SWITZERLAND: Tax Privileged Companies

- **Holding Companies**

  1. Taxation of holding companies in Switzerland:

  Some of the advantages of opening a holding facility are a advantageous taxation of income, which is reflected in the dividends, and business solutions like, optimizing taxation 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.

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

  3. Tax privileges and regulations:
     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**

  1. Taxation of domiciliary companies in Switzerland:
     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).

  2. Definitions:
     A domiciliary company is a joint stock company that carries out its activity mainly abroad and is economically dependent 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.

3. Tax privileges and regulations:
   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**
  1. Taxation of mixed companies in Switzerland:
     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 licenses, trademarks and patents, to lease and to market, and to carry out operations in European or international headquarters.

  2. Definitions:
     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 foreign source, and has a registered office with no staff in Switzerland.

  3. Tax privileges and regulations:
     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 0 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**
  1. Taxation of mixed companies in Switzerland:
     A service company is part of a group of foreign companies to which it provides assistance in different matters.

2. Definitions:
   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 an special cantonal tax ruling, which nonetheless doesn't give any benefits regarding federal taxing.

3. Tax privileges and regulations:
   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.

For more information please contact us at info@trust4trust.com