Doing Business Guide

Switzerland

1st Edition

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About This Booklet

This booklet has been produced by Morison International's Switzerland member firms for the benefit of their clients and associate offices worldwide who are interested in doing business in Switzerland.

Its main purpose is to provide a broad overview of the various things that should be taken into account by organisations considering setting up business in Switzerland.

The information provided is not exhaustive and – as underlying legislation and regulations are subject to frequent changes – we recommend that anyone considering doing business in Switzerland or looking to the area as an opportunity for expansion should seek professional advice before making any business or investment decision.

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Introduction and Background

Geography and Population

Switzerland (officially, the Swiss Confederation) is a landlocked country at the centre of Europe. To the north is the border with Germany, Austria and Lichtenstein to the east; Italy to the south; and France to the west. Around 40% of the surface consists of mountains, the highest being the Dufourspitze (4,634 m).

Over 8 million people live in Switzerland, almost a quarter of these being foreigners. Switzerland has four official languages: German, French, Italian and Romansch. German is the most widely used, spoken by over 60% of the population (mostly in the northern part); although the spoken dialect is Swiss-German, the written language is always High German (as in Germany). German is followed by French (over 20% in the West), Italian (about 6% in one southern canton) and finally Romansch (about 1%). The first foreign language is English, which is widely spoken, especially among the younger generations.

Cantons

Switzerland is quite small, covering an area of only 41,285 km2, but has 20 different cantons and six half-cantons. Each canton has its own laws, legislative bodies and tax system; everything not explicitly declared a federal matter in the Swiss constitution is governed at the cantonal level. Even municipalities levy their own taxes and have some independence on local matters.

Political Structure

There is no President of Switzerland: the country's Head of State is formed by a collegial body of seven members. They are elected for a 4-year-term and embody the Federal Council (executive). The other government bodies are the parliament (legislative) and the Federal Court (judicative). The two-chamber parliament consists of the Council of States (46 members representing the cantons) and the National Council (200 members representing the people). Elections are held every 4 years. Since foundation of the federal state in 1848, Switzerland has always been a politically stable and business-friendly country.

Federalism and personal freedom are very important for Swiss citizens. This is the reason for the segregation of federal, cantonal and municipal levels – somewhat similar to the US state system; indeed, the countries are often called 'sister republics'.

Swiss citizens have a strong influence on political matters through a long-standing and extensive tradition of direct democracy at all three government levels. Almost every federal law can be brought to a binding popular vote by a process called referendum, which requires 50,000 citizens to request such a vote within 100 days after the law was passed. The instrument of a popular initiative, requiring 100,000 citizens to request a constitutional amendment, can also be used to initiate a binding vote. The constitutional amendment automatically becomes legal if the majority of voters and cantons approve. Similar instruments exist at a cantonal and municipal level, so it is not unusual to have five or six votes and/or elections per year. Swiss citizens are thus accustomed to regular voting, and typically do so by mail-in ballot. Results are available within hours after the polls close.

The citizens' strong influence on political matters naturally leads to a consensus-oriented government, and for the last 50 years the Federal Council has always been formed by members of the four or five largest political parties, representing more than 80% of the population. This makes Swiss politics the longest-standing 'great coalition' in the world. Furthermore, the threat of a referendum is a way for a political group to gain enough influence on the legislative process and find a compromise, thus avoiding the actual referendum and vote.

One of the central principles of Swiss foreign policy is neutrality, which has been implemented as non-involvement in other countries' conflicts – either in military terms, or in a much broader sense. This restrains Switzerland from joining any military treaty such as NATO. For Switzerland to join the United Nations (UN) it required two popular votes; the first was rejected mainly because of incompatibility with Swiss neutrality. In the second vote in 2002, the Swiss people approved; Switzerland then became not only a member of the UN, but the only country in the world whose voters explicitly decided to join it.

Switzerland is host to numerous international organisations, including the UN European headquarters, various UN sub organisations, the International Committee of the Red Cross and the International Olympic Committee. Switzerland is also the depositary state of the Geneva Conventions.

Typically Swiss

Switzerland is famous for its watches. Not only because it is the home country of the watch industry, but also because Swiss people tend to take punctuality very seriously. A few minutes' delay can cause anxiety: arriving slightly early for a meeting is considered normal, and public transport is expected to run on time.

Switzerland is proud of its political neutrality and its beautiful landscape, especially the mountains. Swiss people are polite and tolerant; if they sometimes seem rather reserved, this is the Swiss way of honouring people's privacy. When dealing with someone from another country, the Swiss are happy to help out and quickly switch languages if it helps to communicate.

Law

In general, business matters are defined by the Swiss Code of Obligations (*Obligationenrecht* - OR; *Code des obligations* - CO). At just over 500 pages, this is fairly short by comparison with those of other countries. Amendment judgements of the federal court in leading cases are important for the interpretation of federal law. One of the advantages of the Swiss legal system is its legal certainty and predictable legislation, as well as the brevity of paragraphs. This results in a comparatively small burden for the economy in reference to administrative costs. In addition to the OR, the Swiss Civil Code (*Zivilgesetzbuch* - ZGB; Code civil- CC), which regulates private affairs such as family law but also property law, is an important regulation.

Economy

With a per-capita GDP of c. US$ 81,000 (2014), Switzerland is among the world's wealthiest countries. Having almost no natural resources, the Swiss soon recognised that their key assets in worldwide competition are the skills and training of their people, stable and dependable institutions, and a liberal economic system.

The Swiss economy is highly open and export-oriented. The largest trading partners are Germany, the USA, Italy and France. About half of the corporate earnings are from export-oriented industries.

Switzerland has become an increasingly service-based economy, with over 70% of its GDP deriving from the service sector, almost 30% from the industrial sector and only a marginal part from the heavily protected agricultural sector. Given the comparatively high wage and price level, the industrial sector is mainly focused on high-tech products.

The main industries in Switzerland are banking, pharmaceutics, watchmaking, engineering and tourism. While 99% of the Swiss workforce is employed by small and medium-sized enterprises (SMEs), some Swiss companies are major global players in their industries – such as Novartis and Roche in the pharmaceutical sector, and UBS and Credit Suisse in banking. Currently, 13 Swiss companies have made it to the Fortune 500 list (www.fortune.com).

Switzerland has a flexible labour market and unemployment rates are significantly lower than in most industrialised countries. Only a quarter of the Swiss workforce are unionised, and relations between unions and employers are generally peaceful and pragmatic.

The Swiss economy provides excellent opportunities for training and education. There are 12 public universities in Switzerland; in particular, the Federal Institutes of Technology (ETH and EPFL) and the University of St. Gall (HSG business school) have a high international ranking. Professional training through apprenticeships is also common and provides a unique and highly successful combination of vocational experience with an in-school basic qualification. Public schools are generally considered excellent and are widely used, while private schools fill the niche to serve the growing international community and provide alternative education philosophies.

