Why do Companies come and settle down in Switzerland?

There are several reasons why Switzerland is chosen as an ideal location for international business. These include:

- **Political, financial, social and economic stability.**
- **Location in the centre of Europe, allowing real time communication with Europe and within the same working day with the US and Asia.**
- **Excellent business support structures, lawyers, bankers, insurance companies and inspection companies.**
- **A high quality local workforce which enjoys a high standard of living.**
- **A favourable fiscal environment.**

Corporation Tax

Companies with their registered office or place of effective management in Switzerland are considered Swiss resident for tax purposes.

Resident firms are taxed on their worldwide income, except for incomes derived from foreign branches and foreign immovable property, which are exempt.

Tax is imposed at federal, cantonal and municipal levels. The federal rate is 8.5%. However as certain taxes are deductible in determining total taxable income, the effective rate is 7.83%.

Corporate Tax Privileges

- ***Federal Principal Company Ruling***

The Principal Company Ruling applies to both federal and cantonal taxes and is granted to companies conducting regional functions on behalf of a multinational group. Such functions include:

- Development of marketing strategy
- Distribution
- Management of stock
- Organisation of research and development
- Planning logistics
- Production
- Purchasing
- Responsibility for treasury, finance and administration functions

Generally all of the profit of the principal company is deemed to be sales profit, unless the company assumes responsibility for the manufacturing function. In the latter case, 30% of the profit is deemed attributable to the manufacturing function and 70% is deemed attributable to the sales function.

Under the 'Federal Principal Company Ruling' 50% of the profit of a principal company, which is attributed to the sales activity, is attributed to its foreign permanent establishments and is therefore exempt from taxation in Switzerland. Some cantons grant even a higher exemption at the cantonal level for qualifying profits from foreign sales.

- ***Holding Companies***

Companies that hold participations in affiliated companies and do not engage in commercial activities in Switzerland are exempt from cantonal tax on their entire income, including capital gains on participations.

A qualifying holding company is only subject to federal income tax at an effective rate of 7.83% and under certain conditions can benefit from the participation exemption rules. In the case of a pure holding company this generally results in a complete tax exemption.

- ***Auxiliary Company Ruling***

Auxiliary status is applicable to Swiss based companies that trade predominantly outside of Switzerland. Only a "%" of foreign sourced commercial income is taxed at the ordinary tax rate, resulting in an effective rate of approximately 12% (federal and cantonal taxes).

Double Tax Treaties

Switzerland has an extensive double tax treaty network, with more than 90 double tax treaties currently being in force.

Withholding Tax

Dividends are subject to a 35% withholding tax, unless a lower rate applies under a double tax treaty.

Under the Switzerland/EU Savings Agreement, Switzerland is given access to benefits similar to those contained in the EU Parent/Subsidiary Directive. Withholding tax is reduced to zero on cross border payments of dividends between a company residing in an EU member state and its Swiss parent or subsidiary companies when the capital participation is 25% or more.

Advance Rulings

The benefits of any particular treaty and/or the Switzerland/EU Savings Agreement can be denied in cases regarded as treaty abuse.

It is therefore recommended that an advance ruling should be obtained from the Swiss Federal Tax Administration prior to the distribution of dividends.

Conclusion

Companies can appreciate a tax efficient environment with tax rates as low as zero for holding companies and 8% to 12% for companies that get their income mostly outside Switzerland. In the correct conditions appropriate planning can also eliminate withholding tax on dividends.

Please feel free to contact us with any questions or queries.

Trust 4 Trust Group

Email: info@trust4trust.com
Ph.: +41 91 220 4710
Fax: +41 91 220 4711
Mob: +41 79 93 400 50