DOING BUSINESS IN SWITZERLAND
2018

BDO

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DOING BUSINESS IN SWITZERLAND

JANUARY 2018

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INTRODUCTION

This publication has been prepared by the International Bureau of Fiscal Documentation (IBFD) on behalf of BDO, its clients and prospective clients. Its aim is to provide the essential background information on the taxation aspects of setting up and running a business in this country. It is of use to anyone who is thinking of establishing a business in this country as a separate entity, as a branch of a foreign company or as a subsidiary of an existing foreign company. It also covers the essential background tax information for individuals considering coming to work or live permanently in this country.

This publication covers the most common forms of business entity and the taxation aspects of running or working for such a business. For individual taxpayers, the important taxes to which individuals are likely to be subject are dealt with in some detail. We have endeavoured to include the most important issues, but it is not feasible to discuss every subject in comprehensive detail within this format. If you would like to know more, please contact the BDO firm(s) with which you normally deal. Your adviser will be able to provide you with information on any further issues and on the impact of any legislation and developments subsequent to the date mentioned at the heading of each chapter.

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This chapter is based on information available up to 15 January 2018.

Abbreviations

Abbreviation	*English definition*	*German definition*
AHVG	Old-Age and Survivors' Insurance Law	Bundesgesetz über die Alters- und Hinterbliebenenversicherung
AVIG	Unemployment Insurance Law	Bundesgesetz über die obligatorische Arbeitslosenversicherung und die Insolvenzentschädigung
BRB 1962	Decree concerning measures against the improper use of tax conventions	Bundesratsbeschluss betreffend Massnahmen gegen die ungerechtfertigte Inanspruchnahme von Doppelbesteuerungsabkommen des Bundes
BV	Swiss Constitution	Bundesverfassung
DBG	Federal Direct Tax Law	Bundesgesetz über die direkte Bundessteuer
DBG-F	Ordinance regarding due date and rate of interest applicable to federal direct taxes	Verordnung über Fälligkeit und Verzinsung der direkten Bundessteuer
EOG	Income Compensation Law for Persons Serving in the Army and Women on Maternity Leave	Bundesgesetz über die Erwerbsersatzordnung für Dienstleistende und bei Mutterschaft
IVG	Disability Insurance Law	Bundesgesetz über die Invalidenversicherung
MWSTG	Federal VAT Law	Bundesgesetz über die Mehrwertsteuer
StG	Federal Stamp Duty Law	Bundesgesetz über die Stempelabgaben
StHG	Federal Tax Harmonization Law	Bundesgesetz über die Harmonisierung der direkten Steuern der Kantone und Gemeinden
VStG	Federal Withholding Tax Law	Bundesgesetz über die Verrechnungssteuer
ZGB	Civil Code	Zivilgesetzbuch

Introduction

Federal taxation

Switzerland consists of the Swiss Federation, 26 sovereign cantons and approximately 2,300 independent municipalities. According to the Swiss constitution, the cantons have fiscal sovereignty and full right of taxation, except for particular sources that are allotted to the federal government. The cantons' right of taxation may also be limited by tax treaties concluded between the Swiss Federation and other states.

As a consequence of the Swiss tax system, double taxation may occur in Switzerland both in intercantonal and international relations. Intercantonal double taxation conflicts are solved both on the basis of the jurisdiction of the Federal Supreme Court and on the basis of the Federal Tax Harmonization Law. For international double taxation problems, *see* section 6.

Cantonal and Municipal Taxation

To further harmonize the cantonal and municipal income taxation, the Federal Parliament enacted the Tax Harmonization Law (THL) on 14 December 1990. The law entered into force on 1 January 1993, and the cantons and municipalities had to bring their legislation into line with the law by 1 January 2001. The THL is a skeleton law, which contains provisions on tax liability, taxable income, deductions, taxable periods and assessment procedures. The cantons remain free to set their tax rates.

The currency is the Swiss franc (CHF).

In this chapter, where necessary, a section may contain subheadings that explain the different tax treatment at the federal and (general) cantonal and municipal level of an item of income. Where no subheadings are used, there is no discernable difference in the tax treatment at both levels.

1. Corporate Income Tax

1.1. *Type of tax system*

Federal taxation

Switzerland has a classical system for the taxation of corporate profits. This system is coupled with a participation exemption in respect of dividends and capital gains from substantial participations of corporate shareholders (*see* section 2.2.).

Cantonal and municipal taxation

The same rules as at the federal level apply, but only with respect to the cantonal territory. Thus, the cantons must apply classical systems of taxation which, however, can be modified through an exemption in respect of dividends and capital gains from substantial participations. Another modification concerns qualifying holding companies and management companies, which are almost completely exempt from cantonal income tax.

1.2. *Taxable persons*

Taxable persons include legal entities, i.e. companies, cooperatives, associations and foundations, and investment trusts with direct ownership of immovable property (article 49 of the DBG). Companies include stock companies (AG/SA/SA), limited liability companies (GmbH/SARL/SAGL) and stock companies with unlimited partners (KAG/SCA/Sapa). This survey is restricted to the taxation of these companies.

Partnerships are transparent for tax purposes, the partners being taxed individually (article 11 of the DBG).

1.2.1. Residence

Federal taxation

Companies which have their legal seat (registered office) or place of effective management in Switzerland are considered residents (article 50 of the DBG).

Cantonal and municipal taxation

Companies that have their legal seat (registered office) or their place of effective management in a canton are considered residents in the canton (article 20(1) of the StHG).

If a company is registered in a canton, while its effective management is in another canton, double taxation may result from the unlimited tax liability in those cantons. The THL does not provide for any solution in this conflict. According to case law of the Swiss Supreme Court, a company is subject to unlimited tax liability in the canton in which it is registered. Only if no establishment or activities are found in the canton of registration has the canton in which the effective management is located the right of taxation.

Companies that are non-resident in a canton are subject, in that canton, to corporate income tax on income of their enterprises, permanent establishments and immovable property located there; they are subject to net worth tax there on the assets of their enterprises and permanent establishments and on any immovable property located there.

1.3. *Taxable income*

1.3.1. General

Federal taxation

Resident companies are subject to federal corporate income tax on their worldwide income, with the exception of income from a business, permanent establishment or immovable property located abroad (article 52(1) of the DBG). Non-resident companies are subject to tax only on certain types of Swiss-source income (*see* section 6.2.).

Cantonal and municipal taxation

Companies resident in a canton are subject there to cantonal corporate income tax on their worldwide income, except income from an enterprise, permanent establishment or immovable property located outside the canton (article 22(3) of the StHG). Companies not resident in a canton are subject to tax only on certain types of income from sources in the canton.

Holding companies

A holding company (*Holdinggesellschaft; société holding; società holding*) is almost completely exempt from cantonal income tax (article 28(2) of the StHG). To qualify for the holding privilege, a holding company's participations in other companies, or the income derived therefrom, must represent at least two thirds of its total assets or income, as the case may be, on a long-term basis. Also, the holding company's main purpose must be the long-term management of participations and the company must have no commercial activity in Switzerland. Some cantons require for the granting of the holding status the holding of qualifying participations (more than 20%); in other cantons, portfolio investments are sufficient as long as two thirds of the company's assets or income derive from these participations.

A qualifying holding company is only subject to normal income taxation on income from immovable property in Switzerland. Mortgage interest and other expenses are deductible. In addition, normal income tax is levied if so provided by a tax treaty.

Management companies

A management company (*Verwaltungsgesellschaft*; *société administrative*; *società di amministrazione*), also known as a domiciliary company (*Domizilgesellschaft*; *société de domicile*; *società di sede*) is a company that does not carry on business activities in Switzerland, but only administrative activities, i.e. managing its own assets. Certain auxiliary activities, e.g. billing, utilization of intangible assets, including know-how,

are also allowed. Any other form of business, e.g. construction, manufacturing and the supply of goods or services in Switzerland (but not abroad), disqualifies the company from the management company status. Foreign ownership is not a requirement.

The income of a management company is taxed as follows (article 28(3) of the StHG):

(1) income from substantial participations, including capital gains on the alienation and on the revaluation of such participations, is exempt;

(2) other Swiss-source income is taxed at normal rates; and

(3) other foreign income is taxed at normal rates, but only to the extent it can be attributed to the management activities in Switzerland. The THL does not determine this attribution; the cantons may set their own criteria.

The expenses of a management company must be allocated to the three types of income in (1) to (3). Losses on substantial participations in (1) may not be set off against taxable income of (2) and (3).

These rules also apply to companies whose activities are mainly carried out abroad and whose Swiss activities are of insignificant character (so-called mixed companies). As a rule of thumb, 80% of the income of a management company must be foreign income.

In addition, normal income tax is levied if so provided by a tax treaty.

1.3.2. Exempt income

Dividends and capital gains are exempt from corporate income tax to the extent they qualify for the participation exemption (*see* section 2.2.).

1.3.3. Deductions

All expenses necessary for the achievement of the gross profit, e.g. expenses for maintenance of machinery, furniture or immovable property, expenses for administration, costs of raw material, as well as commercially justified depreciation allowances and transfers to reserves and provisions (*see* sections 1.3.4.and 1.3.5.), may be deducted (articles 57-59 and articles 62-64 of the DBG).

All direct taxes paid to the Federation, the cantons and the municipalities on income and net worth are deductible in the year in which they are paid. Foreign taxes which are not covered by unilateral or tax treaty relief and indirect taxes (import duties, etc.) are also deductible.

Interest paid on loans is considered to be a normal business expense. Interest on loans taken by a company from its shareholders or other related persons is deductible to the extent the interest rate does not exceed the arms' length rate (article 65 of the DBG). The federal tax authorities publish yearly a circular in which they fix the allowed maximum interest rates for such loans. Royalties are deductible to the extent they are commercially justified and correspond to the arms' length principle.

Dividends paid in any form are not deductible. Interest paid on a loan that qualifies as equity is not deductible (*see* section 7.3.).

1.3.4. Depreciation and amortization

Federal taxation

Depreciation must conform to usual business practices. The declining-balance method and the straight-line method are permitted. Official guidelines for depreciation percentages are published, but they are not obligatory.

Accelerated depreciation may be taken for certain machinery and installations used for the protection of the environment (50% depreciated for the first year).

Cantonal and municipal taxation

Depreciation must conform to usual business practices, but the THL gives no further details. In practice, the declining-balance method and the straight-line method are permitted.

1.3.5. Reserves and provisions

Federal taxation

Tax-deductible reserves may be created for (article 63(1)(a) and (d) of the DBG):

- existing obligations the amount of which is indefinite at the end of the financial year; and
- future research and development projects executed by third persons: up to 10% of the taxable profits (but not more than CHF 1 million).

Tax-deductible provisions may be created for (article 63(1)(b) and (c) of the DBG):

- risk of losses connected with the current assets; and
- other directly threatening risks of losses existing at the end of the financial year.

Reserves and provisions that are no longer justified are added back to taxable profits.

For replacement reserves, *see* section 1.4.

Cantonal and municipal taxation

Tax-deductible reserves and provisions are allowed, but the THL provides no further details.

1.4. *Capital gains*

Federal taxation

Capital gains are generally included in taxable income in the amount exceeding the book value of the disposed asset (articles 57, 58(1)(a) and (c) of the DBG). For the taxation of capital gains on substantial participations, *see* section 2.2.

Capital gains on immovable property are subject to a separate cantonal real estate gains tax (*see* below under Cantonal and municipal taxation.

In the case of a merger, division or transformation, the hidden reserves that form part of the going concern are not added back to taxable income, provided that:

- the book values are not changed;
- the entities involved remain taxable in Switzerland; and
- the transferred assets are not sold within the following 5 years, or the managements of the entities involved remain unchanged.

Rollover relief is granted where fixed assets are replaced within Switzerland. If the replacement does not take place in the same financial year, a reserve in the amount of the hidden reserves may be formed. This reserve is used to write off the replacement asset within an appropriate period (normally 2 years); otherwise, the reserve will be added to taxable income.

In the case of replacement of qualified participations (at least 10%) the hidden reserves can be transferred to the new participation if the participation has been held for at least 1 year.

Cantonal and municipal taxation

Capital gains on movable property are generally included in taxable income for their full amount (according to commercial accounting) (article 24(1) of the StHG). Capital gains on immovable property are subject to a separate cantonal real estate gains tax or the ordinary corporate income tax, as the case may be (*see* below).