Switzerland and the European Union (EU)

Despite its location at the heart of Western Europe, Switzerland is not a member of the European Union and its relationship with the EU is complicated, to say the least.

Joining the EU, for most Swiss, is not likely in the foreseeable future. As an open and export-oriented economy with almost no natural resources and a need for talented workers, good access to foreign markets is crucial. However, Switzerland's federalised and highly democratic character seems inherently incompatible with the heavily centralised and (as the Swiss perceive it) 'undemocratic' nature of the EU.

Switzerland was a founding member of the European Free Trade Association (EFTA) in 1960 and saw it as an alternative to EU membership. During the 1980s, after more and more EFTA members had joined the EU and with the increasing need for further integration into the

European markets, the EFTA countries negotiated the European Economic Area (EEA) treaty with the EU. In a popular vote on 6 December 1992, however, by a narrow (50.3%) majority the Swiss refused participation in the EEA.

In subsequent years, Switzerland went alone, while even more EFTA countries joined the EU. For a decade the Swiss economy showed very little growth. Both Switzerland and the EU saw a desire for further integration and cooperation and eventually went through the tedious work of negotiating seven bilateral sectorial agreements. Among other items, they covered key topics including free movement of labour as well as land and air transportation treaties. After the Swiss people approved the agreements in a popular vote, they became effective in 2002.

The Swiss economy did very well in the following decade. The bilateral agreements were confirmed and extended in several popular votes, both to include new EU member countries and to cover additional topics. Among these were full integration of Switzerland into the Schengen and Dublin treaties, providing open borders and a common asylum system.

In recent years, the EU has begun pushing for a more institutional setup with Switzerland, including automatic takeover of new EU regulation into the bilateral agreements as well as dispute resolution procedures through EU courts. Currently, the EU is no longer willing to enter new sectorial agreements before an institutional setup is found.

The increasing openness of the Swiss labour market led to a quick increase of foreign people relocating to Switzerland. From 2002 to 2013, the Swiss total population increased from 7.3 million to 8.1 million, almost exclusively through immigration. Even though the Swiss labour market easily absorbed the additional workforce, with no significant impact on the still very low unemployment rate (2.9% in June 2014), there were observable tightening effects on the real estate markets and the transportation infrastructure. On 18 February 2014, a popular initiative was brought to a vote that requires the federal government to regain full control over immigration into Switzerland, including both immigration quotas and employment preference for Swiss nationals. The popular initiative was approved by 50.3% of voters and by the majority of cantons, and has hence become part of the Swiss constitution.

Within the next 3 years, the bilateral agreements with the EU will need to be amended accordingly. Such a move, however, would directly contradict the EU's freedom of movement principles and is therefore not feasible. At present, one can only speculate how the future relationship between Switzerland and the EU will develop.

Banking and Finance

Currency

Switzerland's currency is the Swiss Franc (CHF; Franken, franc). It is controlled by the Swiss National Bank (SNB). The Swiss Franc is considered the safe-haven currency of the world. In 2011 the ongoing financial crisis in the USA and the EU resulted in a massive overvaluation of the Swiss Franc, with a devastating impact on the export industry and high deflation risk. To counter this, the SNB set a minimum exchange rate of 1.2 CHF to the Euro in September 2011 and declared its readiness to enforce this minimum rate with the utmost determination, being prepared to buy foreign currency in unlimited quantities. In January 2015, the SNB unexpectedly released this limit and declared it will let the Swiss Franc float freely again. This move was followed by an immediate appreciation of the Swiss Franc, and its short and longer-term consequences for the Swiss economy remain unclear at this time.

Banking System

Switzerland is one of the most important centres of banking and finance. In private banking, it is a world leader, with more than US$ 5 trillion of assets under management in Swiss banks. Regulations differ from other countries because Switzerland is not bound to EU regulations. Swiss banks, as well as most other financial service providers, are regulated by the Swiss Financial Market Supervisory Authority (FINMA), an independent federal regulatory authority, and the self-regulatory guidelines that it supervises. One of the most fundamental principles of Swiss banking is secrecy, making it a severely punishable criminal offence for banks and their employees to disclose details of their clients or even the existence of a client relationship. Banking secrecy may only be broken for criminal investigations, money-laundering issues, and lately in certain limited cases for tax offences.

Capital Markets

SIX, the Swiss Exchange, is one of the leading regulated stock exchanges for life science companies. With the large banking and insurance sector as well as the high level of financing and placement, it is highly attractive for domestic and foreign investment. In 1995 Switzerland started the first fully electronic stock exchange with integrated automatic clearing and settlement. The high-quality technology even adds to the favourable impression of SIX.

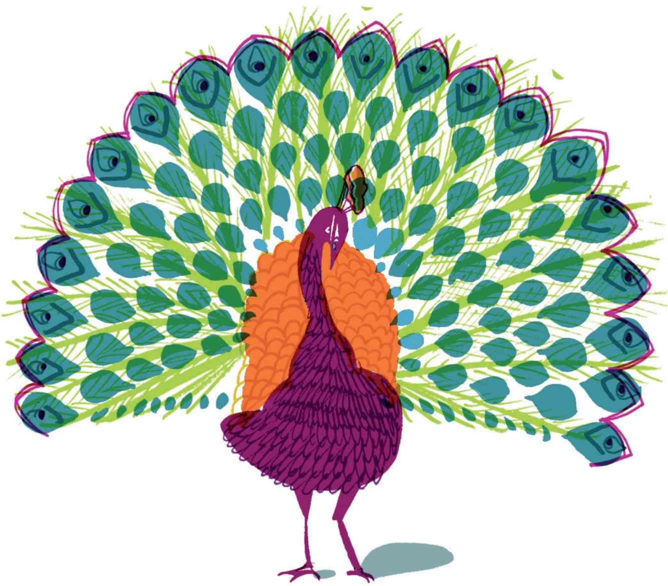
Money Laundering

The principles against money laundering determined in the Swiss Criminal Code (StGB, CP) and especially in the Anti-Money Laundering Act, 1997 (GwG) apply to all financial intermediaries. Banks, managers of funds, investment companies, insurance institutions, traders in securities and gambling casinos are financial intermediaries, but also persons who, on a professional basis, accept, safeguard or help to invest or transfer assets belonging to third parties.

All financial intermediaries are required to identify their contracting partners and determine the beneficial owner of the assets. Furthermore, they have a duty to identify the nature and purpose of the business relationship desired by the contracting partner. Based on a risk profile, further investigations may be necessary.

Any financial intermediary who suspects that assets are involved in the business relationship may be related to a criminal act, derive from a crime or serve the financing of terrorism must immediately report this to the Money Laundering Reporting Office Switzerland (MROS).

