foreign insurers. There also is a 2.5% stamp tax on single premium life insurance contracts, if these are intended for savings purposes. The duty is not charged on premiums for, among other items, old age, illness and accident policies.

5.6 Customs and excise duties

The federal and cantonal governments levy excise taxes on a number of products.

5.7 Environmental taxes

Switzerland imposes “prepaid elimination fees” on imported items; the fees are collected by the importer/distributor on behalf of the relevant government agency.

5.8 Other taxes

Cantonal net wealth tax

A corporate net wealth tax is imposed at varying rates (typically between 0.001% and 0.5%), depending on the canton and the type of tax privilege. The net wealth tax may be credited against the income tax liability in many cantons.

6.0 Taxes on individuals

Individuals in Switzerland are taxed at the federal, cantonal and communal levels. The tax burden on individuals is considered moderate. There is no inheritance tax or net wealth tax at the federal level, although these taxes may be levied by the cantons.

Switzerland Quick Tax Facts for Individuals	
Income tax rates	Progressive up to 11.5% (federal)/up to 30% (cantonal)
Capital gains tax rates	Varies (cantonal/communal levels)
Basis	Worldwide
Double taxation relief	Yes
Tax year	Calendar year
Return due date	Varies
Withholding tax	
− Dividends	35%
− Interest	0%/35%
− Royalties	0%
Net wealth tax	Cantonal level
Social security	Yes (deducted from salary by employer)
Inheritance tax	In some cantons
Real estate tax	Cantonal level
VAT	8%

6.1 Residence

An individual is deemed to be resident in Switzerland if he/she is permanently present in the country or if he/she is present in Switzerland for at least 30 days for purposes of carrying out a professional activity, or is present in the country for at least 90 days (regardless of purpose). These rules are applicable for any period of 30/90 days, i.e. are not calculated per calendar year.

6.2 Taxable income and rates

A resident individual is taxed on his/her worldwide income, except for profits from foreign businesses, foreign branches and foreign real estate, which are tax-exempt. Nonresidents are taxed on Swiss employment income, business profits and profits attributable to Swiss immovable property (i.e. only on income deriving from Swiss sources).

Taxation is levied at the federal level, as well as by the 26 cantons and the communes; the rates vary at the cantonal/communal levels. Swiss tax rates progress gradually, and the top rates are relatively modest by international standards.

The income of married couples is added and taxed jointly, according to the principle of family taxation. The income of minor children is added to the income of the parents, except for employment income, which is assessed separately.

Lump-sum taxation agreements are possible at the federal level and in some cantons. Lump-sum taxation allows a taxpayer to be taxed based on his/her expenses rather than on actual worldwide income. This option basically is available to non-Swiss citizens residing in Switzerland and not pursuing any gainful activity in Switzerland. Minimum requirements have been harmonized for federal tax purposes and will enter into force in 2016.

Taxable income

Taxable income for federal tax purposes includes the following, among other items:

- Remuneration for work performed, such as salary and wages, bonuses and stock options, and any benefit in kind received from the employer;
- Income from investments (interest, dividends, etc.);
- Income from property (movable and real property); and
- Income from private pensions and social security.

As noted above, income derived from real estate located abroad and income from a fixed place of business or a permanent establishment located abroad are exempt from tax.

Gross income from Swiss capital is taxable; gross income from foreign capital is taxed but an individual may apply for a foreign tax credit, based on an applicable tax treaty.

Capital gains from movable assets generally are tax-free, as long as the individual is not considered a securities dealer. However, capital gains related to business assets are subject to taxation as ordinary income. Capital gains derived from the sale of privately held (i.e. nonbusiness) real estate are not subject to tax at the federal level, but are subject to tax at the cantonal and communal level. However, reliefs are available when a taxpayer sells his/her main residence to purchase a new main resident in the country. This tax has progressive rates and decreases depending on the number of years the property is held.

The cantons levy tax on personal income with deductions that vary from the federal deductions. Cantons also levy a separate capital gains tax on the sale of real property, but no canton levies taxes on personal capital gains from movable property. Cantons tax the wages of foreigners working in Switzerland at source (i.e. the employer must deduct the tax from the salary and remit it to the tax authorities on behalf of the employee). Communal tax is based on a multiplier of cantonal tax.