For the treatment of hidden reserves in case of a merger, division or transformation as well as rollover relief, *see* above under Federal Taxation.

The cantons may apply one of the following systems for the taxation of capital gains on immovable property (article 12(1) and (4) of the StHG):

- the *monistic system* (Zurich-system), under which capital gains on immovable property are subject to a separate real estate gains tax. The taxable base is generally the sales price less the acquisition cost and the improvement costs. The cantons may fix the rate of this tax, but the tax must decline with an increasing period of ownership. Recaptured depreciation (acquisition cost less book value) is subject to corporate income tax; or
- the *dualistic system* (St. Gallen-system), under which capital gains (sales price less book value) on business property, including immovable property, are fully subject to corporate income tax.

1.5. *Losses*

1.5.1. Ordinary losses

Federal taxation

For federal income tax purposes, losses may be carried forward for 7 tax years (article 67 of the DBG). No carry-back is allowed.

For the treatment of losses attributable to a foreign permanent establishment of a Swiss company, *see* section 6.1.2.

Payments made by the shareholders in the case of a rehabilitation to compensate for a negative capital balance may be set off against losses older than 7 years if the payments do not qualify as capital contributions.

Cantonal and municipal taxation

When a company moves its residence from one canton to another, the other canton must take over, for cantonal tax purposes, the losses suffered from 1 January 2001 in the first canton (article 25(4) of the StHG).

1.5.2. Capital losses

Federal taxation

For capital losses realized on the disposal of movable property, *see* section 1.5.1.

Capital losses incurred on immovable property are dealt with at the cantonal level (*see* below).

Cantonal and municipal taxation

Where capital gains are subject to the Zurich-system (*see* section 1.4.), capital losses may not, in principle, be set off because the real estate gains tax is a tax related to the disposed assets (and not to the total income).

Losses on the sale of immovable property may normally be set off against income (and vice versa) only when the St. Gallen-system applies (*see* section 1.4.).

1.6. *Rates*

1.6.1. Income and capital gains

Federal taxation

Corporate income tax is levied at a flat rate of 8.5% (effective rate of 7.83% if the deductibility of the federal tax due is taken into consideration) (article 68 of the DBG).

Cantonal and municipal taxation

The cantons may set their own rates. However, under the THL the same tax rates must be applicable to companies and cooperatives.

The rates are usually fixed in the relevant cantonal tax law as basic rates. In order to adapt those rates easily to the financial requirements of the cantons, the cantons establish coefficients by which the basic rates are multiplied. The basic tax, as calculated according to the basic rate(s), is subject to the coefficient to reach the *effective* tax.

Municipal corporate income taxes are usually levied in the form of a surcharge on cantonal corporate income tax.

1.6.2. Withholding taxes on domestic payments

Federal taxation

A 35% withholding tax is imposed mainly on dividends distributed by resident companies, as well as on interest from bonds issued by Swiss debtors and on bank deposits (articles 4(1) and 13(1)(a) of the VStG).

The tax withheld is refunded to corporate recipients on request. In respect of dividends paid to resident companies the payer may apply for an exemption from the obligation to withhold the tax. If the exemption is granted, the payer is allowed to distribute the gross dividend, but must complete a reporting procedure.

Interest secured by immovable property located in Switzerland is subject to a withholding tax at a rate of 3% on gross income (article 94 of the DBG).

There are no federal withholding taxes on royalties or other forms of income.

For payments to non-residents, *see* section 6.3.

Cantonal and municipal taxation

No withholding taxes on dividends and royalties or other forms of income are levied at the cantonal and municipal level.

In addition to the federal withholding tax on interest secured by immovable property located in Switzerland, the cantons also levy a withholding tax on such income at rates varying between 10% and 30% (article 35(1)(e) of the StHG).

1.7. *Incentives*

The cantons, together with the federal government, may grant tax incentives under restrictive conditions.

The cantons may grant tax incentives to newly established companies that are of economic interest to the canton. Also, an essential change in a business activity may qualify for such tax incentives. In all cantons, the maximum period of incentives is 10 years. The THL contains no details concerning the types of incentive.

There are no general investment incentives in Switzerland.

1.8. *Administration*

1.8.1. Taxable period

The Swiss federal tax year covers 1 year and usually coincides with the calendar year (article 79 of the DBG). If a company uses a financial year different from the calendar year, the taxable income of a tax year is the income of the financial year that ends in that tax year.

1.8.2. Tax returns and assessment

Tax is assessed and collected by the cantons on behalf of the Federation (articles 105-106 of the DBG). Thus, many procedural rules (e.g. concerning the deadline for filing income tax returns and for the payment of taxes) are cantonal.

Taxpayers are asked by public announcement or by the delivery of the return form to file a tax return (article 124(1) of the DBG). Taxpayers not receiving a form must request one. The tax return must be signed by the responsible person and must be sent together with all relevant documents to the responsible authorities.

Legal entities must attach to the declaration the annual accounts (balance sheets, profit and loss account) of the financial year or, if those are missing, lists of all assets and liabilities, income and expenses as well as private withdrawals and contributions.

1.8.3. Payment of tax

In general, tax must be paid 2 months after the end of the tax year (article 1(1) of the DBG-F), i.e. if the tax year corresponds to the calendar year tax must be paid by 1 March of the following year. The cantonal tax authorities, however, may collect tax in instalments.

1.8.4. Rulings

There are no explicit provisions concerning advance rulings in federal direct, cantonal, municipal or indirect tax law, but advance rulings are possible in practice, e.g. with respect to restructuring or similar transactions. An advance ruling is binding for the tax authorities provided all the relevant facts have been disclosed.

2. Transactions between Resident Companies

2.1. *Group treatment*

There are no rules on group consolidation, either at the federal or cantonal and municipal level, for tax purposes.

2.2. *Intercompany dividends*

Federal taxation

Dividends are generally taxable for the recipient company. However, relief is granted at the federal level in respect of a substantial participation in a resident or non-resident company (participation exemption). Dividends received from a substantial participation are included in taxable income, but the corporate income tax on total net income (including the dividends) is reduced by a fraction equal to the proportion between the net dividend and the total net income (article 69 of the DBG). The net dividend is the dividend from the substantial participation, less related financing costs (e.g. interest) and non-refundable foreign withholding taxes. In addition, a lump sum of 5% of the gross dividend is deducted to take account of personal and management costs; if these actual costs are less than the 5% lump sum, the taxpayer may deduct these lower costs.

A substantial participation exists where a company owns at least 10% of the capital in the dividend-paying company or the value of the participation is at least CHF 1 million (at least 5% or at least CHF 250,000, respectively, in the case of a participation in a venture capital company) (article 69 of the DBG).

The participation exemption also applies to capital gains on substantial participations, including gains on subscription rights in respect of such participations. However, revaluation gains on substantial participations do not qualify for the participation exemption. Any depreciation on, and valuation allowances for, substantial participations are added back to taxable profits if they are no longer justified. To qualify for the participation exemption, the minimum 10% capital holding must be held for at least 1 year and, within the same tax period, at least 10% of the capital in the company must be sold. Participations of at least CHF 1 million (held for at least 1 year) qualify under particular conditions for the participation exemption, even if the 10% ownership requirement is not met.

Cantonal and municipal taxation

All cantons treat dividend income from a substantial participation similarly to the federal procedure.

In general, income derived from a substantial participation does not qualify for the participation relief if (i) the participation has been depreciated in the financial year or (ii) the income qualifies as a deductible expense for the paying company.

3. Other Taxes on Income

Federal taxation

No other federal income taxes are imposed.

Cantonal and municipal taxation

Within its sovereignty (*see* Introduction), a canton is not only free to levy taxes based on its cantonal tax law, but also to organize the tax collection within the canton. The right of the municipalities to levy taxes is delegated by the cantons. Where municipal tax laws exist, they must be in line with the THL. Only a few municipalities, however, levy taxes based on their municipal tax laws; in general, they levy taxes by way of surcharges on the cantonal taxes. The cantons and municipalities levy considerable income taxes.

4. Taxes on Payroll

4.1. *Payroll tax*

There are no federal payroll taxes, and the THL does not deal with such taxes.

4.2. *Social security contributions*

Swiss social security is provided by way of:

- old-age, survivor (widows, widowers and, in some cases, orphans) and disability insurance;
- accident insurance; and
- unemployment insurance.

In the case of employees, including foreign workers, the contributions are shared between the employer and the employee. The employer withholds the employee's contribution (article 14(1) of the AHVG). The taxable base is the gross salary; no ceiling amounts apply (except for unemployment insurance).

The rates for the employer contributions (i.e. one half of the total rates) are (article 6 of the AHVG, article 3 of the AVIG, article 3 of the IVG and article 27(2) of the EOG):

Contribution for	*Rate (%)*
Old-age and survivor insurance	4.20
Disability insurance	0.70
Unemployment insurance	1.1[1]
Military service, civil service and maternity compensation	0.225
Total	6.225

1. The maximum contribution is CHF 1,630.20. In addition, a contribution to unemployment insurance is levied on income in excess of CHF 148,200. The rate for this additional contribution is 0.5%.

Furthermore, pension plans (in general half paid by the employer) are mandatory for all employees who qualify for the Swiss social security system. Certain businesses must also pay contributions for accident insurance. Additional social security contributions may be due in the cantons.

Social security contributions are deductible for federal corporate income tax purposes.

For employee contributions, *see* Individual Taxation section 3.

5. Taxes on Capital

5.1. *Net worth tax*

Federal taxation

No net worth tax is levied at the federal level.

Cantonal and municipal taxation

Under the THL, each canton is obliged to levy a net worth tax on legal entities (article 2(1)(a) of the StHG). The taxable base for the net worth tax is the equity, defined for companies as paid-in capital plus open reserves plus hidden reserves that have been taxed as profits. For holding companies and management companies (*see* section 1.3.1.), the equity includes paid-in capital plus open reserves plus hidden reserves that would be taxed as profits in case no holding privilege or management privilege would apply.

The taxable base of companies also includes loan capital that economically has the character of equity capital under the thin capitalization rules (*see* section 7.3.).

The cantons may set the tax rates (article 129 of the BV). Thus, they may apply reduced rates for holding and management companies.

Municipal net worth taxes are usually levied in the form of a surcharge on cantonal net worth tax.

5.2. *Real estate tax*

There is no federal real estate tax. Real estate taxes are levied in some cantons either at the cantonal or communal level.

6. International Aspects

6.1. *Resident companies*

Federal taxation

For the definition of residence, *see* section 1.2.1.

Cantonal and municipal taxation

Companies that have their legal seat (registered office) or their place of effective management in a canton are considered residents in the canton.

If Switzerland has no tax treaty with another country, the cantons may, on the basis of unlimited tax liability, levy taxes on income derived by their residents from that country and on capital owned by their residents in that country. This may result in double taxation. (However, it should be noted that income from an enterprise, permanent establishment or immovable property located abroad is exempt, as is capital pertaining to such assets.) If Switzerland has a tax treaty with another country, the cantons are bound by the provisions of the treaty. In most of Switzerland's treaties, the definition of residence follows article 4(3) of the OECD Model Convention, according to which a legal entity being resident of both contracting states shall be deemed to be a resident only of the state in which its place of effective management is situated.

6.1.1. Foreign income and capital gains

Federal taxation

Generally, all foreign income is included in taxable income.

However, income attributable to a foreign business or permanent establishment and income from foreign-situs immovable property are exempt (article 52(1) of the DBG). Foreign dividends, interest and royalties only qualify for the exemption if derived through and attributable to a foreign permanent establishment. For the participation exemption for dividends and capital gains from a substantial participation in a non-resident company, *see* section 2.2.

Cantonal and municipal taxation

If Switzerland has no tax treaty with another country, the cantons may, on the basis of unlimited tax liability, levy taxes on income derived by their residents from that country and on capital owned by their residents in that country. This may result in double taxation. (However, it should be noted that income from an enterprise, permanent establishment or immovable property located abroad is exempt, as is capital pertaining to such assets.)

If Switzerland has a tax treaty with another country, the cantons are bound by the provisions of the treaty. In most of Switzerland's treaties, the definition of residence follows article 4(3) of the OECD Model Convention, according to which a legal entity being resident of both contracting states shall be deemed to be a resident only of the state in which its place of effective management is situated.

