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International Tax
Switzerland Highlights 2017

Investment basics:

Currency – Swiss Franc (CHF)

Foreign exchange control – No restrictions are imposed on the import or export of capital.

Accounting principles/financial statements – Swiss GAAP. Financial statements must be prepared annually.

Principal business entities – These are the corporation (AG), limited liability company (GmbH) and branch of a foreign company.

Corporate taxation:

Residence – Companies with their legal seat (registered office) or place of effective management in Switzerland are considered resident for tax purposes.

Basis – Resident companies are taxed on their worldwide income, except for profits derived from foreign branches and foreign immovable property, which are tax-exempt. Nonresident companies are taxed on permanent establishment/branch income and/or immovable property located in Switzerland.

Taxable income – 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 in a functional currency into CHF are disregarded for tax purposes.

Taxation of dividends – See under "Participation exemption."

Capital gains – There is no specific capital gains tax levied at the federal level. Capital gains on the sale of assets are treated as ordinary income (and losses are deductible), regardless of how long the assets have been held. If assets are sold to a shareholder or related corporation at a price below market value, gains may be reassessed for tax purposes. Capital gains derived from the sale of a participation of at least 10% in a company (whether resident or nonresident) benefit from participation relief if the participation has been held for more than one year.

Losses – Losses may be carried forward for seven years and may be set off against any income or capital gains. The carryback of losses is not permitted.

Rate – Tax is imposed at both the federal and cantonal/communal levels. The federal tax rate of 8.5% is levied on net income (since income and capital taxes are deductible in determining taxable income, the effective tax rate is 7.8%). Taking into account both the federal and the cantonal/communal income tax, the combined effective income tax rate typically is between 12% and 24% for companies subject to ordinary taxation, depending on the place of residence.

Surtax – No

Alternative minimum tax – No

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

Participation exemption – Dividends generally are taxable for the recipient company, although relief is granted for dividends received from a qualifying participation in a resident or nonresident company. A participation is considered qualifying if the company owns at least 10% of the capital of the company paying the dividends or the participation has a value of at least CHF 1 million.

Holding company regime – The holding company tax privilege is granted to companies whose primary statutory purpose is the holding of participations (i.e. when at least 2/3 of the total assets consist of investments in subsidiaries or, alternatively, at least 2/3 of income consists of dividends) and that have no active trade or business in Switzerland. A company that enjoys the holding company privilege is fully exempt from cantonal and communal income taxes. The effective federal income tax rate on nondividend income is 7.8%.

Incentives – The mixed company tax privilege is granted to companies with predominantly foreign business activities. A business activity is deemed to be performed predominantly outside Switzerland if generally at least 80% of the total gross income is derived from foreign sources and at least 80% of expenses are incurred abroad. Foreign-source income of a mixed company is taxed at a combined effective rate of typically between 9% and 11% (including federal tax). Swiss-source income is taxed at ordinary rates for cantonal/communal and federal income tax purposes. Incentives also are available for domiciliary companies, principal companies and finance branches. Tax holidays may apply.

Withholding tax:

Dividends – Dividends paid to a nonresident are subject to a 35% withholding tax. 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 when the capital participation is 25% or more and certain other criteria are met. In addition, many tax treaties provide for reduced rates for qualifying investments. The repayment of nominal share capital and capital contribution reserves is exempt from withholding tax.

Interest – Under domestic law, no withholding tax is levied 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 and the tax at source levied under domestic law can be reduced under a tax treaty.

Royalties – Switzerland does not levy withholding tax on royalties.

Technical service fees – Switzerland does not levy withholding tax on service fees.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No, but see under “Stamp duty.”

Payroll tax – There is no general payroll tax, but payroll tax is levied on the wages of foreigners without permanent Swiss residence. For all other Swiss resident employees, wages are taxed as part of ordinary income.

Real property tax – Some cantons levy real property tax.

Social security – The employer generally is required to pay 50% of an employee's social security and pension fund contributions. The employer must deduct contributions from salary and remit the total amount to the social security authorities.

Stamp duty – A 1% stamp duty is levied on contributions to the equity of a Swiss company, whether in cash or in kind. A CHF 1 million exemption threshold applies to the issuance of shares. Reorganizations, such as mergers, spinoffs of corporate assets or transfers of a company’s domicile from abroad to Switzerland typically are exempt from stamp duty.

Transfer tax – The transfer of securities by Swiss securities dealers is subject to a 0.15% tax on Swiss securities and a 0.3% tax on foreign securities.