Deductions and reliefs

Various expenses may be deducted in computing taxable income, including interest on loans, alimony and certain charitable contributions. Personal allowances are granted at both the federal and cantonal level for dependent children, and to married couples at the federal level.

Rates

Taxable income is subject to progressive tax rates. The maximum federal income tax rate is 11.5% for income exceeding CHF 895,900 for married persons. Income tax is levied by the cantons at rates up to approximately 30%. Therefore, a maximum combined federal and cantonal/communal income tax rate of approximately 40% may apply.

The rates applied at the cantonal and communal levels vary considerably. In most cantons, the maximum tax rate is approximately 30%. The lowest maximum combined federal and cantonal/communal income tax rate is around 20% in the Canton of Schwyz (Communes of Wollerau and Freienbach). A married person with two children and with gross employment income of CHF 100,000 pays federal and cantonal/communal income taxes of 5%-10% in this canton, depending on the location of residence.

A withholding tax of 35% is levied on dividends, interest from publicly offered bonds, debentures and other instruments of indebtedness issued by Swiss residents; and on bank interest. However, with respect to dividend income, if the individual recipient holds at least 10% of the share capital of the distributing company, only 60% of the dividend is taxable for federal income tax purposes. Switzerland does not levy withholding tax on royalties.

Capital gains on nonbusiness movable and immovable property are exempt from tax at the federal level. Capital gains on nonbusiness movable property also are exempt at the cantonal/communal levels, but gains on the sale of real estate may be subject to tax by both the canton and the commune where the real estate is located.

6.3 Inheritance and gift tax

Inheritance and gift tax is levied at the cantonal level by all cantons except the canton of Schwyz; there currently is no inheritance and gift tax at the federal level even though its introduction is being debated. Tax rates typically are progressive and usually based on the degree of relationship between the deceased/donor and the beneficiary or the amount received by the beneficiary. In most cantons exemptions are available for spouses and children.

6.4 Net wealth tax

There is no federal tax on individuals' net wealth, although each canton levies a small tax on wealth exceeding specific thresholds that vary by canton. Wealth includes, among other items, real property and the value of life insurance policies, net of outstanding debt.

6.5 Real property tax

The municipalities and some cantons levy an annual real property tax at rates ranging between 0.2% and 3.0% of the value of the property.

6.6 Social security contributions

Federal old age and disability insurance (AHV/IV/EO) and unemployment insurance are mandatory for all employees, and all contributions are equally divided between the employee and employer. The total contribution is 10.3% of total employee remuneration (with no ceiling) for the old age and disability insurance. Unemployment insurance contributions of 2.2% on remuneration of up to CHF 126,000, and 1% on remuneration above CHF 126,001 (with no ceiling) are levied. The employer is required to deduct contributions from salary and remit the total amount to the social security authorities.

6.7 Other taxes

None

6.8 Compliance

The tax year for individuals is the calendar year.

Married couples have a joint filing obligation and are taxed as a unit. The family's taxable income is the total of the combined taxable income sources of both spouses. The income of minor children (other than employment income) also is included in the tax return of the parent or parents the child is living with.

Filing deadlines vary from canton to canton, and the same deadlines apply for both federal and cantonal/communal taxes. Cantons tax wages from work in Switzerland at source (i.e. the employer must deduct the tax from salary and remit it to the tax authorities on behalf of the foreign employee).

7.0 Labor environment

7.1 Employee rights and remuneration

Swiss labor law is relatively liberal. Companies have freedom in hiring and terminating employment at will. Companies often offer generous social packages for individuals whose employment is terminated because of restructuring; such workforce changes often are accomplished through early retirement or retraining workers for other jobs.

Switzerland's main employment laws are the Swiss Code of Obligations and the Law on Labor in Industry, Handicrafts and Trade, supplemented by additional rules. Other federal laws cover factory working conditions, arbitration of labor conflicts, collective wage agreements and worker information and consultation. Compensation practices also are subject to a variety of laws.