6.1.2. Foreign losses

A Swiss company may set off losses of a foreign permanent establishment against income realized in Switzerland to the extent the losses were not taken into consideration in the state where the permanent establishment is situated (article 52(3) of the

DBG). However, if the permanent establishment realizes income within the next 7 years, the losses which were set off in Switzerland will be subject to corporate income tax in the year in which income is realized.

6.1.3. Foreign capital

Federal taxation

No net worth tax is levied at the federal level.

Cantonal and municipal taxation

Each canton is obliged to levy a net worth tax on legal entities (*see* section 5.1.), including foreign-situs capital with the exception of capital attributable to a foreign-situs enterprise, a permanent establishment or immovable property (article 2(1)(b) of the StHG) (*see* section 1.3.1.).

6.1.4. Double taxation relief

Unilateral double taxation relief is granted in the form of exemption for intercompany dividends received from abroad (*see* section 2.2.), income from foreign businesses or permanent establishments and foreign-situs immovable property (articles 52(1) and 69 of the DBG).

In other cases, double taxation is generally mitigated by the deduction method, i.e. taxes paid in a foreign country are deductible in calculating taxable income in Switzerland.

As a rule, all treaties provide for the exemption method. However, in most of the treaties a tax credit is granted on request for foreign withholding taxes levied on dividends, interest and royalties.

For tax treaties in force, *see* section 6.3.5.

6.2. *Non-resident companies*

For the definition of residence, *see* section 1.2.1.

6.2.1. Taxes on income and capital gains

Federal taxation

Non-resident companies are subject to corporate income tax on income and capital gains derived from Swiss businesses, permanent establishments or immovable property. Income from immovable property includes income from trading in immovable property (article 51 of the DBG).

Outbound dividends and certain interest payments are subject to a withholding tax (*see* section 6.3.).

Cantonal and municipal taxation

Non-resident companies (for the definition of residence, *see* section 1.2.1.) are subject to cantonal corporate income tax on income and capital gains derived from cantonal-situs enterprises, permanent establishments and immovable property; they are subject to cantonal net worth tax on the assets of such enterprises and permanent establishments and on such immovable property (article 21 of the StHG).

Income from immovable property includes income from trading in immovable property. Furthermore, non-resident creditors or usufructuaries of claims secured by mortgage on immovable property situated in a canton are subject to withholding taxes (*see* section 6.3.2.).

6.2.2. Taxes on capital

Federal taxation

No taxes on capital are levied at the federal level.

Cantonal and municipal taxation

See section 5.1.

6.2.3. Administration

Non-resident companies are assessed to tax in the same manner as resident companies in respect of their income from Swiss businesses, permanent establishments or immovable property (*see* section 1.8.).

Outbound dividends and certain interest payments are subject to a withholding tax (*see* section 6.3.). In the absence of a tax treaty, the withholding taxes are final.

6.3. *Withholding taxes on payments to non-resident companies*

6.3.1. Dividends

A 35% federal withholding tax is levied on the gross amount of dividends and other profit distributions by resident companies and investment funds to non-residents (articles 4(1) and 13(1)(a) of the VStG). A partial or full refund applies under a treaty (*see* section 6.3.5.). The cantons may not levy a withholding tax on dividends.

With effect from 1 January 2011, under the capital contribution principle, distributions of capital contribution reserves are exempt from Swiss income and withholding tax. The exemption of share premium repayments is granted if the contribution reserves have been recorded on a separate account and filed to the Swiss Federal Tax Administration (article 5(1bis) of the VStG).

Under article 9 of the agreement (Savings Agreement) of 26 October 2004 between the European Union and Switzerland providing for measures equivalent to those laid down in the EU Savings Directive, Switzerland must exempt dividend payments to companies resident in EU Member States under essentially the same conditions as those laid down in the EU Parent-Subsidiary Directive (before the amendments effective from 1 January 2005). Accordingly, dividends paid by Swiss subsidiaries to EU parent companies are not subject to withholding tax if:

- the parent has a direct minimum holding of 25% of the capital of the subsidiary for at least 2 years;
- one company is resident for tax purposes in an EU Member State and the other company is resident for tax purposes in Switzerland;
- under any double tax agreements with any third states neither company is resident for tax purposes in that third state; and
- both companies are subject to corporate income tax and each adopts the form of a limited company.

6.3.2. Interest

A final federal withholding tax is levied on the gross amount of interest paid to non-residents on bonds issued by Swiss debtors and on bank deposits (article 4(1) of the VStG). The rate is 35%, unless a lower rate applies under a treaty (*see* section 6.3.5.).

Under article 9 of the agreement (Savings Agreement) of 26 October 2004 between the European Union and Switzerland providing for measures equivalent to those laid down in the EU Savings Directive, Switzerland must exempt interest payments to companies

resident in EU Member States under essentially the same conditions as those laid down in the EU Interest and Royalties Directive (2003/49). Accordingly, outbound interest payments are exempt from withholding tax, provided that the beneficial owner is an associated company of the Swiss paying company and is resident in an EU Member State or such a company's permanent establishment situated in an EU Member State if:

- such companies are affiliated by a direct minimum holding of 25% for at least 2 years or are both held by a third company which has directly a minimum holding of 25% both in the capital of the first company and in the capital of the second company for at least 2 years;
- a company is resident for tax purposes or a permanent establishment is located in an EU Member State and the other company is resident for tax purposes or the other permanent establishment is located in Switzerland;
- under any double tax agreements with any third states, none of the companies is resident for tax purposes in that third state and none of the permanent establishments is situated in that third state; and
- all companies are subject to corporate income tax and each adopts the form of a limited company.

Interest paid to non-residents on loans secured by immovable property located in Switzerland is subject to a final federal withholding tax at a rate of 3%, levied on the gross amount (article 94 of the DBG). In addition, the cantons levy taxes on loans secured by immovable property at rates varying between 10% and 30%.

6.3.3. Royalties

There is no federal or cantonal and municipal withholding tax on royalties.

6.3.4. Other

No other withholding taxes apply.

For withholding taxes levied on directors' fees, *see* Individual Taxation section 6.3.1.

6.3.5. Withholding tax rates chart

The following chart contains the withholding tax rates that are applicable to dividend, interest and royalty payments by Swiss companies to non-residents under the tax treaties in force as at the date of review. Where, in a particular case, a treaty rate is higher than the domestic rate, the latter is applicable. Under domestic law, there is no withholding tax on royalties paid to non-residents.

If a tax treaty provides for a reduction of the domestic rate of withholding tax on dividends or interest, the payer must withhold the full domestic rate, and the recipient of the income must apply for a refund of the excess tax withheld (refund procedure). In respect of dividends, however, Swiss companies can fulfil their withholding tax obligations on distributions to foreign substantial corporate shareholders (qualifying under the relevant treaty or owning at least 20% of the capital of the distributing company) by applying the reporting procedure. Previously, the reporting procedure was only applicable with respect to dividend distributions to domestic companies and distributions falling under the tax treaties with Germany and the United States.

	Dividends		Interest[1]	Royalties
	Individuals, companies	Qualifying companies[2]		
	(%)	(%)	(%)	(%)
Domestic Rates				
Companies:	35	0	0/3/35	0
Individuals:	35	n/a	0/3/35	0
Treaty Rates				
Treaty With:				
Albania	15	5	0/5[3]	5[4]
Algeria	15	5[5]	0/10[6]	10
Anguilla[7]	–[8]	–[8]	–[8]	–[8]
Antigua and Barbuda[7]	–[8]	–[8]	–[8]	–[8]
Argentina	15	10	12	3/5/10/15[9]
Armenia	15	5[10]	0/10[11]	5
Australia	15	0/5[12]	0/10[13]	5
Austria	15	0[5]	0	0
Azerbaijan	15	5[14]	5/10[11]	5/10[15]
Bangladesh	15	10[5]	0/10[16]	10[17]
Barbados[7]	–[8]	–[8]	–[8]	–[8]
Belarus	15	5	5/8[11]	3/5/10[18]
Belgium	15	0[19]	0/10[20]	0
Belize[7]	–[8]	–[8]	–[8]	–[8]
British Virgin Islands[7]	–[8]	–[8]	–[8]	–[8]
Bulgaria	10	0[21]	0/5[22]	0
Canada	15	5[23]	0/10[24]	0/10[25]
Chile	15	15	5/15[26,27]	5/10[27,28]
China (People's Rep.)	10	0/5[29]	10	9
Colombia	15	0[5]	0/10[11,30]	10[31]
Croatia	15	5	5	0
Cyprus	15	0[21]	0	0
Czech Republic	15	0[21]	0	5
Denmark	15	0[32]	0	0
Dominica[7]	–[8]	–[8]	–[8]	–[8]
Ecuador	15	15	0/10[11]	10
Egypt	15	5	0/15[11]	12.5
Estonia	10	0[21]	0	0
Faroe Islands[33]	15	0[32]	0	0
Finland	10	0[23]	0	0
France	15	0[23,34]	0	5
Gambia[7]	–[8]	–[8]	–[8]	–[8]
Georgia	10	0[23]	0	0
Germany	15	0[35]	0	0
Ghana	15	5[23]	0/10[6]	8
Greece	15	5	7	5

	Dividends		Interest[1]	Royalties
	Individuals, companies	Qualifying companies[2]		
	(%)	(%)	(%)	(%)
Grenada[7]	_[8]	_[8]	_[8]	_[8]
Hong Kong	10	0[36]	0	3
Hungary	15	0[37]	0	0
Iceland	15	0[21]	0	0/5[38]
India	10	10[39]	0/10[39,40]	10[39]
Indonesia	15[41]	10[41]	10	10
Iran	15	5[42]	0/10[11]	5
Ireland	15	0[21]	0	0
Israel	15	5[23]	5/10[11]	5
Italy	15	15	12.5	5
Ivory Coast	15	15	15	10
Jamaica	15	10[23]	0/5/10[43]	10[44]
Japan	10	0/5[45]	0/10[46]	0
Kazakhstan	15	0/5[47]	10[48]	10[48]
Korea (Rep.)	15	5[23]	5/10[11]	5
Kuwait	15	15	10	0/10[49]
Kyrgyzstan	15	5	5	5
Latvia	15	5[5]	10[50]	0/10[28,51]
Liechtenstein	15	0[52]	0	0
Lithuania	15	5[5]	10[53]	5/10[28,54]
Luxembourg	15	0/5[55]	0/10[56]	0
Macedonia (FYR)	15	5	0/10[11]	0
Malawi[7]	_[8]	_[8]	0	_[8]
Malaysia	15	5	10	10
Malta	15	0[35]	0/10[11]	0
Mexico	15	0[32]	5/10[57,58]	10
Moldova	15	5	0/10[11]	0
Mongolia	15	5	0/10[11]	5
Montenegro[59]	15	5[5]	10	10
Montserrat[7]	_[8]	_[8]	_[8]	_[8]
Morocco	15	7	10	10
Netherlands	15	0[60]	0	0
New Zealand	15[61]	15[61]	10[61]	10[61]
Norway	15	0[23]	0	0
Oman	15	0/5[62]	0/5[11]	8[63]
Pakistan	20	10[5]	10	10
Peru	15	10[23,64]	10/15 [64,65]	10/15[64,66]
Philippines	15	10[23]	10	15
Poland	15	0[67]	0/5[68]	0/5[68,69]
Portugal	15	0/5[70]	0/10[71]	0/5[71]
Qatar	10/15[72]	5[23]	0	0

	Dividends		Interest[1]	Royalties
	Individuals, companies	Qualifying companies[2]		
	(%)	(%)	(%)	(%)
Romania	15	0[73]	0/5[68]	10
Russia	15	0/5[74]	0	0
St. Kitts and Nevis[7]	_[8]	_[8]	_[8]	_[8]
St. Lucia[7]	_[8]	_[8]	_[8]	_[8]
St. Vincent and the Grenadines[7]	_[8]	_[8]	_[8]	_[8]
Serbia[59]	15	5[5]	10	10
Singapore	15	5[23]	0/5[75]	5
Slovak Republic	15	0[23]	0/5[71,76]	0/10[76,77]
Slovenia	15	0[78]	0/5[79]	0/5[80]
South Africa	15	5[5]	5	0
Spain	15	0[19]	0	0/5[71]
Sri Lanka	15	10	5/10[11]	5/10[81]
Sweden	15	0[23]	0	0
Taiwan	15	10[5,82]	10	10[83]
Tajikistan	15	5[5]	10	5
Thailand	15	10[23]	10/15[11]	5/10/15[84]
Trinidad and Tobago	20	10[23]	10	10
Tunisia	10	10	10	10
Turkey	15	5[5]	5/10[85]	10
Turkmenistan	15	5	10	10
Ukraine	15	5[5]	0/10[11]	0/10[86]
United Arab Emirates	15	5[23]	0	0
United Kingdom	15	0[23]	0	0
United States	15	5[23]	0	0
Uruguay	15	5	0/10[11]	10
Uzbekistan	15	5[5]	0/5[11]	5
Venezuela	10	0	5	5
Vietnam	15	7/10[87]	10	10
Zambia[7]	_[8]	_[8]	0	_[8]

1. Many treaties provide for an exemption for certain types of interest, e.g. interest paid to the state, local authorities, the central bank, export credit institutions or in relation to sales on credit. Such exemptions are not considered in this column.
2. Unless otherwise indicated, the reduced rates in this column apply if the recipient company owns at least 25% of the capital or the voting power in the Swiss company.
3. The 0% rate applies of the interest is paid to a pension scheme or to the Government of that other State, a political subdivision or local authority thereof or to the central bank of that other State.
4. A most favoured nation clause (introduced by 2015 amending protocol) may be applicable with respect to royalties.
5. This rate applies if the recipient company owns at least 20% of the capital in the Swiss company.
6. The lower rate applies to interest paid by a public body and to interest paid to a bank.
7. Extension of the 1954 tax treaty with the United Kingdom.
8. The domestic rate applies; there is no reduction under the treaty.
9. The 3% rate applies to news-related royalties. The 5% rate applies to copyright royalties, excluding films, etc. The 10% rate applies to patents, trademarks and know-how.