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

Anti-avoidance rules:

Transfer pricing – Switzerland has no formal transfer pricing legislation or documentation requirements, although all related party transactions with Swiss entities must be carried out on arm's length terms. In general, Switzerland follows the OECD transfer pricing guidelines.

Thin capitalization – Safe haven thin capitalization 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%). In addition, safe haven interest rates apply.

Controlled foreign companies – No

Disclosure requirements – No

Other – Measures against treaty abuse may apply, including a base erosion test.

Compliance for corporations:

Tax year – Accounting year

Consolidated returns – Consolidated returns are not permitted; each company is required to file a separate return.

Filing requirements – There is combined tax return filing for both federal and cantonal income tax purposes. A self-assessment procedure applies. Filing deadlines depend on the canton.

Penalties – Penalties apply for late filing or failure to file.

Rulings – Advance rulings may be obtained from the tax authorities on various matters, such as tax consequences of a planned transaction or the tax-privileged treatment of a company.

Personal taxation:

Basis – Resident individuals are taxed on their worldwide income, except for profits from foreign businesses, foreign branches and foreign immovable property, which are tax-exempt. Nonresidents are taxed on Swiss employment income, business profits and profits attributable to Swiss immovable property.

Residence – An individual is deemed to be resident in Switzerland if he/she intends to stay in Switzerland permanently (as indicated by the location of the center of personal and business interests), if he/she is physically present in Switzerland for at least 30 days to carry out a professional activity or if he/she is physically present in Switzerland for at least 90 days (regardless of purpose).

Filing status – A married couple is assessed jointly.

Taxable income – Federal income tax applies to all income derived from compensation for work performed and income from capital (both real and movable property). Gross income from Swiss capital is taxable; income from foreign capital is taxed only after deduction of nonrefundable foreign withholding taxes. At the federal level, partial taxation applies to income from participations of at least 10%. Similar relief provisions have been enacted, or are being enacted, at the cantonal level. All cantons levy taxes on personal income, with deductions that vary from the federal deductions.

Capital gains – Capital gains and capital appreciation derived from the sale or realization of assets through the increased value of tangible and intangible assets of a business are subject to tax. Gains realized on the sale of shares or real property generally are not subject to federal tax.

The cantons levy a separate capital gains tax on the sale of real property, but no canton levies tax on personal capital gains from movable property that is not considered an asset of a business.

Deductions and allowances – Various expenses may be deducted in computing taxable income, including interest on loans, alimony and certain donations. Personal allowances are granted to the taxpayer, his/her spouse and dependent children.

Rates – Rates for federal tax are progressive up to 11.5%. Cantonal/communal income taxes also apply.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – Some cantons levy real property tax.

Inheritance/estate tax – There is no federal inheritance and gift tax, although the cantons may levy the tax.

Net wealth/net worth tax – There is no federal tax, but the cantons levy net wealth/net worth tax.

Social security – Federal old age and disability insurance (AHV/IV/EO) is mandatory for all employees. The annual contribution of 10.25% of total employee remuneration (with no ceiling) is divided between the employer and employee. The employer is required to deduct contributions from salary and remit the total amount to the social security authorities. Professional pension plans are mandatory for employees. Private pension plans are voluntary.

Compliance for individuals:

Tax year – Calendar year

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

Penalties – Penalties apply for late filing or failure to file.

Value added tax:

Taxable transactions – VAT applies to the sale of goods and services in Switzerland, and to the import of goods and services into Switzerland. Exports of goods and most services provided to nonresident recipients are, in principle, zero-rated. The acquisition and sale of intellectual property are VAT-able transactions.

Rates – The standard VAT rate is 8%. Certain goods and services are subject to a reduced rate of 2.5% and others (e.g. most banking services, insurance premiums, residential real estate, education, health and regulated Casinos) are exempt. A special 3.8% rate applies to the hotel and lodging industry.

Registration – Enterprises whose annual VAT-able turnover exceeds CHF 100,000 must register for VAT purposes.

Filing and payment – VAT returns generally must be filed quarterly, and the relevant VAT amount remitted to the federal tax authorities within 60 days after the end of quarter.

Source of tax law: Direct Federal Tax Law (DBG), Tax Harmonization Law (StHG), Withholding Tax Law (VStG), Stamp Tax Law (StG), VAT Law (MWSTG) and various federal decrees/ordinances and cantonal tax laws

Tax treaties: Switzerland has concluded more than 80 treaties

Tax authorities: Federal, Cantonal and Communal Tax Administrations

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