Switzerland has been a member of the Financial Action Task Force on Money Laundering (FATF) since 1990, and its legislation is based on their recommendations.



Labour and Personnel

Workforce in Switzerland and Immigration

Switzerland has always been an attractive country for immigration, because of its wealth and the long history of freedom and stability. At present, migration trends favour highly qualified personnel – mostly from Italy (15.6%), Germany (15.2%) and Portugal (12.7%). The number of foreigners was stable for some time at around 20%, but rose to 23.5% with the immigration boom following the 2002 agreement with the EU regarding freedom of movement. There are also around 280,000 cross-border commuters working in the Swiss regions close to the borders, especially in Geneva and the northern part of Switzerland. Given that 30% of its workforce are foreigners, Switzerland is very dependent on foreign workers; which has lead to some anxiety about losing the Swiss identity.

Work permits available are:

- Short-term residency and trainee permit (L)
- Long-term residency permit (B)
- Cross-border commuter permit (G)
- Permanent residency permit (C).

Statutory Working Conditions

Working hours

Swiss working hours are high compared with international standards. The statutory maximum for employees in industrial businesses, office staff, technical employees and others, such as marketing staff and sales assistants, is 45 hours; for all others, the weekly maximum is 50 hours. Most branches have general labour agreements (GLA), which serve as a guideline. Certain GLAs are generally binding for the whole sector, so a normal weekly workload ranges from 40 to 44 hours.

Minimum wage

Switzerland has no minimum wage. A popular initiative in this direction recently failed (May 2014), with 76% voting against a implementing a minimum wage. Wages vary greatly depending on the economic branch and region. Certain minimum wages are regulated by GLAs, such as in hotels and restaurants. Helpful information to aid with negotiations is available from trade unions.

Sick leave

Insurance is not compulsory. The employer can bear the risk, but mostly an insurance solution is provided with shared costs. A medical certificate can be required for the first day, but normally it is after 2–3 days. For the first year of work, 3 weeks of sick leave must be paid (minimum of 80%); for longer employment terms, a correspondingly longer period is paid. Unless regulated by a GLA, regional court practices apply different scales – for the third year of service, 2 months are granted; from the fifth year onwards is generally 3 months.

Maternity leave and parental leave

Employed women are entitled to 14 weeks (98 days) of maternity leave beginning with the birth of the child. During this time they receive at least 80% of their wages in the form of a daily allowance, but no more than CHF 196/day. Fathers get 1 day's paid absence.

Annual leave

Employees up to age 20 have a minimum of 5 weeks holiday per year; otherwise, it is generally 4 weeks. Most GLAs grant 5 weeks from age 50 onwards and 6 weeks after age 60. A demand for a statutory 6 weeks holiday per year was recently rejected by popular vote.

Dismissal

During probation, the notice period is 7 days. For the first year of service, the notice period is 1 month; from the second to ninth year, 2 months; thereafter, 3 months. Other agreements are possible, but from the second year of service onward it cannot be less than a 1-month period. Giving notice is not possible during illness, pregnancy, maternal leave, Swiss military or civil service.

Social Security

Social security in Switzerland includes public and private insurance plans covering against disability risks and basic needs in case of retirement. Its core element is the 'three-pillar' system:

- **Pillar 1 is a state-run pension plan providing old-age benefits or benefits for dependents.** Benefits depend on previous income level and years of contributions. Disability insurance pays benefits for persons who are disabled due to birth defects, illness or accidents; the main focus in recent years was the integration/reintegration of disabled people into the workforce. Income replacements are paid in case of maternity, as well as for employee's salary during military or civil service. All Swiss residents are obliged to contribute from the year following their 17th birthday. A total contribution for employees is 5.15%; employers pay an equal amount. Self-employed pay a maximum of 9.7% of gross salary. The maximal yearly pension for a single person is CHF 28,080; for married couple, this is CHF 42,120 (based on the average annual income, contribution years and credits for children). The retirement age for men is 65 and for women is 64. Contributions for non-employed persons are means-assessed. Pillar 1 is a pay-as-you-earn (PAYE) intergenerational contract. Political solutions for future financing from approximately 2023 onwards remain to be determined
- **Pillar 2 is based on occupational pension plans and accident insurance (additional to Pillar 1).** Risk contributions start at the same age as for Pillar 1; retirement savings

are credited from the year following the 25th birthday. Compulsory insurance is for annual wages over CHF 21,060 (2014). The maximal coordinated insured salary by law is CHF 59,670, but better coverage can be provided by pension fund regulation. Employer contribution is at least 50%; contributions vary depending on the individual pension regulation. Pillar 2 is a capital-funded solution, and for compulsory insurance aims at giving 60% retirement benefits based on the last salary in combination with Pillar 1. For self-employed persons, contributions are optional. Early retirement is possible from age 60 onwards, and a lump-sum payout for all or the largest part of the capital is possible, depending on the pension fund regulation.

- **Pillar 3 is a private saving scheme pension to improve retirement benefits in addition to Pillars 1 and 2.** Tied pension provisions (Pillar 3a) are attractive for saving taxes, but limited to a specific amount; flexible pension schemes (Pillar 3b) provide more flexibility, but hence are not tax privileged.

Unemployment Insurance

The unemployment scheme is compulsory for all employees and premiums are equally split between employer and employee. Up to a gross annual salary of CHF 126,000, the premium rate is 2.2%; above this limit, 1.0%. To draw benefits, a worker should have paid at least 12 months' contributions within 2 years prior to any application. Coming from the EU, the foreign working period will be considered; benefits might then be paid from the home country rather than from Switzerland. Full benefits as a single person are 70% of the last year's average salary; 80% for a married person with dependent children. The upper limit is CHF 10,500/month.

Accident Insurance

Occupational and non-occupational accident insurance is covered by employment. If not employed, accident insurance can be included in the health insurance with a minor increase in premium.

Health Insurance

Health insurance is compulsory for everyone living in Switzerland. Even children are insured separately. Contrary to other countries, there are no employer's contributions and free choice of insurance provider. Basic insurance coverage cannot be denied by an insurance provider. Premiums are not tied to income and depend on region, insurance provider and coverage. Subsidies are available for those below a certain income level.

There are various international social security treaties and a special agreement between Switzerland and the EU regulating coverage and transferability of social security entitlements. If leaving Switzerland, a repayment of Pillar 1 contribution is possible if there is no treaty or special provision in the treaty (India). Otherwise one must claim benefits if contributions were paid for at least 1 year, so one will receive a Swiss pension and a home country pension. For Pillars 2 and 3, the saved capital can be paid out (there are certain restrictions moving to the EU).