10. The lower rate applies if the Armenian company holds directly at least 25% of the capital of the Swiss company and the capital invested exceeds CHF 200,000.
11. The lower rate applies to interest paid to a bank. Conditions may apply.
12. The 5% rate applies if the beneficial owner holds directly at least 10% of the capital in the Swiss company paying the dividends. The zero rate applies if the beneficial owner is, inter alia, (i) the other contracting state (or a political subdivision thereof), the national bank or a pension fund; or (ii) a corporation listed on a recognized stock exchange which holds at least 80% of the capital in the Swiss company paying the dividends.
13. The lower rate applies, inter alia, to interest paid to the other contracting state or a political subdivision thereof, to the national bank, to banks or to a pension fund. Conditions may apply.
14. This rate applies if the Azerbaijani company directly owns at least 20% of the capital in the Swiss company and has made investments equal to at least USD 200,000 in Switzerland.
15. The lower rate applies to royalties for any patent, design or model, plan, secret formula or process and for know-how.
16. The zero rate applies if the interest is paid by virtue of a contract of financing or of delay in payment relating to the sale of industrial, commercial or scientific equipment or to the construction of industrial, commercial or scientific installations as well as of public works.
17. A most favoured nation clause may be applicable with respect to royalties.
18. The 3% rate applies to royalties for any patent, design or model, plan, secret formula or process and for know-how.
19. This rate applies if (i) a 10% capital holding has been held for at least 1 year; or (ii) the beneficial owner of the dividend is a recognized pension fund or scheme.
20. The zero rate applies if the interest is paid in respect of a loan or credit provided by an enterprise of the other contracting state or paid to a pension fund.
21. This rate applies if the beneficial owner is (i) a company (other than a partnership) that holds at least 10% of the capital in the company paying the dividends for at least 1 year prior to the payment of the dividends; (ii) a pension scheme; or (iii) the central bank.
22. The zero rate applies, inter alia, to interest paid to, inter alia, (i) a pension scheme; on a loan granted by a financial institution; and (ii) a related company that holds at least 10% of the capital in the company paying the interest for at least 1 year prior to the payment of the interest.
23. This rate applies if the recipient company owns at least 10% of the capital or voting power, as the case may be, in the Swiss company.
24. The zero rate applies if the beneficial owner of the interest is a resident of the other contracting state and is not related to the payer.
25. The lower rate applies to computer software, patents and know-how.
26. The lower rate applies to e.g. interest paid on a loan granted by a bank and an insurance company, and interest on bonds or securities that are regularly and substantially traded on a recognized securities market.
27. A most favoured nation clause may be applicable with respect to interest and royalties.
28. The lower rate applies to equipment leasing.
29. The 5% rate applies if the beneficial owner of the dividends holds directly at least 25% of the capital in the Swiss company paying the dividends. The zero rate applies if the beneficial owner of the dividends is the other contracting state (or a political subdivision thereof) or the national bank.
30. A most favoured nation clause may be applicable with respect to interest.
31. A most favoured nation clause may be applicable with respect to royalties.
32. The zero rate applies if the recipient company holds directly or indirectly at least 10% of the capital in the Swiss company. The rate also applies to dividends paid to a recognized pension fund or pension scheme.
33. Extension of the 1973 tax treaty with Denmark.
34. The zero rate only applies if the French recipient is not controlled by a non-French resident.
35. The zero rate applies if a 10% capital holding has been held for at least 12 months.
36. The zero rate applies if the beneficial owner is (i) a company that holds at least 10% of the capital of the Swiss company; (ii) a pension fund or scheme; or (iii) the Hong Kong Special Administrative Region or the Hong Kong Monetary Authority.
37. The zero rate applies if the recipient company holds directly or indirectly at least 10% of the capital in the company paying the dividend. The rate also applies to dividends paid to a pension fund or to the national bank.
38. The 5% rate applies to royalties for the use of or the right to use any patent, trademark, design or model, plan, secret formula or process.
39. A most favoured nation clause may be applicable with respect to dividends, interest and royalties.

40. The zero rate applies to interest received by a resident engaged in the operation of ships or aircraft in international traffic to the extent that such interest is paid on funds connected with such activity.
41. A most favoured nation clause (introduced by the 2007 protocol) may be applicable with respect to dividends.
42. This rate applies if the recipient company owns at least 15% of the capital in the Swiss company.
43. The zero rate applies to interest paid by a public body. The 5% rate applies to interest paid to a bank.
44. For royalties paid for the use of, or the right to use, any industrial, commercial or scientific equipment, the taxable base shall constitute 60% of such royalties.
45. The 5% rate applies in respect of a 10% capital holding that has been held for 6 months. The zero rate applies in respect of a 50% capital holding that has been held for at least 6 months. The zero rate also applies to dividends paid to a pension fund or pension scheme.
46. The zero rate applies to payments made to certain financial institutions.
47. The 5% rate applies if the recipient company holds directly or indirectly at least 10% of the capital in the company paying the dividend. The zero rate applies to dividends paid to a pension fund or to the national bank.
48. A most favoured nation clause may be applicable with respect to interest and royalties.
49. The lower rate applies as long as one of the contracting states does not, according to its domestic law, levy a withholding tax on royalties paid to non-residents.
50. A most favoured nation clause may be applicable with respect to interest.
51. A most favoured nation clause may be applicable with respect to royalties.
52. The 0% rate applies if the receiving company (other than a partnership) holds directly at least 10% of the capital of the company paying the dividends for at least 1 year prior to the payment of the dividends or the recipient is a pension fund, a contracting state, a political subdivision or local authority thereof; If the holding requirement is not met at the time of distribution, but is met subsequently, the withholding tax will be refunded.
53. A most favoured nation clause may be applicable with respect to interest.
54. A most favoured nation clause may be applicable with respect to royalties.
55. The 5% rate applies to dividends in respect of a 10% capital holding. The zero rate applies if the 10% capital holding has been held for at least 2 years. The zero rate also applies to dividends paid to a recognized pension fund or pension scheme.
56. The 10% rate applies to interest on bonds and other similar securities and to interest paid on bank deposits.
57. The 5% rate applies to interest paid to a bank or an authorized securities dealer or an insurance or a reinsurance institution, and to interest derived from bonds or securities regularly traded on an authorized securities market by a public body.
58. A most favoured nation clause may be applicable with respect to interest.
59. The treaty concluded between Switzerland and the former Serbia and Montenegro.
60. The zero rate applies (i) if the recipient company owns at least 10% of the capital of the Swiss company; (ii) the beneficial owner of the dividends is a pension fund; or (iii), as far as Switzerland is concerned, the beneficial owner of the dividends is a social security scheme.
61. A most favoured nation clause may be applicable with respect to dividends, interest and royalties. The MFN clause states that if New Zealand concludes a convention with another OECD member state with a lower rate, New Zealand shall inform the Government of Switzerland and shall enter into negotiations with a view to providing comparable treatment.
62. The 0% rate applies if the recipient is the beneficial owner and a pension scheme or the other contracting state, see article 10(3) and the 5% rate applies if the recipient is a company with a direct holding of at least 10%, *see* article 10 (2).
63. A most favoured nation clause may be applicable with respect to royalties.
64. A most favoured nation clause may be applicable with respect to dividends, interest and royalties.
65. The lower rate applies, inter alia, to interest paid to a bank.
66. The 10% rate applies to royalties paid for technical assistance and digital services.
67. The zero rate applies if (i) the recipient company has held at least 10% of the capital of the Swiss company for an uninterrupted period of 24 months; or (ii) the beneficial owner of the dividends is a pension fund.
68. The zero rate applies if the recipient is a company (other than a partnership) associated with the paying company.
69. A most favoured nation clause may be applicable with respect to royalties.

70. The 5% rate applies if the beneficial owner is a company (other than a partnership) that holds at least 25% of the capital in the company paying the dividends. The zero rate applies, inter alia, to dividends paid to (i) a central bank; or (ii) a related company that holds at least 25% of the capital in the company paying the interest for at least 2 years prior to the payment of the interest.
71. The zero rate applies, inter alia, to interest or royalties paid to a related company that holds at least 25% of the capital in the company paying the interest or royalties for a period of at least 2 years.
72. The lower rate applies if the dividends are paid to an individual who holds directly at least 10% of the capital in the Swiss company.
73. This rate applies if the beneficial owner of the dividends is (i) a company that directly holds at least 10% of the capital in the Swiss company (ii) a pension fund; (iii) the other contracting state; or (iv) the Central Bank.
74. The 5% rate applies if the Russian company directly owns at least 20% of the capital in the Swiss company and the invested capital exceeds CHF 200,000 at the moment the dividends become due. The zero rate applies if the beneficial owner of the dividends is (i) a pension fund; (ii) the government or subdivision thereof of the other contracting state; or (iii) the Central Bank.
75. The zero rate applies to interbank loans.
76. A most favoured nation clause (introduced by the 2011 protocol) in respect of the minimum holding period requirement may be applicable with respect to interest and royalties.
77. The zero rate applies to copyright royalties, including films, etc. Under the Protocol, the rate on patents, trademarks, designs or models, plans, secret formulas or processes and industrial, commercial and scientific know-how is reduced to 5% (normally 10%) as long as Switzerland, under its domestic law, levies no withholding tax on royalties paid to non-residents. If, however, the recipient company owns directly at least 25% of the capital of the company paying the industrial royalty for an uninterrupted period of 2 years prior to payment of the royalty, the 10% rate is reduced to zero.
78. This rate applies if the beneficial owner is (i) a company (other than a partnership) that holds at least 25% of the capital in the company paying the dividends; or (ii) a pension scheme.
79. The zero rate applies, inter alia, to interest paid (i) by a bank to another bank; and (ii) to a related company that holds at least 25% of the capital in the company paying the interest.
80. The zero rate applies, inter alia, to royalties paid to a related company that holds at least 25% of the capital in the company paying the royalties.
81. The 5% rate applies to payments for services.
82. A most favoured nation clause may be applicable with respect to dividends.
83. A most favoured nation clause may be applicable with respect to royalties.
84. The 5% rate applies to copyright on literary, artistic or scientific work (excluding films, etc.). The 10% rate applies to any patent, trademark, design or model, plan, secret formula or process.
85. The 5% rate applies if the interest is paid in respect of a loan or credit made, guaranteed or insured for the purposes of promoting export by an Eximbank or similar institution, the objective of which is to promote the export.
86. The lower rate applies to industrial royalties.
87. The 7% rate applies if the Vietnamese company owns at least 50% of the capital in the Swiss company. The 10% rate applies in the case of a participation of at least 25% but less than 50%.

