SWISS COMPANIES

INTRODUCTION

Switzerland is a federal republic consisting of 26 cantons, with Bern as the seat of the federal authorities. The country is situated in Western Europe, where it is bordered by Germany to the north, France to the west, Italy to the south, and Austria and Liechtenstein to the east. The Swiss population is approximately 7.9 million people.

TAXES

Swiss tax rates for companies and individuals are among the lowest anywhere in Europe. Corporate taxes are approx. 16-25%, while individuals are taxed at rates between 5 % and 20%. A careful choice of corporate structure can even push the effective rate of taxation to below 10%. Stable political conditions, a liberal legal framework and the tax competition between the 26 cantons and the 3000 municipalities result in a constant low tax burden. The Swiss tax system is shaped by the country's federal structure. Companies and individuals are taxed at three different levels in Switzerland:

1. National (federal taxes)
2. Cantonal (state taxes)
3. Communal (county taxes)

The largest portion of taxes is levied by the cantons and municipalities, resulting in intense tax competition at these two levels. Each canton has its own tax laws, which the population can vote on democratically and directly. However, all taxes are collected by a single instance.

Low corporate taxes

Corporate taxes are very low in Switzerland. Federal taxes are charged at a flat rate, while cantonal tax rates vary by location (lowest tax burden in the Canton of Zug) and sometimes by level of capital or profit. Taxes are currently levied in the following ranges:

- Direct federal taxes on profits 7.83% (effective rate)

- Cantonal tax on profits 4.4-19%

- Communal tax on profits 4-16%

- Cantonal taxes on capital 0.03-0.3%

- Communal taxes on capital 0.04-0.25%

- Total tax burden 16-25%

- Taxation on after-tax profits (effective taxes)

- Direct federal taxes are charged at a regular rate of 8.5%. Because taxes are levied on after-tax profits, this yields an effective tax rate of 7.83%.

Other reductions through company-specific tax models

Tax optimization makes it possible to lower tax rates considerably to below n 10%. Companies may solicit a binding (advance) tax ruling for their effective tax burden from the tax authorities. Tax benefits are granted on a case by case basis, depending on the location and the type of business.

Avoiding double taxation

International double-taxation treaties (DTT) are in place to prevent double taxation. Switzerland has signed double taxation conventions with over 60 states, including nearly all Western industrial nations

Lowest value added tax (sales tax) in Europe

Switzerland has by far the lowest value added tax (VAT) anywhere in Europe. Regular VAT is 7.6%. hotels are taxed at 3.6 %, and necessities/convenience goods at just 2.4 %. Other goods and services, such as medical care and education, are completely exempt from VAT.

TYPES OF COMPANIES

▪ Holding Company

Some of the advantages of opening a holding facility are an advantageous taxation of income, which is reflected in the dividends, and business solutions like, optimizing in a group of companies, promoting a single brand name within a group of companies, financial security and protection from creditors and bankruptcy, the integration into a single structure of companies with different activities, etc.

A holding company is a joint stock company with no commercial activity in Switzerland, with a main goal of acquiring shareholdings in other companies.

Federal, cantonal and communal authorities offer reductions to holding companies in corporate income tax and capital gains. In order to establish a holding company, a company has to hold a minimum of 20% of the share capital of another company or a market value of 2,000,000 CHF of shareholding in another company. This type of corporation pays a reduced corporate income tax, which is determined by the ratio of the net dividend income from shareholding to the total of the profit generated.

One of the privileges offered by cantonal authorities is the exemption from all income taxes, which provides the complete exemption from tax payment on earned dividends, sale profits, interest income and other. For this to be possible the holding company must own at least 2/3 of the corporate assets consisting of shareholding or that at least 2/3 of its income is generated from the shareholding.

Domiciliary companies

A domiciliary company offers different services, which are all mainly administrative due to the fact that these companies serve as a strategically located area for the operations of foreign companies (e.g. headquarters). Through this type of company several activities can be carried out, like purchasing and selling, granting loans, and intellectual property rights profit (e.g., Patents).

A domiciliary company is a joint stock company that carries out its activity mainly abroad and is economically depended on another country. This type of company should not have more than 5% of revenue in Switzerland in order to operate. Other regulations are that the company's source must be foreign, the staff and other presences should be abroad, the company must have a registered office in Switzerland (e.g. at a lawyer's office), and the company's management has to be foreign.

Corporate income tax imposed on income and capital gains can be reduced to a minimum through domiciliary companies. Federal authorities do not grant tax advantages on corporate income tax payable on income and gains because the 8.5% imposed is valid for all companies in the Swiss territory. However, cantons do tax income and capital at a reduced rate. Cantonal authorities require the payment of about a 3.0% to a 3.5% which is 15% less than regular cantonal taxation of income to other types of companies. In some circumstances, domiciliary companies may enjoy of a special tax reduction.

Mixed Company

Mixed companies are strategically located facilities for the activities of a group of foreign companies, which help to optimize taxation to the whole of the group. One of the advantages of a mixed company is that international commercial activity is possible, as long as it is not through Switzerland. It is also possible to manage accounts issue license trademarks and patents, to lease and to market, and to carry out operations in European or International headquarters.
A mixed company is a joint stock company with all the above mentioned characteristics of holding and domiciliary companies, but not classifiable as either.

Cantonal and municipal authorities grant corporate income tax to this type of company, which can also turn into a total exemption if the company is controlled and managed by foreigners, if a minimum of 80% of the total income is of a

Some advantages of establishing a mixed company are the reduction of corporate income tax levied on income and capital gains. Mixed companies have their income and capital taxed at reduced rates through the canton, which is between o to 11% of tax in comparison with regular corporate income tax. They don't have any tax advantages though the federal authorities but pay 8.5% as all other companies throughout Switzerland.

▪ Service Company

A service company is part of a group of foreign companies to which it provides assistance in different matters. A service company is a joint stock company, which is a member of a group of companies and provides assistance to these in marketing and technical, administrative and scientific matters. This type of company should only obtain income from their corporate group, and never from a third party. In order to establish a service company it is necessary to obtain a special cantonal tax ruling, which nonetheless doesn't give any benefits regarding federal taxing.

Cantonal and communal authorities offer corporate income tax relief, which depends on the international orientation of the services provided by the companies. A total of 8.5% of the payroll would be the annual taxable profit or a 5% to a 20% of the overheads of the companies. Federal authorities do not offer any tax relief, but levy a 8.5% as is applicable to all regular companies in Switzerland.

▪ Management Company

The management company (either a mixed or domiciliary company) coordinates its activities from a base in Switzerland and does most or all of its business abroad. The company in Switzerland furnishes services to other companies in the group, such as management support, accounting, marketing or HR administration where at least 80% of the earnings and 80% of the expenses are generated abroad All income from abroad is subject to a 7.83% tax at the federal level. At the cantonal level, a very low tax rate applies depending on location, e.g. 2%. All income from Swiss sources is subject to regular taxation. Total effective tax burden varies form 9% to 12%.

▪ Principal Company

Corporate risks, assets and decision-makers are in Switzerland. The principal company takes on coordination and trading functions for an international group of companies in the sense of a principal structure, i.e. “contract manufacturing” and “stripped buy-sell.” Risks and responsibilities are shouldered for activities like procurement, production, sales, logistics, financing, R&D planning, and drawing up marketing strategies. Special tax models are used at the federal and cantonal level. An effective total tax burden various between 5% and 7%.

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