Legal Structure of Business Organisations

Overview

Economic freedom is guaranteed by the Swiss Constitution, so everyone is allowed to start and operate a business. Foreign nationals must have a working permit and Swiss residency to conduct a business personally on a permanent basis. For citizens from EU/EFTA states (exception Bulgaria, Croatia and Romania) with a valid long-term residency (B) permit, do not require a working permit, however planned activities must be proven at first registration. Entrepreneurs from third states without a permanent residency (C) permit have to meet the Swiss labour market requirements. Besides the necessary personal requirements (e.g. sufficient finances), the company must have a lasting positive effect on the Swiss labour market in order to quality for permission from cantonal authorities. Depending on legal form, the foundation process usually takes between 1–20 days.

The main types of business entity are the stock corporation, the limited liability company, the general partnership and the sole proprietorship, represented by 27.8%, 18.5%, 2.5% and 45.5% of companies, respectively.

The preferred legal form depends on many factors, such as the amount and source of capital required, confidentiality and transparency requirements, the risk and liability, administrative costs, tax treatments and social security matters.

Stock corporation (*Aktiengesellschaft* - AG, *Société anonyme* - SA)

A stock corporation (AG) is a capital company that has its own legal personality. For its foundation, only one person (individual or juristic body) is required. The minimum capital is CHF 100,000, of which at least 20% or up to CHF 50,000 must be paid up. The name of the AG can be freely chosen, but the addendum 'AG' or 'SA' is compulsory. The legal protection of the company name applies to the whole country, in contrast to a sole proprietorship. With the entry in the commercial register (www.zefix.ch), the AG is established and incorporated. The shareholders are not liable with their personal assets for the debts of the AG. Their only obligation is full payment of share capital. The bylaws of the AG cannot establish any other obligation for the shareholder. Transfer of shares is free, if the bylaws do not postulate restrictions.

The AG is represented by the board of administration, which is elected by the general assembly (shareholders). Basically, there are no requirements relating to the nationality and residence of the board of administration. However, the AG must be represented by at least one person who has residence in Switzerland.

Limited liability company (*Gesellschaft mit beschränkter Haftung* - GmbH, *Société à responsabilité limitée* - SARL)

The limited liability company (GmbH) is a capital company with its own legal personality, like the AG, and having many other similarities such as legal protection of the company name, foundation, incorporation and liability. Just like the AG, the GmbH may be founded by one person (individual or juristic body). Unlike the AG, the minimum capital of the GmbH is CHF 20,000, but full payment is required and the bylaws of the GmbH can establish additional liabilities to the associates.

Due to the reduced structural and capital costs in comparison to the AG, the GmbH is very attractive for SMEs. The main disadvantage is lack of anonymity for the associates, whose names are listed in the commercial register.

General partnership (*Kollektivgesellschaft* - KollG, *Société en nom collectif* - SNC)

This company form does not have its own legal personality. Foundation of a general partnership (KollG) can be done by two individuals or more, and does not require any minimum capital; the capital must be defined in the company agreement. The foundation is relatively easy, compared to the AG and the GmbH, and can be done without a notary. The name of the company must contain the family name of all partners or the family name of one partner with an addendum, such as '& Co.'. The legal protection of the chosen name is limited to the domicile of the KollG.

The KollG is formed with its registration in the commercial register and the conclusion of the company contract. Primarily, the company's assets are liable for the debts of the company. Subsequently, all partners are unlimited and solitarily liable with their private assets for the debts of the KollG.

The KollG is an option for smaller companies that operate in a highly personal environment; it is particularly suitable for joint exercise of professional activity.

In a KollG the partners are not required to be domiciled in Switzerland, but they must have a work and residency permit.

Sole proprietorship (*Einzelfirma* - EF, *L'entreprise individuelle*)

Like the KollG, the sole proprietor (EF) has no legal personality of its own and no minimum capital is required. As the name says, the EF is founded by only one person. This form is ideal for activities that are strongly connected with the owner, such as architects, craftworkers, doctors, lawyers and local trading stores. An entry in the commercial register becomes compulsory once annual turnover exceeds CHF 100,000.

The owner of an EF must be recognised as self-employed by the social security administration. Such recognition must be applied for at the registered office of the EF.

The company name must include the family name of the owner, with the option of additional addendums. The EF is established with the commencement of the business. Formalities regarding the foundation are minimal; no notary is required.

The owner is fully and personally liable for the debts of the EF, as well as for its management.

Accounting and Reporting

General Principles

Accounting standards are regulated in the Swiss Code of Obligations (*Obligationenrecht* - OR, *Code des obligations* - CO). These provisions have recently been revised and will become fully effective for the financial year 2015, for consolidated accounts in 2016. Accounting and reporting regulations are governed by entity size, independent of legal form, and are based on the following principles:

- Completeness
- Truthful and systematic recording of transactions and circumstances
- Documentary proof of individual accounting entries
- Clarity
- Materiality
- Verifiability.

Accounting is in CHF or the company's functional foreign currency. If a foreign currency is used for financial reporting, then the financial statements must also be presented in CHF with a note indicating the exchange rates used. The language can be one of the Swiss national languages, or English. All accounting-related documentation must be retained for 10 years on paper, electronically or in another comparable way.

Statutory Requirements

Accounting requirements vary, depending on the size and legal form of the company. Sole proprietorships and general partnerships with a sales revenue of less than CHF 500,000, as well as some associations and foundations, are only required to keep simple records of income and expenditure and of their net-asset positions. Companies with a sales revenue below CHF 100,000 are permitted to keep cash-based accounting. All legal entities (but not sole proprietorships or general partnerships) are required to prepare formal accounts and notes.

Large companies (meeting two of the following criteria for two consecutive years: total assets of CHF 20 million, revenue of CHF 40 million/year and an average of 250 full-time employees) must provide a balance sheet, an income statement, extended notes to the financial statements, a cash flow statement and a management report.

Publicly listed companies are required to prepare their financial statements in accordance with an accepted accounting standard. This is also required for large cooperatives and foundations subject to a statutory audit or when requested by a qualified quorum of minority shareholders. The accepted standards are IFRS, IFRS for SMEs, IPSAS, Swiss GAAP FER, US GAAP and FINMA regulations.

Consolidated financial statements are required if the criteria for larger companies are met independently of the legal form, so foundations, associations and cooperatives can be affected. The group of consolidated companies is determined based on control: minority shareholders controlling at least 20% of the capital can require the company to prepare consolidated statements, even if the criteria for larger companies are not met.

Structure of Financial Statements

Accounting law defines a minimal structure and arrangement of the balance sheet and focuses mainly on a clear current versus non-current distinction. The order of a Swiss balance sheet is exactly the opposite of that in most other countries: cash comes first, non-current assets last, and liabilities before equity. Profit-and-loss accounts can be disclosed either on the period-based accounting method or on the cost-of-sales method. Additional detailed notes supplement and explain the other parts of the financial statements.