7. Anti-Avoidance

7.1. *General*

Federal taxation

A transaction may be disregarded for tax purposes if the following three conditions are fulfilled (article 2 of the ZGB):

- the legal structure used by the taxpayer is abnormal or artificial and has no commercial basis;
- tax considerations are deemed to be the only motive for the transaction; and
- the transaction results in a significant tax benefit for the taxpayer.

According to a decree of the Swiss federal government to avoid tax treaty abuse, a claim for treaty benefits may be considered to be abusive and will not be granted if, through such a claim, a substantial part of the benefits would be enjoyed, directly or indirectly, by persons not entitled to the benefit under the tax treaty (article 2 of the BRB 1962). Examples are:

- abusive transfer of income to non-qualifying persons;
- inappropriate profit distributions;
- fiduciary relationship; and
- foreign-controlled family foundation or partnership.

Cantonal and municipal taxation

The THL contains no general anti-avoidance rules.

7.2. *Transfer pricing*

For the purposes of federal and cantonal taxes, all transactions between related companies must be concluded on an arm's length basis (article 58(1)(b) of the DBG). If not so concluded, the tax authorities may adjust the profits and assess income tax and withholding tax on the adjusted amount. The tax authorities of almost all the cantons adjust the profits in a similar fashion even if the canton itself has no adjustment provision.

If foreign tax authorities adjust the profits of a foreign company affiliated to a Swiss company, the Swiss tax authorities will make a corresponding adjustment to the Swiss company's taxation, unless its assessment has become final.

7.3. *Thin capitalization*

Federal taxation

Interest paid on loan capital that economically has the character of equity capital is not a deductible expense. The tax authorities have issued Circular 6 of 6 June 1997, which indicates the allowed maximum amount of debt in relation to certain assets, e.g. 70% for shareholdings and 70% to 80% for immovable property. Non-deductible interest is recharacterized as dividends for tax purposes.

Cantonal and municipal taxation

Under the THL, interest paid on loan capital that economically has the character of equity capital is not a deductible expense (article 24(1) of the StHG). Non-deductible interest is recharacterized as dividends for tax purposes.

7.4. *Controlled foreign company*

No CFC legislation applies.

8. Value Added Tax

8.1. *General*

Federal taxation

Value added tax is only levied at the federal level (article 130 of the BV). The cantons may not subject transactions that are subject to the federal VAT to cantonal VAT or similar taxes.

VAT is a non-cumulative, multistage tax which provides for the deduction of input tax. Although Switzerland is not an EU Member State, its VAT system was designed in line with the Sixth EU VAT Directive (currently EU Directive 2006/112).

Cantonal and municipal taxation

As described above, VAT is only levied at federal level. The cantons may not subject transactions that are subject to the federal VAT to cantonal VAT or similar taxes.

8.2. *Taxable persons*

The characterization as a taxable person for Swiss VAT purposes depends on the definition of a business. In general, persons who supply goods and services in the course of an independent business are taxable persons for VAT purposes (article 10(1) of the MWSTG). Taxable persons can be individuals, partnerships or companies. Taxable persons with a turnover below CHF 100,000 annually (CHF 150,000 for non-profit sports and cultural associations and certain charitable institutions) may file an application for exemption from the VAT obligations.

In addition, persons liable to customs duty are subject to VAT on the import of goods.

Finally, the import of services rendered by companies who have their business establishment outside the Swiss territory leads to tax liability if a recipient consumes imported services with a total value exceeding CHF 10,000 annually.

8.3. *Taxable events*

VAT is a general tax on the consumption of goods and services. It is levied at all stages of production and distribution, as well as on the importation of goods, domestic services and the importation of services.

The following transactions are taxable (article 1(2) of the MWSTG):

- the supply of goods for consideration;
- the supply of services for consideration;
- private use of goods and services;
- the import of services for consideration; and
- the import of goods.

8.4. *Taxable amount*

The taxable amount is the remuneration paid in cash or in kind in return for the supply of goods and services (article 24(1) of the MWSTG). The taxable amount for the import of goods is, in principle, the remuneration that would have been paid on an arm's length basis. Input tax, i.e. the tax paid on purchases of goods and services, can be deducted. In effect, only the value added is taxed.

8.5. *Rates*

The standard rate is 7.7% (8% before 1 January 2018; article 25(1) of the MWSTG). A reduced rate of 3.7% (3.8% before 1 January 2018) applies to the letting of hotel rooms, holiday homes, guest rooms, camping grounds, etc. (article 25(4) of the MWSTG) A reduced rate of 2.5% applies to certain goods and services, including (article 25(2) of the MWSTG):

- food and beverages, except for alcoholic beverages and services rendered in the hotel or catering sectors;
- medicines; and

- newspapers, magazines, books and certain other printed material.

8.6. *Exemptions*

The law provides for two kinds of exemptions, i.e. an exemption without credit for input tax and an exemption with credit for income tax (zero rating).

The main exemptions without credit are (article 21(2) of the MWSTG):

- services performed in the areas of health, social services and social security;
- education and teaching;
- cultural activities;
- changes in ownership of property and its long-term leasing; and
- supplies in the area of money and finance, e.g. the supply of shares, credit card services, management of certain unit trusts, moneylending (excluding hire purchase and credit sales).

The main exemptions with credit are (article 23(2) of the MWSTG):

- exportation of goods;
- supply of foreign goods temporarily imported into Switzerland; and
- supply of work on movable goods for foreign persons to the extent the goods are exported.

8.7. *Non-residents*

Non-resident entrepreneurs with a turnover in Switzerland in excess of one of the thresholds mentioned in section 8.2.must register for VAT and appoint a VAT representative. Such entrepreneurs can claim back the input VAT directly. Non-resident entrepreneurs without taxable activities in Switzerland are entitled to a refund of the Swiss VAT if their foreign activities would qualify as taxable turnover under Swiss VAT law and if the country of residence grants reciprocal treatment to Swiss entrepreneurs.

9. Miscellaneous Taxes

9.1. *Capital duty*

A 1% federal stamp duty is payable by resident companies upon the issuance of shares or other participation rights and the increase in their nominal value to the extent that the share capital exceeds CHF 1 million (articles 5(1)(a) and 8 of the StG). The taxable amount is equal to the total amount contributed to the company or the value of the shares issued, whichever is higher.

9.2. *Transfer tax*

9.2.1. Immovable property

There are no transfer taxes on immovable property at the federal level. A transfer tax is levied on a change in ownership of immovable property in almost all cantons, usually by the cantons but sometimes only by the municipalities, sometimes by both cantons and municipalities simultaneously. The tax is also levied on the transfer of shares in real estate companies. The tax is usually paid by the purchaser, but in some cases both the purchaser and the seller are subject to tax. The tax is levied on the purchase price at a rate between 1% and 3%.

9.2.2. Shares, bonds and other securities

Transfers of domestic or foreign securities are subject to a transfer duty if one of the parties involved in the transaction is a security broker (article 13(1) of the StG), i.e. banks, professional security dealers and companies with traded securities exceeding a book value of CHF 10 million. The duty is levied at a rate of 0.15% for domestic securities and 0.3% for foreign securities.

9.3. *Stamp duty*

There are no important stamp duties other than the one discussed in section 9.1.

9.4. *Customs duty*

Switzerland levies customs duties on both imports and exports at rates laid down in the customs tariff. Generally speaking, Swiss duties are "specific" rather than "ad valorem". The customs duty varies according to the item imported; the Swiss customs tariff uses the Harmonized System for the classification of goods.

9.5. *Excise duty*

At the federal level, special consumption taxes are levied on the following products:

- tobacco and tobacco products;
- distilled spirits;
- beer;
- automobiles and their components; and
- crude oil, other mineral fuels, natural gas and products obtained through refining them, and motor fuels.

Some cantons levy excise taxes on various minor items.

SWITZERLAND

This chapter is based on information available up to 15 January 2018.

Abbreviations

Abbreviation	*English definition*	*German definition*
AHVG	Old-Age and Survivors' Insurance Law	Bundesgesetz über die Alters- und Hinterbliebenenversicherung
AVIG	Unemployment Insurance Law	Bundesgesetz über die obligatorische Arbeitslosenversicherung und die Insolvenzentschädigung
BV	Swiss Constitution	Bundesverfassung
BVG	Occupational Old-Age, Survivors' and Disability Insurance Law	Bundesgesetz über die berufliche Alters-, Hinterbliebenen- und Invalidenversicherung
DBG	Federal Direct Tax Law	Bundesgesetz über die direkte Bundessteuer
DBG-F	Ordinance regarding due date and rate of interest applicable to federal direct taxes	Verordnung über Fälligkeit und Verzinsung der direkten Bundessteuer
EOG	Income Compensation Law for Persons Serving in the Army and Women on Maternity Leave	Bundesgesetz über die Erwerbsersatzordnung für Dienstleistende und bei Mutterschaft
ExpaV	Ordinance regarding particular deduction granted to expatriates	Verordnung über den Abzug besonderer Berufskosten bei der direkten Bundessteuer von vorübergehend in der Schweiz tätigen leitenden Angestellten, Spezialisten und Spezialistinnen
IVG	Disability Insurance Law	Bundesgesetz über die Invalidenversicherung
StHG	Federal Tax Harmonization Law	Bundesgesetz über die Harmonisierung der direkten Steuern der Kantone und Gemeinden

Introduction

Federal taxation

Switzerland consists of the Swiss Federation, 26 sovereign cantons and approximately 2,300 independent municipalities. According to the Swiss constitution, the cantons have fiscal sovereignty and full right of taxation, except for particular sources that are allotted to the federal government. The cantons' right of taxation may also be limited by tax treaties concluded between the Swiss Federation and other states.

As a consequence of the Swiss tax system, double taxation may occur in Switzerland both in intercantonal and international relations. Intercantonal double taxation conflicts are solved both on the basis of the jurisdiction of the Federal Supreme Court and on the basis of the Federal Tax Harmonization Law. For international double taxation problems, *see* section 6.

At the federal level, individual taxpayers are subject to income tax and social security contributions. For VAT, *see* Corporate Taxation section 8. For details on the cantonal taxes, *see* the separate descriptions per canton.

Cantonal and municipal taxation

Cantonal and municipal taxes account for a significant part of the total tax burden in Switzerland. According to the Swiss constitution, the cantons have fiscal sovereignty and full right of taxation, except for particular sources that are allotted to the federal government. The cantons' right of taxation may also be limited by tax treaties concluded between Switzerland and other states.

Furthermore, to harmonize the cantonal and municipal income taxation, the Federal Parliament enacted the Tax Harmonization Law (THL) on 14 December 1990. The law entered into force on 1 January 1993, and the cantons and municipalities had to bring their legislation into line with the law by 1 January 2001. The THL is a skeleton law, which contains provisions on tax liability, taxable income, deductions and assessment procedures. The cantons remain free to set their tax rates.

The currency is the Swiss franc (CHF).

In this chapter, where necessary, a section may contain subheadings that explain the different tax treatment at the federal and (general) cantonal and municipal level of an item of income. Where no subheadings are used, there is no discernible difference in the tax treatment at both levels.

1. Individual Income Tax

1.1. *Taxable persons*

Both at the federal level, and at the cantonal level, the following rules apply: An individual is subject to unlimited tax liability as a resident if he has his residence or temporary residence in Switzerland (article 3(1) of the DBG). The criterion used to determine residence is the intention of the individual to stay in Switzerland permanently. To determine such intention, the tax authorities look at the centre of the individual's personal and business interests. Temporary residence is the case where an individual (i) stays in Switzerland during at least 30 days to carry out a professional activity or (ii) stays in Switzerland during at least 90 days without carrying out a professional activity.

Individuals with an enterprise, a permanent establishment or an immovable property situated in Switzerland are subject to limited tax liability in Switzerland. Furthermore, trading with immovable property situated in Switzerland leads to limited tax liability.

Non-Swiss residents are subject to limited tax liability to the extent they:

- exercise a gainful activity in Switzerland;
- receive remuneration for the administration or the management of legal entities with a seat or permanent establishment situated in Switzerland;
- are creditors or usufructuaries of claims secured by mortgage on immovable property situated in Switzerland;
- receive from an employer or from a pension institution situated in Switzerland old-age pension payments or similar payments based on an employment under public law;
- receive certain social distributions from Swiss institutions under private law or from tax-preferred savings plans; or

- receive employment income from international shipping, road or air transport paid by a company that is resident or that has a permanent establishment in Switzerland.