Working hours

In theory, the legal maximum work week is 45 hours in industry for technicians and white collar employees, and 50 hours for other employees (e.g. in the building industry and agriculture). However, collective or individual contracts normally set shorter work weeks, and around 70% of industrial employees and tradesmen officially work less than 43 hours per week.

7.2 Wages and benefits

Switzerland does not have a national minimum wage. Salaries in nonunion businesses are agreed directly between the employer and employee, and depend on prevailing economic conditions. Wages in industry are set in collective agreements.

Pensions and disability insurance

Federal old-age and disability insurance (AHV/IV/EO) is mandatory for all personnel. The annual contribution of 10.3% of total employee remuneration (no ceiling) is equally divided between the employer and employee. The employer is required to deduct contributions from salary payments and remit the total amount to the social security authorities.

Employee pension funds are compulsory under federal law for all employees subject to the AHV law, which sets the framework for minimum contributions and benefits. Called the "second-pillar," these funds add, on average, approximately 17.4% of base salary to the cost of compulsory benefits; the employer has to pay at least half of that contribution. The percentage to be paid varies within a range of 4%-14% or more for each party, and depends on the employee's age, level of coverage and salary level.

Unemployment insurance

Unemployment insurance is mandatory for all personnel. The contributions amount to 2.2% on remuneration up to CHF 126,000 and 1% on remuneration above CHF 126,001 (with no ceiling). The contributions are equally divided between the employee and the employer.

Accident insurance

Under federal law, all companies must have occupational accident insurance (UVG) for their employees. In the service sector, such coverage is obtained through private insurance companies. The cost borne by the employer for work and nonwork-related insurance depends on the class of risk and on the economic sector. The costs for the work-related insurance are borne by the employer, while the costs for the nonwork-related insurance may be charged to the employee.

Other benefits

The employer generally must grant at least four to five weeks of holiday each year. There are a number of legal national holidays, and cantonal legislation and some collective agreements grant other holidays.

The Code of Obligations gives employees the right to receive salary for a specified number of weeks for sickness, accident, pregnancy and childbirth.

Family allowances are compulsory in all cantons. Depending on the canton, the employer may contribute to a public fund or to an approved private fund of its choice (run by an employers' association). Contributions vary depending on the canton. In the Canton of Zurich, the contributions amount to 1.1% of gross salary.

Health insurance is compulsory for Swiss residents, but must be privately organized on an individual basis. Employers may ask for proof that a new hire is insured. Some large employers use collective policies to provide staff insurance on a voluntary basis.

7.3 Termination of employment

No onerous restrictions are imposed on the dismissal of the workforce. Legal minimum termination notices (valid for both employers and employees) are fixed at one month for employees with less than one year of service, two months for those with one to nine years of service and three months for those with more than nine years of service. The notice periods may be extended by contract and are counted from the last day of the month in which notice is given.

The Code of Obligations stipulates that companies must inform and consult with employees when planning mass dismissals. Collective agreements in some industrial sectors require prior notification of a plant closure. Redundancy plans are obligatory if a company having more than 250 employees dismisses within 30 days more than 30 people.

7.4 Labor-management relations

Switzerland does not have strong trade unions. Strikes are rare and conflicts are, in general, resolved by way of negotiations. Unions are normally set up on an industry basis and are aligned with one of Switzerland's national confederations.

7.5 Employment of foreigners

Switzerland has a dual system for the admission of foreign workers. Citizens of an EU or EFTA member state can benefit from the bilateral agreements between Switzerland and the EU. EU persons have a right to reside and work in Switzerland. For citizens of all other counties, work permits are subject to certain contingencies, with preference given to highly qualified persons.

8.0 Deloitte International Tax Source

The Deloitte International Tax Source (DITS) is a free online database that places up-to-date worldwide tax rates and other crucial tax information within easy reach. DITS is accessible through mobile devices (phones and tablets), as well as through a computer.

Connect to the source and discover:

A database that allows users to view and compare tax information for 65 jurisdictions that includes –

- Corporate income tax rates;
- Historical corporate rates;
- Domestic withholding tax rates;
- In-force and pending tax treaty withholding rates on dividends, interest and royalties;
- Indirect tax rates (VAT/GST/sales tax); and
- Information on holding company and transfer pricing regimes.

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