Equity and Reserves

Switzerland distinguishes between different reserve types such as statutory capital reserves, statutory retained earnings or voluntary retained earnings; 5% of the annual profit must be assigned to the general reserve until this equals 20% of the paid-up share capital. In certain cases, additional allocations are required. Reserves exceeding half of the share capital are freely available.

Contrary to the true and fair principles of other accounting standards, Swiss accounting law merely requires a 'reliable judgement' of the company's economic situation. The principle of prudence still applies as an important guideline, so hidden reserves are explicitly allowed as long as substantial changes of practically unlimited hidden reserves are stated in the notes. Depreciations, valuation adjustments and provisions to secure the long-term prosperity of the undertaking do not have to be released if no longer required.

Audit

As a principle, Swiss corporations are required to have their financial statements and, if applicable, their consolidated financial statements audited by a licensed audit firm. In general, the audit firm will perform a statutory audit, led by a licensed audit expert. The statutory audit contains an extensive and widespread examination of the annual statement, which results in an extensive management report for the attention of the board of administration and a written audit report for the general assembly.

If a company is not classified as a large company (the same criteria applies as those mentioned in the Accounting and Reporting section of this guide), a limited statutory examination can be performed by a licensed auditor. A limited statutory examination is similar to a review, but nevertheless counts as audit. The limited statutory examination is a less extensive examination, limited to specific audit procedures, and results in a summary report for the general assembly. A statutory audit must nevertheless be carried out if requested by shareholders representing at least 10% of the share capital.

This special form of examination was introduced in Switzerland with the intention of releasing SMEs from the burden of a statutory audit. Statistics from 2014 show that 18% of all audited corporations have undergone a statutory audit, and 82% a limited statutory examination.

If the company has no more than 10 full-time employees and all shareholders agree, there is no need for any statutory audit or limited statutory examination (this is known as 'opting out'). However, each shareholder has the right to demand a limited statutory examination no later than 10 days before the annual meeting. In this case, the general assembly must select an audit company.

Audit companies are regulated by the federal audit oversight authority (*Revisionsaufsichtsbehörde* - RAB, *L'Autorité fédérale de surveillance en matière de révision* - ASR).

In Switzerland, the auditor is an official company body (similar to a director, but with very different function), elected by the general assembly and listed in the company's commercial register records. In addition to performing the audit, auditors have certain additional obligations, namely to notify the bankruptcy court if a company is over-indebted and the board of administration fails to act according to the law. Swiss auditors are therefore sometimes legally required to act against the wishes of directors and shareholders.

Institutions Providing Assistance to Enterprises

The three-tiered structure of Switzerland reflects on business and industry organisations – there are organisations on the federal level, on the cantonal and sometimes communal level. Moreover larger cities often have their own organisations. All business and trade organisations are strictly private and there is no compulsory membership.

In addition to industry-specific associations, there are three groups of general business associations:

- The employer's association (*Arbeitgeberverband, Union patronale*) at federal and cantonal/communal level represents organisations in their function as employers and act, for example as counterparty for collective labour agreements. In addition to their role in political processes, they often provide training and legal advice to their members; several operate their social security administration branches, which provide lower administration fees than the purely public ones. (See http://www.arbeitgeber.ch/ for more information.)
- The Swiss trade union (*Gewerbeverband, Union Suisse des Arts et Métiers* - USAM) represents the interests of small and medium-sized organisations. Members of the Swiss trade union are again smaller trade unions who act at cantonal/regional level, professional associations (*Berufsverband, Association professionnelle*) and inter-trade organisations. They mainly act in the political process and aim for optimal legal regulation and an entrepreneur-friendly environment. Some also operate their own social security administration branches and personnel insurances, sometimes in collaboration with employers' associations. (See http://www.sgv-usam.ch/verband.html for more information.)
- Each canton has its own Chamber of Commerce, representing mainly larger corporations like the service industry and international trade businesses. In addition to their role in political processes, they provide services vital to international trade, such as customs certification and legal arbitration. (See http://www.cci.ch/en/map.htm for more information.)

Besides these private organisations, the government also plays its role in supporting businesses and making Switzerland an attractive business location. For general information, the State Secretariat for Economic Affairs (SECO) is a competence centre for core issues related to economic policy (see http://www.seco.admin.ch/?lang=en for more information).

Economic promotion is mainly a cantonal matter and most cantons and even larger cities have a promotional department in their administration. Offered benefits usually include networking and assistance in navigating through their cantonal administration, and sometimes they specifically develop areas for new businesses. Most cantons also have the possibility to provide tax holidays to new businesses, but tax holidays are generally connected with the creation of a significant number of new jobs (See the Business Taxation section of this guide for more information).

For companies engaging in international trade, the quasi-public Swiss Export Risk Insurance (*Schweizerische Exportrisikoversicherung* - SERV, *L'Assurance Suisse Contre les Risques à L'Exportation* - ASRE) provides insurance and guarantees for export-related creditor risk. (See http://www.serv-ch.com/ for more information.)

Business Taxation

Switzerland is internationally known for its favourable tax environment. Businesses benefit from the special tax regime offered by most cantons, which reduces the already moderate tax burden to even more attractive levels. Due to its federal structure, Switzerland does not have a uniform tax system. Taxes are levied at federal, cantonal and communal level. Every canton has the full control of its taxation, excluding only those taxes that are reserved for the federal government, such as value added taxes (VAT). As a consequence, Switzerland has 27 different tax jurisdictions – one for the federal level and one for each of the 26 cantons. To simplify the procedure, direct taxes at all three levels are usually levied by the cantons, so only one tax return has to be filed. Although Switzerland has been undergoing a reform of its tax system with the aim of formal harmonisation of cantonal tax systems, cantonal taxes still vary from one canton to another, especially in respect to the applicable tax rates. Based on the individual situation, a comparison of cantons helps to find the best location from a taxation perspective. To encourage investment in Switzerland, cantons and the federal government can grant tax holidays as part of a regional policy to strengthen economically weaker regions, but generally these incentives are only granted for the creation of a significant number of new jobs.

A current issue is the Swiss Corporate Tax Reform III, which was triggered by international pressure (especially from the EU, but also the OECD), because of privileged treatment of income from foreign sources compared to Swiss-sourced income. Consequently the current special tax regimes will have to be adjusted in the near future. The proposed reform has following strategic aims:

- New special tax regimes compliant with accepted international standards shall be implemented, the main focus being the introduction of licence boxes (similar to the UK solution) or innovation boxes
- A general reduction of cantonal tax rates is planned as well as other measures, such as notional interest deduction on equity, abolition of tax on capital and stamp tax on issuance of equity, as well as improvement of participation relief mechanism to increase the attractiveness of Switzerland for corporations. The mix will depend on the ongoing international discussions regarding these box solutions, as well as on political discussions in Switzerland
- The introduction of a capital gain tax for individuals is planned to partly compensate for the expected tax losses on the corporation side. Extrapolations anticipate that the reform measures could cost as much as CHF 2 billion/year. It is intended that the reform should come into effect in 2019.