The income of husband and wife is aggregated for taxation purposes (article 9 of the DBG). Investment income of a minor child is added to the parents' income, while the child's earned income as well as the child's gain realized on the disposal of immovable property is assessed separately.

Partnerships are transparent for tax purposes, each partner being taxed individually (article 10 of the DBG).

1.2. *Taxable income*

1.2.1. General

Both at the federal level, and at the cantonal level, the following rules apply: resident individuals are subject to tax on their worldwide income (article 6(1) of the DBG). Income from a business carried on abroad, from a foreign permanent establishment and from foreign-situs immovable property is exempt from income tax but is taken into consideration in determining the tax rates (exemption with progression). The concept of taxable income is wide. It includes four categories of income (articles 16-23 of the DBG):

- earned income, including employment income as well as business and professional income;
- investment income;
- social security payments; and
- income from other sources.

The rental value of an owner-occupied dwelling is taxable (valuation is made by the cantonal tax authorities).

1.2.2. Exempt income

Both at the federal level, and at the cantonal level, the following types of income are exempt (article 24 of the DBG):

- interest on savings accounts, up to certain amounts;
- inheritances, gifts and matrimonial property rights;
- proceeds from capital insurance (subject to conditions);
- subsidies paid from private or public sources;
- damages for mental or physical pain suffered; and
- supplementary payments from old-age, survivors' and disability insurance.

1.3. *Employment income*

The THL does not provide for any regulations for employment income. The sections described below only relate to the taxation of employment income at the federal level.

1.3.1. Salary

Wages and salaries are any payments for work performed in a dependent position. Necessary work-related expenses are deductible. These include (article 26 of the DBG):

- travel expenses: usually costs of public transport or, if the use of a car is necessary, CHF 0.70 per km. A limitation of CHF 3,000 applies on federal level;
- additional food expenses if the taxpayer cannot eat at home: up to CHF 3,200 per year;
- expenses of weekly commuters:
  - accommodation: rental costs for a one-room apartment;
  - food: up to CHF 6,400 per year; and
  - travel: costs of travel between home and weekly accommodation, and between weekly accommodation and working place; and
- other expenses: (tools, books, working clothes): 3% of net salary (minimum deduction CHF 2,000; maximum CHF 4,000).

Moving costs are not deductible. Reimbursements of moving costs by the employer are taxable.

1.3.2. Benefits in kind

Basically, all benefits in kind are included in employment income at their market value (article 25 of the DBG). These include:

- goods received free of charge;
- benefits from employee stock plans and stock option plans;
- gifts received on the occasion of marriages and childbirth;
- jubilee (anniversary) premiums;
- child care or education expenses of children paid by the employer;
- voluntary contributions to employee social insurance plans; and
- company cars.

Other benefits in kind, such as free theatre and concert tickets, fees for further education of any kind, membership fees of professional associations and subscriptions to newspapers and periodicals, are not taxed in the hands of the employee if they are connected to the employer's business and are offered to all employees or groups of employees.

1.3.3. Pension income

In general, contributions to state pension plans and employment pension plans are fully deductible, and benefits received under such pension plans are fully subject to income tax (articles 22 and 33(1)(d-f) of the DBG). However, contributions to employment pension plans have only been deductible since 1987 and, therefore, certain payments from old employment pension plans are only taxed for 60% to 80%.

Premiums for health insurance, private accident and life insurances (as well as interest received from savings accounts) are deductible up to CHF 1,700 per year for a single taxpayer and CHF 3,500 for a married couple, plus CHF 700 for each minor child or dependent person in need (article 33(1)(g) of the DBG), if the taxpayer pays premiums for the old age, survivors' and disability insurance, for the additional occupational pension fund or to voluntary savings plans (*see* section 3.). If no such premiums are paid, single taxpayers may deduct CHF 2,550 and married taxpayers CHF 5,250 (article 33(1bis) of the DBG).

Accrued capital amounts based on pension insurance paid by the employer or by a pension fund in the case of a change of work are exempt from income tax to the extent they are reinvested within 1 year in a pension fund.

1.3.4. Directors' remuneration

Remuneration paid to non-executive directors, i.e. persons who are only members of the supervisory board, is taxed as employment income (article 17 of the DBG). Social security contributions are due on such payments (*see* section 3.).

1.4. *Business and professional income*

Both at the federal level, and at the cantonal level, the following rules apply: "Business income" is defined as income from activities exercised with the intention of earning profits by participating in the commercial market (article 18(1) of the DBG). Professional income includes income derived by architects, engineers, entertainers, artists, attorneys, etc. (article 18 of the DBG). Both business and professional income fall under the earned income category as self-employment income. Self-employment means any activity performed on one's own account and risk.

Taxable income from self-employment is the difference between equity at the end and at the beginning of the financial year, increased by the sum of private withdrawals and decreased by the sum of contributions. Self-employment income consists not only of profits from current activities, but also of capital, liquidation and revaluation gains. Gains are only determined on the basis of fluctuation in the business net worth. Private net wealth is excluded. The transfer of assets from business to private use is considered as alienation and is as such subject to income tax, i.e. hidden reserves are subject to taxation. Assets are allocated to the business if they are acquired and actually used for the purpose of the business. If they are in use for both business and private purposes, the taxation follows the predominant use.

All income-related expenses are deductible (articles 27-31 of the DBG). These include expenses for goods, wages, salaries, costs for premises, interest, maintenance costs for assets, premiums for social security and other insurances, public fees, taxes, material, administration costs, etc. Depreciation of assets used in the activity, calculated in line with reasonable commercial practice, is a deductible expense.

1.5. *Investment income*

Federal taxation

Income from immovable property is taxed as any other income (article 32(2) of the DBG). Actual maintenance costs or a lump sum may be deducted. The rental value of an owner-occupied dwelling is taxable. The valuation is made by the cantonal tax authorities taking into account the local conditions and the effective use of the dwelling by the taxpayer.

Participations of at least 20% in the capital of a company acquired with private assets may be declared as business assets at the time of acquisition. As a consequence, interest paid for the acquisition of such a participation is deductible as a business expense.

Until 31 December 2008, dividends and other profit distributions, including hidden profit distributions, were fully taxable. Tax withheld (*see* section 1.9.2.) was creditable against the taxpayer's final tax liability. With effect from 1 January 2009, only 60% of the dividends or similar profit distributions on a qualifying participation (at least

10% of the capital) held as a private asset is taxed at the ordinary rates (article 20(1bis) of the DBG). In case the qualifying participation is held as a business asset by the individual, the percentage of dividends taxed is 50%.

Interest, whether paid as a percentage on the capital or as a profit-share, including any payment made in addition to or in lieu of interest is taxable income (article 20(1)(a) of the DBG). Also deemed interest, i.e. the difference between an obligation's nominal value and its redemption price, is taxable. Interest paid in addition to the nominal value of insurances with single premiums is treated as taxable income if the insurance has existed for less than 5 years and the assured person has not reached the age of 60.

Royalties, i.e. payments for the use of, or the right to use, intellectual property, are usually business income (article 20(1)(f) of the DBG). They are deemed investment income only if the rights are part of the taxpayer's private net wealth. Compensation received for a decrease in the value of an intellectual property right is exempt from tax.

Cantonal and municipal taxation

Participations of at least 20% in the capital of a company acquired with private assets may be declared as business assets at the time of acquisition (article 18(2) of the DBG). As a consequence, interest paid for the acquisition of such a participation is deductible as a business expense. Many cantons apply a partial relief mechanism with respect to dividends from substantial holdings.

1.6. *Capital gains*

Federal taxation

Capital gains, including those on immovable property, are not subject to federal income tax if the asset has been held as a private asset (article 16(3) of the DBG).

Capital gains derived in the course of a business are fully taxable at the ordinary rates (article 18(2) of the DBG). An exception applies to capital gains from the alienation of qualified shareholdings (at least 10% of the capital). Only 50% of such gains is taxed if the shares have been held for at least 1 year.

Rollover relief is granted where fixed assets are replaced within Switzerland. If the replacement does not take place in the same financial year, a reserve in the amount of the hidden reserves may be formed. This reserve is used to write off the replacement asset within an appropriate period; otherwise, the reserve will be added to taxable income.

Where a sole proprietor or a partnership reorganizes the business by way of a merger, a division of the partnership or by incorporating the existing business, the hidden reserves are not added to taxable income if they are part of the going concern, the book values are not changed, the entities involved remain taxable in Switzerland and, in the following 5 years, the rights in the partnership are not sold at a price over the book value of the net assets.

Cantonal and municipal taxation

Capital gains are taxed differently, depending on whether they are realized on personal or business property and on movable or immovable property. Gains on movable business property are generally subject to the ordinary income tax (article 8(1) of the StHG); many cantons, however, apply a partial relief mechanism in the case of the

alienation of substantial holdings. Gains on movable personal property are exempt from cantonal income tax (article 7(4)(b) of the StHG). For gains on immovable property, *see* below.

For rollover relief, *see* above under Federal Taxation.

Immovable property

The cantons may apply one of the following systems for the taxation of capital gains on immovable business property. In both systems, capital gains on personal immovable property are subject to a separate real estate gains tax. The taxable base is generally the sales price less the acquisition cost and less the improvement cost. The cantons may fix the rate of this tax, but the tax must decline with an increasing period of ownership.

According to the *monistic system* (Zurich-system), the same rules apply also to immovable business property. In addition, recaptured depreciation (the difference between the book value and the acquisition costs) is subject to income tax.

According to the *dualistic system* (St. Gallen-system), all capital gains on business property, including immovable property, are fully subject to income tax. The taxable base is the sales proceeds less the book value.

The cantons are obliged to levy higher taxes on short-term capital gains on immovable property (article 12(5) of the StHG).

Furthermore, no real estate gains tax is levied and rollover relief is granted in the case of (article 12(3) of the StHG):

- changes of ownership due to inheritance, legacy or donation;
- changes of ownership between spouses due to matrimonial property rights;
- replacements of agricultural immovable property; and
- replacements of an owner-occupied dwelling within Switzerland.

1.7. *Personal deductions, allowances and credits*

1.7.1. Deductions

Federal taxation

For expenses directly related to a particular type of income, *see* sections 1.3.to 1.5.

Interest on loans, including mortgage interest, is fully deductible for business purposes (article 27(1) of the DBG). Interest related to private assets is limited to the aggregate income from movable and immovable assets plus CHF 50,000.

Alimony and maintenance payments to divorced or separated spouses and to children are deductible (and subject to income tax for the recipient) (article 33(1)(c) of the DBG). However, a non-recurring monetary compensation payment to the recipient in lieu of periodically paid alimony is not deductible.

Expenses paid by the taxpayer because of his sickness or accident, or that of a person maintained by him, are deductible if they exceed 5% of his taxable income (article 33(1)(h) of the DBG). Expenses caused by invalidity are fully deductible. Donations to tax-exempt charitable organizations resident in Switzerland are deductible up to 20% of the taxable income.

Other deductions include (articles 33(1)(i) and (j), 33(2) and 33(3) of the DBG):

- further education expenses: up to CHF 12,000;
- contributions and donations paid to political parties: up to CHF 10,100;
- deduction for both spouses working: 50% on the lower salary but at least CHF 8,100 and limited to CHF 13,400; and
- childcare costs: up to CHF 10,100 per child under the age of 14.

Cantonal and municipal taxation

According to the THL, all expenses that are necessary in order to realize taxable income are deductible (article 9(1) of the StHG). It contains no further details concerning employment and investment income. Self-employed persons may deduct all costs related to their business or profession, including depreciation and contributions to provisions for liabilities and to pension funds for personnel.

Other deductions include:

- social security contributions and contributions to approved savings plans;
- premiums for health, private accident and life insurances up to certain limits (set by the cantons); and
- alimony and maintenance payments to divorced and separated spouses and to children (such payments are taxable for the recipient).

Interest paid on loans, including mortgage loans, is fully deductible for business purposes. The deductibility of interest related to private assets is limited to the aggregate income from movable and immovable assets plus CHF 50,000.

1.7.2. Allowances

Federal taxation

A taxpayer may annually deduct CHF 6,500 for (article 35(1) of the DBG):

- each child under 18 years of age who is supported by the taxpayer;
- each child older than 18 years who is studying or learning a trade and who is supported by the taxpayer; and
- each other person incapable of gainful employment who is supported by the taxpayer, provided that such support amounts to at least CHF 6,500 per year.