As the Tax Reform III is a revolutionary overhaul of Swiss corporate taxation, as such, it is unlikely to have a smooth passage through parliament; as it is subject to referendum, a popular vote will probably take place. If essential parts of the reform can be implemented, then this will preserve the favourable tax environment for corporations.

Tax Residency and Taxable Income

Except for certain tax-exempt organisations, all resident corporations (registered office or effective place of management) are subject to corporate income tax in Switzerland. Non-resident corporations with a permanent establishment or real estate in Switzerland are considered resident by economic affiliation. Resident companies are subject to corporate income taxes on their worldwide income except for income attributable to foreign permanent establishments or foreign immovable property. These foreign elements are only considered for the tax rate progression. Every company is taxed as an individual entity, so tax groups or tax consolidations are not possible in Switzerland and are not planned in the near future.

Swiss corporations pay taxes based on their net profit after taxation as shown in the statutory financial statements prepared in accordance with the provisions contained in the Swiss Code of Obligations (OR). Expenses are deductible as long as they are commercially justified and at arm's length. Safe haven rates exist for depreciation, interest expenses, bad debt provision (5–10%) and stock inventory provision (33.33%).

Corporate Taxation – Federal Level

At federal level, businesses pay a flat rate corporate income tax of 8.5% on profits after tax, corresponding to 7.8% effective tax on pre-tax profits. For associations, foundations and other legal entities (such as investment trusts), a flat-rate tax of 4.25% is applicable on profits after tax. There is no taxation on capital at federal level.

Corporate Taxation – Cantonal Level

Income taxes vary considerably between cantons; some apply a rate based on return of equity, while others apply a proportional rate. Capital or equity tax is usually a proportional rate of the net equity (nominal share capital, share premium and retained earnings) and some cantons credit the income tax to the capital tax. Tax on equity is also applied on so-called 'hidden equity' for thinly capitalised corporations that are not in the save haven range defined by the Swiss federal tax authority. Overall effective corporate taxation on cantonal and communal level currently varies in the range of 12–14% before taxes.

Dividends are considered as gain for the corporation and as income for the beneficiary. To reduce double taxation, dividends are tax-privileged for the beneficiary, if the investment exceeds 10% of the share capital. In that case only 50–60% of the dividends are considered as taxable income. Due to the Swiss EU savings tax agreement, Swiss companies have access to the advantages of the EC Parent Subsidiary Directive and the EC Interest and Royalty Directive. Therefore inter-company dividends, interest and royalties – both within Switzerland, and between Switzerland and the EU – are usually exempt from withholding tax. Corporate restructuring including mergers are tax-neutral, if certain criteria is met. Furthermore, there are more than 100 tax treaties in force to avoid double taxation.

Special Tax Regimes

The following models for special tax regimes are similar in all cantons, but detailed regulations can vary. When applying for the special tax regime, it is advisable to clarify every case with the responsible tax authority. By introducing a licence box model, the canton of Nidwalden has taken a pioneering step: here, net licence income (definition based on OECD Model Tax Convention) has an income tax rate of about 1% at the cantonal/communal level.

Companies with participation deduction

Dividend income and capital gain on participations are generally subject to taxation in Switzerland. For the tax exemption of dividends, the investment must be at least 10% of the share capital of a particular company, or if the book value of the investment is at least CHF 1 million (for participations mentioned in the following, we assume that the criteria for tax exemption are met). For capital gains, a minimum 1-year holding period is also required. Corporate income tax on profit is then reduced at the ratio of the net income from the participation in relation to the total profit. The participation deduction is applicable at the federal level as well as the cantonal/communal level. Effective tax on such income is usually around 1%.

Holding company

Holding companies are entities whose main purpose is the holding and managing of long-term investments in affiliated corporations. The company must pass an alternative asset or income test, where either

- two-thirds of the company's assets must consist of participations or positions that economically have the function of equity for the subsidiary; or
- two-thirds of the total income must consist of participation income (interest, dividends or capital gains).

If these requirements are met, the company is exempt from cantonal and communal income taxes, while at federal level the participation deduction effectively reduces the tax rate. A reduced capital tax at cantonal/communal level completes the favourable impression.

Pure domiciliary company (*Reine Verwaltungsgesellschaften, Pure société de gestion*)

Domiciliary companies are entities that have commercial and financing activities abroad, but not in Switzerland. The registered office in Switzerland does not have its own premises or staff in Switzerland. The supervision is done from abroad and transactions have no relation to the Swiss market. At federal level there is no favourable treatment, but at cantonal level income from participations are liberated from any taxation. Swiss-sourced income, if any, is normally taxed, whereas foreign source income is exempt. Capital tax is also levied at a reduced rate. Profits from real estate are taxed normally.

Domiciliary company with auxiliary function (*Verwaltungsgesellschaften mit Hilfstätigkeiten, Société de gestion avec acitvités auxiliaire*)

Contrary to pure domiciliary companies, auxiliary functions (management and financing services, research and promotional activities) for group coordination for Swiss and foreign entities are possible. For Swiss entities, these auxiliary functions are limited to 20% of the gross remuneration. The only difference in taxation compared with the pure domiciliary company is that 10% of foreign source income is normally taxed.

Mixed trading company (*Gemischte Gesellschaft, Société mixé*)

For mixed trading companies, limited commercial activity in Switzerland is allowed. At least 80% of the income from commercial activity must be from foreign sources. Additionally, some cantons require at least 80% of the costs to occur for foreign activities. Costs are allocated to Swiss and foreign sources, based proportionally on the relation of income. Swiss profit is fully taxed; 15% of the foreign profit is considered for taxation; income from participations is tax free.

Corporate Losses

At federal and cantonal level, losses can be carried forward for up to 7 years. Losses cannot be carried back in Switzerland. Swiss Corporate Tax Reform III plans to extend this 7-year period.

Transfer Pricing

Switzerland has accepted the OECD Transfer Pricing Guidelines, which cantonal tax administrators are instructed to follow. There are neither formal documentation requirements nor specific rules concerning audit procedures.

Transactions with related parties are scrutinised for deficiency of income or excess of expense. Hidden profit distributions are subject to withholding tax, which must be paid by the corporation. If the tax charge is not transferred to the recipient, the benefit has to be grossed up with the 35% withholding tax.