For married couples and registered couples of the same sex, an additional deduction of CHF 2,600 is granted.

Cantonal and municipal taxation

The cantons may determine personal allowances.

1.7.3. Credits

The withholding (or anticipatory) tax of 35% levied on dividends and interest is credited against the tax due (article 21 of the VStG) (*see* section 1.9.2.).

1.8. *Losses*

Federal taxation

Business losses may be carried forward for 7 years (article 31(1) of the DBG). No carry-back is allowed.

Cantonal and municipal taxation

The general rule applies (*see* above under Federal Taxation).

In addition, losses on the sale of immovable property may normally be set off against business income (and vice versa) only when the St. Gallen-system applies (*see* section 1.6.). When an individual moves his place of business from one canton to another, the other canton must take over, for cantonal tax purposes, the losses suffered from 1 January 2001 in the first canton.

1.9. *Rates*

1.9.1. Income and capital gains

Federal taxation

At the federal level, the total tax burden on income is limited to 11.5% by the Swiss constitution (article 128(1)(a) of the BV).

The following rates apply in 2018 to married couples and registered couples of the same sex living together, and to widowed, separated, divorced or single persons living with children who are minor or studying at their expense (article 36(2) of the DBG):

Taxable income (CHF)			*Tax on lower amount (CHF)*	*Rate on excess (%)*
First		28,300	-	-
28,300	-	50,900	-	1
50,900	-	58,400	226	2
58,400	-	75,300	376	3
75,300	-	90,300	883	4
90,300	-	103,400	1,483	5
103,400	-	114,700	2,138	6
114,700	-	124,200	2,816	7
124,200	-	131,700	3,481	8
131,700	-	137,300	4,081	9
137,300	-	141,200	4,585	10
141,200	-	143,100	4,975	11
143,100	-	145,000	5,184	12
145,000	-	895,800	5,412	13

If the taxable income exceeds CHF 895,800 a flat rate of 11.5% applies to the whole income.

For other taxpayers, the 2018 rates are (article 36(1) of the DBG):

Taxable income (CHF)			*Tax on lower amount (CHF)*	*Rate on excess (%)*
First		14,500	-	-
14,500	-	31,600	-	0.77
31,600	-	41,400	131.65	0.88
41,400	-	55,200	217.00	2.64
55,200	-	72,500	582.20	2.97
72,500	-	78,100	1,096.00	5.94
78,100	-	103,600	1,428.60	6.60
103,600	-	134,600	3,111.60	8.80

Taxable income (CHF)			*Tax on lower amount (CHF)*	*Rate on excess (%)*
134,600	-	176,000	5,839.60	11.00
176,000	-	755,200	10,393.60	13.20

If the taxable income exceeds CHF 755,200, a flat rate of 11.5% applies to the whole income.

Capital gains are only subject to federal income tax if they are derived in the course of a business, in which case the normal rates apply.

Cantonal and municipal taxation

The cantons may set their own tax rates. However, unseparated spouses as well as widowed, separated, divorced and single taxpayers maintaining children or needy persons must be taxed more leniently than other taxpayers. Therefore, the cantonal laws provide for tax reductions by way of reduced tax rates or by way of reductions in the tax burden.

Capital lump-sum payments in lieu of recurrent payments are taxed separately. However, to determine the applicable tax rate the total yearly income is taken into consideration. Lump-sum payments from social care institutions and payments in the case of death or injury are taxed separately.

Only resident foreign nationals without a permanent residence permit are subject to withholding tax on wages and salaries. Lump-sum deductions are granted. The wages tax is final up to a ceiling, which must be set by the cantons. If the income is higher, the normal assessment procedure applies.

1.9.1.1. Tax rebate for children and dependent persons

Taxpayers living in the same household with children or dependent persons are granted a tax rebate of CHF 251 for each child or dependent person predominantly supported by the taxpayer (article 36(2bis) of the DBG).

1.9.2. Withholding taxes

Federal taxation

A withholding tax on wages and salaries is levied on remuneration earned by foreign employees with residence or temporary residence in Switzerland (but who do not have the permanent residence permit; Permit C; article 83-90 of the DBG) as long as they are not married either to a person who is a Swiss national or to a person who has the Permit C, and as long as they receive their salary from a Swiss employer. Lump-sum deductions for employment expenses, insurance premiums or family deductions are granted.

The tax is withheld at the rates applicable for individual income tax plus the appropriate cantonal withholding tax rates. The withholding tax is normally a final tax. However, if the gross income exceeds CHF 120,000, a taxpayer may apply for an ordinary assessment and any tax withheld is credited against the final tax liability.

A withholding tax of 35% is levied on dividends, interest and other yields realized (articles 4(1) and 13(1)(a) of the VStG):

- on bonds issued by Swiss residents;
- on shares or jouissance rights in resident stock companies, limited liability companies and cooperatives;
- on savings accounts; and

- on investments in Swiss investment funds unless the return on the investment is paid by way of a coupon.

The debtor must deduct the tax from the amount due. The withheld amount is credited against the recipient's final tax liability.

For withholding taxes imposed on non-residents, *see* section 6.3.

Cantonal and municipal taxation

A withholding tax on wages and salaries is levied on remuneration earned by foreign employees with residence or temporary residence in Switzerland (but who do not have the permanent residence permit; Permit C; article 83-90 of the DBG) as long as they are not married either to a person who is a Swiss national or to a person who has the Permit C, and as long as they receive their salary from a Swiss employer. Lump-sum deductions for employment expenses, insurance premiums or family deductions are granted.

The tax is withheld at the rates applicable for individual income tax plus the appropriate cantonal withholding tax rates. The withholding tax is normally a final tax. However, if the gross income exceeds CHF 120,000, a taxpayer may apply for an ordinary assessment and any tax withheld is credited against the final tax liability.

1.10. *Administration*

Federal income tax is levied and collected by the cantonal tax authorities.

1.10.1. Taxable period

Under the current-year assessment, the assessment period is 1 year (article 40(1) of the DBG). Tax is then computed on income of the current year.

1.10.2. Tax returns and assessment

Apart from those taxpayers with no other income than that subject to the withholding tax on wages (*see* section 1.9.2.), all taxpayers must file a tax return at the beginning of each assessment period. Tax returns in general have to be filed by the end of March or April following the tax year, depending on the canton (article 124(2) of the DBG). An extension of the time limits may be requested. Married couples must file a joint tax return. Most of the procedural rules (e.g. concerning the deadline for filing income tax returns and for the payment of taxes) are cantonal.

1.10.3. Payment of tax

Taxes charged in a tax assessment (i.e. federal, cantonal and municipal income taxes) become due upon demand (article 3(1) of the DBG-F). Income taxes are usually invoiced and due before the assessment is legally binding. Amounts paid are credited against the tax due according to the binding assessment. Excess payments are refunded. The payment of tax is normally governed by cantonal law. The Federal Ministry of Finance fixes a general due date. Tax is collected by the cantonal tax authorities.

1.10.4. Rulings

There are no explicit provisions concerning advance rulings in federal income tax law, but advance rulings are possible in practice. An advance ruling is binding for the tax authorities provided that all the relevant facts have been disclosed.

2. Other Taxes on Income

Federal taxation

No other federal income taxes are imposed.

Cantonal and municipal taxation

Within its sovereignty (*see* Introduction), a canton is not only free to levy taxes based on its cantonal tax law, but also to organize the inter-cantonal tax collection. The right of the municipalities to levy taxes is delegated by the cantons. Where municipal tax laws exist, they must be in line with the THL. Only a few municipalities, however, levy taxes based on their municipal tax laws; in general, they levy taxes by way of surcharges on the cantonal taxes.

For an overview of the income taxes levied by the cantons and municipalities.

3. Social Security Contributions

Federal taxation

Swiss social security is provided by way of:

- old age, survivor (widows, widowers and, in some cases, orphans) and disability insurance;
- health and accident insurance; and
- unemployment insurance.

In the case of employees, including foreign workers, the contributions are shared between the employer and the employee. The employer withholds the employee's contribution. The taxable base is the gross salary; no ceiling amounts apply (except for unemployment insurance).

The rates for the employee contributions (i.e. one half of the total rates) are (article 6 of the AHVG, article 3 of the AVIG, article 3 of the IVG and article 27(2) of the EOG):

Contribution for	*Rate (%)*
Old-age and survivor insurance	4.20
Disability insurance	0.70
Unemployment insurance	1.1[1]
Military service, civil service and maternity compensation	0.225
Total	6.225

1. The maximum contribution is CHF 1,630.20. In addition, a contribution to unemployment insurance is levied on income in excess of CHF 148,200. The rate for this additional contribution is 0.5%.

All employees older than 24 years with an annual salary higher than CHF 21,150 are covered by an obligatory old-age insurance (employment pension plan). The base for the premiums is the annual salary less CHF 24,675 up to a maximum base of CHF 59,925 (i.e. an annual coordinated salary of CHF 84,600 (CHF 24,675 + CHF 59,925) applies). The part of the salary exceeding CHF 84,600 is, in general, not insured. Private insurance companies may, however, insure higher salaries. The rates on the coordinated salary vary according to the age of the insured as follows (article 16 of the BVG):

Age of insured	*Rate (%)*
25 - 34	7
35 - 44	10
45 - 54	15
55 - 65	18

Voluntary savings plans are recognized by the state as part of the social security system, and are as such subject to a special tax treatment. Contributions to such plans are deductible from taxable income up to CHF 6,768 for taxpayers contributing to an employment pension plan (*see* above) and CHF 33,840 for other taxpayers.

The general rates of contributions payable by the self-employed are (article 8 of the AHVG, article 3 of the IVG and article 27(2) of the EOG):

Contribution for	*Rate (%)*
Old-age and survivors' insurance	7.8
Disability insurance	1.4
Military service, civil service and maternity compensation	0.45
Total	9.65

Lower rates apply for self-employed persons with a gross income between CHF 9,400 and 56,400 per year.

All the above-mentioned social security contributions are deductible for income tax purposes.

A health insurance is mandatory for all residents. The insured individual is free to choose the insurance company. The health insurance covers costs in the case of sickness, maternity and accidents. The premiums vary depending on the insurance company, on the place of residence of the individual, on his age and on the risks covered by the insurance. The premiums are deductible for income tax purposes.

Cantonal and municipal taxation

The THL does not deal with social security contributions.

4. Taxes on Capital

4.1. Net wealth tax

Federal taxation

No net wealth tax is levied at the federal level.

Cantonal and municipal taxation

The cantons are obliged to levy a net wealth tax (article 2(1)(a) of the StHG). For the definition of taxable person, *see* section 1.1. The net wealth of husband, wife and their children is aggregated for tax purposes.

The taxable base is the fair market value of a taxpayer's assets (article 14(1) of the StHG). Intellectual property and movable property (except securities) belonging to the business are valued according to the regulations applicable to income tax. Usufruct of movable and immovable property is taxed in the hands of the usufructuary. Household goods and personal articles of daily use are exempt.

The rates for the net wealth tax are set by the cantons.

4.2. *Real estate tax*

Federal taxation

There is no federal real estate tax. Real estate taxes are levied in some cantons either at the cantonal or municipal level.

Cantonal and municipal taxation

There are no regulations regarding real estate tax in the THL. The cantons are free to levy such a tax.

5. Inheritance and Gift Taxes

Federal taxation

There are no federal inheritance or gift taxes.

Cantonal and municipal taxation

Most of the cantons levy inheritance and gift taxes.

6. International Aspects

6.1. *Resident individuals*

Federal taxation

For the concept of residence, *see* section 1.1.

Cantonal and municipal taxation

For the concept of residence, *see* section 1.1.

If Switzerland has no tax treaty with another country, the cantons may, on the basis of unlimited tax liability, levy taxes on income derived by their residents from that country and on capital owned by their residents in that country. This may result in double taxation. (However, it should be noted that income from an enterprise, permanent establishment or immovable property located abroad is exempt, as is capital pertaining to such enterprise or permanent establishment.) If Switzerland has a tax treaty with another country, the cantons are bound by the provisions of the treaty.