Stamp Duties

Specific legal transactions such as issuance of shares, transfer of securities or payment of insurance premiums are subject to stamp duty. There are three types of stamp duty:

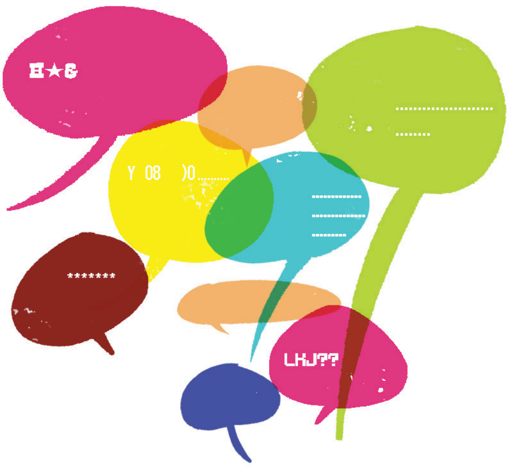
- **Issuance duty** is charged on issuance or increase of the par value of equity of Swiss corporations, limited liability companies, cooperative societies and public corporations. The tax rate is 1%. The first CHF 1 million equity is tax exempt, as are restructuring and transfer of a company's residence to Switzerland
- **Transfer duty** is levied on the trade of Swiss and foreign securities of domestic securities brokers. The broker is liable for the tax of 0.15% on Swiss securities and 0.3% on foreign securities. Exempt from transfer duty are foreign banks and brokers acting as

counterpart, foreign parties for transactions with foreign bonds, and trading portfolios of security brokers

- **Insurance duty on insurance premiums** is charged on payments of premiums of liability and collision policies, as well as for property insurance. Illness and accident insurances and certain life insurances are exempt. The duty collected by the domestic insurer is normally 5%; on redeemable single-premium life insurances, 2.5%.

Tax Rulings

Switzerland has an established and widely used tradition of tax rulings, where tax issues can be discussed and negotiated with the responsible tax authorities in advance to obtain a tax ruling. These rulings are binding for the signing tax authority, as long as the relevant tax issues have been disclosed completely and accurately and there is no change in law. Tax rulings are generally processed rapidly with most are signed within 2 months.



Taxation of Individuals

Besides the attractive tax environment for corporations, the tax burden for individuals is moderate by European standards. Competition between the cantons and even communes for advantageous taxation is an effective constraint to excessive tax rates. Individual taxes are levied at three levels: federal, cantonal and communal. The delimitation of taxation is regulated by the federal constitution. The cantons as sovereign states are authorised to levy taxes that are not in the exclusive authority of the Confederation. There has been a formal tax harmonisation of cantonal taxes, which however explicitly excludes tax scales, tax rates and tax allowances.

An individual becomes fully liable to Swiss taxation if living and earning income for a period exceeding 1 month or living in Switzerland without earning for a period exceeding 3 months. Limited tax liability applies to non-residents who have either real estate or a permanent business establishment in Switzerland. Taxation is on net taxable income and net taxable wealth. Generally, worldwide income and wealth is considered for the applicable tax rate, but only elements allocated to Switzerland are directly taxed.

Procedure

Federal as well as cantonal/communal taxes are levied and collected by the cantonal tax authorities and are assessed for the period of one calendar year. The due date for payment of federal taxes is the beginning of March of the following year; cantonal and communal taxes are mostly due in the second half of the tax period. Provisional invoices based on the last definitive assessment are helpful for planning tax payments, but some cantons only send blank pre-payment invitations and due dates can be as late as the end of May of the following year.

For Swiss citizens and long-term residents (permit C), there is no tax withholding on salary income, so it is up to the individual taxpayer to make tax payments in time. To simplify matters for foreigners coming to Switzerland and to ensure easy collection, a tax at source on salary income is directly deducted by the employer and delivered to the tax authorities. Generally, those with a gross annual salary over CHF 120,000 (except Geneva, which has a limit of CHF 500,000) are additionally required to file a subsequent ordinary tax declaration; those below this limit can file a simplified declaration to claim tax-deductible elements (officially known as a tariff correction). A range of solutions are available in the cantons. A reform of taxation at source will be treated by parliament in the near future, with the aim of formal harmonisation by 2019.

Determination of Taxable Income and Wealth

Individual income tax rates are mostly progressive; a maximum of 11.5% of the net taxable income applies at federal level. The maximum level on cantonal/communal level varies significantly between cantons (12–30%). Net wealth taxes are only levied at the cantonal/communal level. The maximal applicable rate on net taxable wealth at the end of the tax year is 0.1–0.9%.

Total income from all sources is subject to taxation. This includes income from gainful employment and self-employment, compensatory income (annuities and pensions), secondary income, income from mobile assets and real estate (self-used properties have a notional self-rental income), and other income (lottery prizes and undistributed estates).

Capital gains on mobile assets (except if trading is qualified as business) and repayment of capital contributions are not taxable. Gains on sale of real estate, inheritances and gifts, and lump-sum pension payments are not included in the ordinary taxation process, but taxed separately.

Deductions include social security contributions, professional expenses, insurance premiums, interest costs for debt and mortgages, value-preserving property expenses, private retirement contributions, childcare costs (limited), medical costs above a certain limit and contributions to charity or political parties. Additionally there are social deductions for married couples, single parents, children, people in need, etc.

Wealth tax is based on net assets (mobile assets such as securities, bank deposits, redemption value of life insurances, real estate, value of cars, non-distributed estates) at end of the tax year. Debt is deductible and there are also social deductions based on marital status and children.

Married couples are jointly taxed in Switzerland; individual taxation is not possible. There are few tax incentives for families; for double-earning couples, the tax burden at a certain level of income is even higher than for comparable cohabiting couples. So far, legislation has failed to eliminate this 'marriage penalty' completely.

Pension System and Tax Relief

A paper published by the OECD on the Swiss pension system in 2000 hailed Switzerland's multi-pillar pension system as a 'triumph of common sense'. Its main advantages are that risks are spread and that pre-funding creates large pools of investment capital. All employees working in Switzerland and contributing to the system (compulsory for yearly salaries above CHF 21,060) benefit from increased tax-free savings and a decreased tax burden. Closing pension gaps, calculated based on the pension fund regulation resulting from previous lower salaries or time off from work, are fully tax deductible (tax savings can be between 30% and 40%, depending on the applicable marginal tax rate). For foreigners coming to Switzerland, closing the gap is restricted to 20% of the insured salary for the first 5 years; foreign pension schemes are not considered for the calculation of the pension gap in Switzerland. Besides the occupational pension schemes, contributions to private pension schemes regulated by the federal authorities (Pillar 3a) are tax-deductible up to CHF 6,739 per year.

Annuities from the pension system are fully taxable in Switzerland; lump-sum payments (possible from age 60 onwards) from Pillars 2 and 3 pension products are taxed at a reduced rate. In most cantons the rates, depending on the amount of the lump-sum payout, vary from 0.5% to 12.6%; exceptions with higher rates are the cantons of Freiburg, St. Gall, Vaud, Ticino and Zurich, where the tax progression is not capped. By spreading lump-sum payments over a few years (Pillar 2, Pillar 3, gradual retirement) – and, of course, selection of residence when receiving the lump sum – a significant amount of tax can be saved.

Inheritance and Gift Tax

The exclusive right to levy gift and inheritance taxes is reserved for the cantons; in some of them, this right is shared with the communes. The canton of Schwyz does not levy any inheritance and gift tax. The canton of Lucerne does not levy a gift tax, but gifts made up to 5 years before the death of the donor are included in the calculation of inheritance tax.

Inheritance and gift tax rates are mostly progressive and are usually based on the degree of relationship between the parties and the amount received. In all cantons, spouses are exempt from inheritance and gift tax; in most cantons, direct descendants are also exempt.

A popular initiative is pending with the aim of introducing an inheritance-related gift tax at federal level. Asset transfers between married couples and registered partners would remain tax-free; all other transfers above the tax-exempt amount of CHF 2 million would be taxed at a rate of 20%. This would be applied retrospectively from 1 January 2012. Consultations regarding this initiative have not been completed by parliament, so the date of this vote has not yet been fixed.

Real Estate Capital Gains Tax

Capital gains realised from sale of privately held Swiss real estate is subject to taxation at cantonal level. Tax rates depend on the holding period and amount of profit. To avoid speculation, sales within a short period are subject to prohibitively high rates. Capital gains tax on the sale of real estate as primary residence is deferred if the sale is reinvested in an equivalent object within 2 years. This deferred tax must be kept in mind if the reinvestment is sold or if the reinvestment object is smaller.

Expenditure-based Taxation or Lump Sum Taxation

Federal and most cantonal tax regulations provide an option to request taxation based on estimated living expenses rather than on actual income and wealth. Requirements are: no Swiss employment and a first-time residence in Switzerland, or at least 10 years' absence of residence from Switzerland. Foreigners may enjoy this tax status indefinitely, Swiss citizens can only for the first year of repatriation to Switzerland.

Living expenses as base for this taxation are costs of living in Switzerland and abroad for the individual and their dependents living in Switzerland. These living expenses are taxed at the normal rate. A control calculation including Swiss-source income avoids a too-low taxation in relation to the effective wealth situation. The Swiss tax withholding on this income can be reclaimed. To be able to reclaim foreign tax at source on investment income, an application of the tax treaty can be required. Here, gross foreign income will be added for the control calculation. To avoid a negative result of this calculation, an asset allocation is necessary.

Various cantons (Zurich, Basel-Stadt and Land, Schaffhausen, Appenzell Ausserrhoden) have recently abolished expenditure-based taxation by popular vote. Other cantons (Thurgau, St. Gall, Lucerne and Bern) decided to maintain this form of taxation. At federal level, a popular vote is still pending. To increase popular acceptance for this taxation form, the conditions will become more stringent: from 1 January 2016, a minimal assessment basis will be required at federal and cantonal level. At federal level, the new minimal basis will be CHF 400 thousand, the cantons are free to set own minimum amounts.

Expatriates

Foreign managers and certain specialists deployed to Switzerland on a temporary basis for up to 5 years and on a limited contract may claim relief of expenses incurred by their stay in Switzerland – such as relocation costs, Swiss accommodation costs (if the residence abroad is maintained), and private school costs for children (if state-funded schools do not offer appropriate education).

Cross-Border Workers

Article 15 of the OECD Model Tax Convention generally postulates taxation at the location of employment. Various agreements with neighbouring countries are contradictory to this postulate. This results in a variety of different solutions ranging from full taxation in Switzerland to full taxation in the neighbouring country, with compensation payments from Switzerland to the other country and vice versa. If Switzerland were to uniformly apply the solution that exists between Geneva and France (Geneva pays France 3.5% of the salaries for all cross-border workers living in the French departments Ain and Haute-Savoie), by following the OECD postulate with a partial reimbursement for the residence country, it would be able to collect an estimated additional CHF 2 billion of taxes per year.

Indirect Taxes

Value Added Tax (VAT)

Switzerland levies a VAT-based sales tax at the federal level. Swiss VAT is in many aspects similar to the EU system, with the important exception that, as Switzerland is not an EU member, there are no intercommunity transactions between Switzerland and the EU. Rather, all goods shipped to and from Switzerland need to go through customs, and import VAT is then levied by customs. Services imported from abroad are subject to service import VAT.

Small businesses with an annual revenue of up to CHF 100,000 are exempt from VAT (but may opt in if they wish), and small businesses with up to CHF 5.02 million annual revenue may opt for a simplified VAT regime where only the revenue side is to be reported and their input tax claims are replaced by a flat percentage. All businesses may opt to report VAT based on payment dates, as opposed to invoice dates; combining several dependent entities into a VAT group is another option.

Compared to the rest of Europe, Swiss VAT rates are moderate. Switzerland has three different VAT rates: the standard rate is 8%, while certain everyday goods such as most food items are taxed at a 2.5% reduced rate. A 3.8% rate applies to hotel stays and has been introduced to support the Swiss tourism industry. Revenue from export sales and transactions abroad are taxed at zero-rate, but still allow input tax to be claimed. There is also a wide range of 29 VAT exemptions, including most banking and insurance services, most medical and certain educational and cultural services, as well as the sale and lease of real estate. Unlike the above-mentioned zero-rate revenue, no claim of input tax is possible for exempted revenue.

VAT filing is quarterly (semi-annually for the simplified regime), and both filing and payment are due 60 days after the end of each period. Foreign entities registering for Swiss VAT are required to have a fiscal representative located in Switzerland and to provide a collateral deposit.

Withholding Tax (*Verrechnungssteuer, Impôt anticipé*)

Swiss withholding tax is levied at federal level as tax at source on dividend distributions of Swiss-based companies, interest payments on certain bonds, notes or debentures issued by Swiss debtors, interest payments from Swiss bank accounts, prizes from Swiss lotteries and on certain insurance payments. Not affected by the withholding tax are royalty payments and inter-company interest payments. The withholding tax is retained by the debtor and is delivered to the federal tax administration. If the beneficiary is resident in Switzerland, the withheld tax is refunded after the income and capital has been properly declared in the regular tax return. The withholding tax rates for returns on capital and lottery prizes is 35%; for life annuity and pensions, 15%; and for other insurance benefits, 8%. Different tax-withholding rules exist for EU residents, based either on a special interest taxation agreement or (if more favourable) on the specific relevant tax treaty.

For non-resident beneficiaries, withholding tax can be partially or totally refunded if a tax treaty provides for such a refund. For the non-refundable portion, many countries grant a tax credit.

Due to an extensive network of more than 100 tax treaties, the recovery of foreign withholding taxes on dividends, interest and royalty income paid to Swiss residents is often possible. At least a portion of the withheld tax is usually refunded; for the remainder, a tax credit is often possible. The claim for tax treaty benefits often requires documented evidence that no treaty abuse is involved.

The Next Step

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