Intercantonal aspects

Where a taxpayer is a resident of a canton, but works in another canton, double taxation may result due to unlimited tax liability in both of the cantons (*see* section 1.1.). The THL does not provide for any solution of such a conflict. The problem is solved by the jurisdiction of the Swiss Supreme Court: different material and immaterial criteria are taken into consideration to determine the centre of vital interest, such as the civil status, the residence of the family and the friends, the taxpayers' relation to the conflicting residences, etc.

Individuals resident in a canton with an enterprise, a permanent establishment or immovable property in another canton are subject to income tax and net wealth tax of the other canton on the income and the assets of the enterprise, permanent establishment or immovable property situated in that other canton (article 4(1) of the StHG). For the rollover relief, *see* section 1.6.

6.1.1. Foreign income and capital gains

Resident individuals are taxable on worldwide income. Income derived by residents from foreign businesses, foreign permanent establishments and foreign-situs property is exempt from income tax but it must be declared for the determination of the tax rates (exemption with progression).

A Swiss resident may set off losses of a foreign permanent establishment against income realized in Switzerland. However, if the permanent establishment realizes income within the next 7 years, the tax assessment will be revised according to the income realized in the state of the permanent establishment. Thus, losses of the permanent establishment are taken into consideration only to determine the applicable rate.

6.1.2. Foreign capital

Federal taxation

No federal net wealth tax is levied. The cantons and municipalities levy net wealth taxes.

Cantonal and municipal taxation

Net wealth taxes are levied by the cantons (*see* section 4.1.).

6.1.3. Double taxation relief

The following unilateral measures for the avoidance of double taxation apply both on the federal and cantonal level (article 32(1) of the StHG):

- exemption with progression of income and capital gains from businesses, permanent establishments and immovable property located abroad; and
- deduction of foreign withholding taxes from foreign-source dividends and interest before they are included in taxable income.

As a rule, all double taxation treaties provide for the exemption method. However, in most of the treaties a tax credit is granted on request for foreign withholding taxes levied on dividends, interest and royalties.

For the tax treaties in force, *see* Corporate Taxation section 6.3.5.

6.2. *Expatriate individuals*

6.2.1. Inward expatriates

Federal taxation

A tax relief regime for expatriates working in Switzerland applies by virtue of an ordinance of the Federal Ministry of Finance. Qualifying expatriates are foreign managers and certain specialists (e.g. IT specialists) seconded by foreign employers for a temporary stay (article 1(1) of the ExpaV). Such persons may deduct all non-reimbursed costs caused by their stay in Switzerland, e.g. travel costs, moving costs, accommodation costs, housing costs of a residence abroad and special school costs for minor children if there is no public school offering an adequate school programme. The taxpayer may claim a lump-sum deduction of CHF 1,500 a month in lieu of actual costs (apart from school costs).

Individuals without any gainful activity who become resident (or temporary resident) for the first time, or after an absence from Switzerland of at least 10 years, can apply for taxation based on their assumed annual living expenses (article 14 of the DBG). In general, such taxation may only be for the period from taking up residence to the end

of the current tax period. For foreign nationals, such taxation can be extended beyond the current tax period until the foreigner either receives Swiss nationality or begins to work in Switzerland. In practice, the taxable base is negotiated with the tax authorities. The minimum base is either (i) 7 times the rent or rental value of the taxpayer's dwelling, or (ii) 3 times the annual cost of lodging if the taxpayer lives in a hotel or similar accommodation, or (iii) the minimum tax base of CHF 400,000 (for federal tax purposes). However, the tax computed on this basis may not be lower than the tax computed on income from certain Swiss sources and on foreign income in respect of which the taxpayer has applied for a refund, reduction or exemption for foreign taxes under a tax treaty.

Cantonal and municipal taxation

Apart from the taxation on annual living expenses, no special rules apply for inward expatriates at the cantonal level.

6.2.2. Outward expatriates

An individual who leaves Switzerland generally loses his Swiss residence for tax purposes. Where, however, the individual stays frequently in Switzerland or plans to return to Switzerland in the near future, the Swiss residence is not lost until the acquisition of a new residence is proven (article 3(2) of the DBG).

6.3. *Non-resident individuals*

For the concept of residence, *see* section 1.1.

6.3.1. Taxes on income and capital gains

Federal taxation

Non-residents are subject to Swiss federal income tax with respect to certain Swiss-source income only. Non-residents are subject to Swiss federal income tax only if they (article 4(1) of the DBG):

- own, participate or have a usufruct in a Swiss company;
- have a permanent establishment in Switzerland;
- have a right in immovable property located in Switzerland; or
- trade in immovable property located in Switzerland.

Non-residents are not entitled to the personal deductions and allowances (*see* section 1.7.). The rate of income tax is determined by taking into account the total worldwide income of the non-resident taxpayer (losses are not taken into account). Married non-residents may apply the tax table for married persons (*see* section 1.9.1.).

A federal withholding tax of 35% is levied on the gross amount of dividends distributed to non-residents by resident companies and investment funds, and on interest received by non-residents from bonds issued by Swiss debtors and from deposits with banks (articles 4(1) and 13(1)(a) of the VStG). No additional tax is levied at the cantonal level. The federal withholding tax is subject to a partial or full refund based on an applicable double taxation convention. For tax rates on dividends and interest under tax treaties, *see* Corporate Taxation section 6.3.5..

The Agreement ("Savings Agreement") between the European Union and the Swiss Confederation provides for measures equivalent to those laid down in the EU Savings Directive (2003/48). Accordingly, all interest payments from non-Swiss sources made by paying agents established in Switzerland to beneficial owners resident in EU

Member States are subject to a retention tax of 35%. The rate of the tax was 15% from 1 July 2005 until 30 June 2008 and 20% from 1 July 2008 until 30 June 2011. Switzerland provides for a procedure which allows the beneficial owner to avoid the retention by expressly authorizing his paying agent in Switzerland to report the interest payments to the competent authority of the state in which the beneficial owner is resident. Furthermore, the Savings Agreement provides for the exchange of information as regards any conduct constituting tax fraud under the laws of the requested state.

The following types of Swiss-source income received by non-residents are subject to a federal withholding tax, but may also be subject to cantonal taxes (articles 91-97a of the DBG):

- employment income (*see* section 1.9.2.);
- remuneration paid for services performed by non-resident artists, sportsmen and lecturers, at progressive rates between 0.8% and 7% depending on the actual daily payment (a lump-sum deduction of 20% of the remuneration is granted for expenses);
- directors' fees, at 5% of gross income;
- pension payments related to a former employment, at 1% of gross income; and
- interest on loans secured by immovable property located in Switzerland, at 3% of gross income.

Cantonal and municipal taxation

Non-residents are subject to Swiss cantonal income taxes with respect to certain Swiss-source income only. In general, such income is subject to taxation by withholding.

According to the THL, withholding taxes must be levied by the cantons on the following income of non-residents of Switzerland (article 35 of the StHG):

- employment income realized in the canton and employment income from international shipping or air transport paid by a company that is resident or has a permanent establishment in the canton;
- remuneration paid for services performed in the canton by non-resident artists, sportsmen and lecturers;
- directors' fees and similar payments by a company that is resident or has a permanent establishment in the canton;
- pension payments related to past employment and paid to non-residents by a cantonal institution; and
- interest on loans secured by immovable property located in the canton and paid to non-resident creditors.

Business income derived by non-residents of Switzerland (and of a canton) from cantonal enterprises, permanent establishments and from immovable property in the canton is subject to normal income taxation by assessment. The rate of tax is determined by taking into account the total worldwide income and property of the non-resident taxpayer.

6.3.2. Taxes on capital

Federal taxation

No net wealth tax or real estate tax is levied at the federal level.

Cantonal and municipal taxation

Net wealth taxes are levied at the cantonal and municipal level.

6.3.3. Inheritance and gift taxes

Federal taxation

There are no federal inheritance or gift taxes.

Cantonal and municipal taxation

For cantonal inheritance and gift taxes, *see* section 5.

6.3.4. Administration

Non-residents deriving income from a Swiss business, permanent establishment or immovable property must file a tax return (*see* section 1.10.). All other types of taxable income are taxed by final withholding (*see* section 6.3.1.).

KEY FEATURES

Last reviewed: **29 January 2018**

A. General information	
Sources of tax law	Federal Direct Tax Act (*direkte Bundessteuer*) Cantonal Tax Act (*Kantonales Steuergesetz*)
Main types of business entities	Stock company (*Aktiengesellschaft*, AG) Limited liability company (*Gesellschaft mit beschränkter Haftung*, GmbH) Cooperative (*Genossenschaft*) Stock company with unlimited partners (*Kommanditaktiengesellschaft*, KAG)
Accounting principles	IAS/IFRS/Swiss GAAP
Currency	Swiss franc (CHF)
Foreign exchange control	No
Official websites	Federal Authorities http://www.admin.ch/
B. Direct taxation: Companies	
1. Resident companies	
Residence	A corporation is resident in Switzerland if it has its legal seat (registered office) or place of effective management in Switzerland
Tax base	Worldwide
Corporate tax rates	8.5% (effective rate 7.83% if the deductibility of the federal tax due is taken into consideration)
Alternative minimum tax	No
Capital gains	Part of business income Participation relief if minimum 10% capital holding
Loss carry-forward	yes, for 7 tax years
Loss carry-back	No
Unilateral double taxation relief	Yes, exemption (income from a business, PE or immovable property located abroad) method and deduction method
2. Non-resident companies	
Corporate tax rates	8.5% (effective rate 7.83% if the deductibility of the federal tax due is taken into consideration)
Capital gains on sale of shares in resident companies	Participation relief if minimum 10% capital holding
Capital gains on sale of immovable property	Part of business income
Withholding tax rates	
Branch profits	No
Dividends	35%

Interest	35% on bonds issued by Swiss debtors and on bank deposits 3% on loans secured by immovable property 0% for qualifying interest under EU-Swiss Savings Agreement
Royalties	No
Fees (technical)	No
Fees (management)	No
3. Specific issues	
Participation relief	Inbound dividends: yes Outbound dividends: yes
Group treatment	No
Incentives	Yes, depends on the canton
Anti-avoidance	
Transfer pricing legislation	No
Thin capitalization legislation	Yes
Controlled foreign company legislation	No
General anti-avoidance rule (GAAR)	Yes
Other anti-avoidance legislation	No
C. Direct taxation: Individuals	
1. Resident individuals	
Residence	Residence is based on several factors, such as the centre of vital interests or the place of abode (30 days combined with a gainful activity or a stay of 90 days without such activity)
Taxable income	Worldwide
Income tax rates	Progressive Top rate 13.2% (up to CHF 755,200) 11.5% on whole income if income exceeds CHF 755,200
Alternative minimum tax	No
Capital gains	Not subject to tax, if derived from private transactions
Unilateral double taxation relief	Yes
Social security contributions	Public pension, pension plan, health insurance
2. Non-resident individuals	
Income tax rates	Progressive Top rate 13.2% (up to CHF 755,200) 11.5% on whole income if income exceeds CHF 755,200
Capital gains on sale of shares in resident companies	Capital gains are not subject to federal income tax unless they are derived in the course of a business
Capital gains on sale of immovable property	Depends on the canton
Withholding tax rates	
Employment income	Regular wage withholding applies

Dividends	35%
Interest	35% 3% on loans secured by immovable property 0% on interest under EU-Swiss Savings Agreement
Royalties	0%
Fees (technical)	No
Fees (directors)	5%
D. Indirect taxation: Value added tax (VAT)/Goods and services tax (GST)	
Taxable events	Supply of goods for consideration Supply of services for consideration Private use of goods and services Import of services for consideration Import of goods
VAT/GST (standard)	7.7%
VAT/GST (reduced)	0%, 2.5%, 3.7%
VAT/GST (increased)	No
Registration/deregistration threshold	CHF 100,000 annually (CHF 150,000 for non-profit sports and cultural associations and certain charitable institutions)
VAT group	Yes
E. Other taxes	
Inheritance and gift taxes	Yes, depending on the canton
Net wealth tax (individual)	Yes, depending on the canton
Net wealth tax (corporate)	Yes, depending on the canton
Real estate taxes	Yes, depending on the canton
Capital duty	No
Transfer tax	On real estate: depending on the canton On securities: 0.15% for domestic securities and 0.3% for foreign securities
Stamp duty	Yes (1% on the issuance of securities above CHF 1 million)
Excise duties	Yes
Other main taxes	Insurance premium tax Motor vehicle taxes Environmental taxes Tax on the use of roads

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