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Mattig-Suter und Partner Schwyz **Treuhand- und Revisionsgesellschaft**

Tax Information Switzerland

1. Corporate income tax and capital tax

1.1 Taxable corporations

Corporate income tax is imposed on the net income generated by Swiss corporations, limited liability companies, cooperatives, associations, foundations and other legal entities.

Income derived from non-domestic real estate or from a non-domestic permanent establishment or branch office is generally exempt.

Non-domestic entities with a branch office, real estate or business operations in Switzerland pay corporate income tax only on part of the profit generated in Switzerland.

1.2 Domicile

It is essentially the case that a company founded in Switzerland is fully liable for tax. In addition, non-domestic legal entities in Switzerland are fully liable for tax if their actual management is located in Switzerland.

1.3 Tax rates

Income tax in Switzerland is levied by the federal government, the cantons as well as the municipalities. The taxes can be deduced from earnings.

Federal income tax for stock corporations and cooperatives is 8.5% of net profits.

Cantonal and municipal income tax rates vary according to the particular canton and municipality. In the Canton of Schwyz, for example, it amounts to 1.95% of net profits (Canton of Zurich: 7%, from 2023 6%). The simple state tax is then multiplied by the cantonal tax multiplier as well as by the respective municipal tax multiplier. This results in the effective tax rate.

In Schwyz as the capital of the Canton the current effective total tax burden is approx. 14.1% (Freienbach 11.8%) of pre-tax profits.

1.4 Taxable income

Legal entities which are personally present (domicile or effective management in Switzerland) are fully liable for tax. This means the total sum of all revenues and profits must be declared.

Legal entitles which are neither domiciled nor have their effective management in Switzerland are liable for tax on the basis of their economic presence if they:

- maintain permanent establishments or branch offices in Switzerland;
- are partners in Swiss business enterprises;
- own, have rights in rem or economically comparable personal rights to use real estate in Switzerland;
- are creditors or usufructuaries of claims which have been secured by mortgages or pledged collateral on real estate in Switzerland;
- broker or trade in real estate properties located in Switzerland.

1.4.1 Deductible expenses

All expenses incurred in the normal course of business are deductible. This includes, for example, depreciation and amortisation on tangible and intangible assets, interest on loans to affiliates under certain circumstances, as well as fees and taxes.

1.4.2 Non-deductible expenses

All expenses that are not related to normal business operations are not deductible. This includes, for example, tax penalties, concealed profit distributions or provisions for future tax charges and investments.

1.4.3 Provisions

A general reserve of up to one-third of the purchase or production cost of inventory (or market value if lower) is allowed for tax purposes. Certain flat-rate provisions are allowed for possible future losses. For example, a del credere provision of at least 10% is permitted on domestic receivables and 15% on non-domestic receivables. In addition, many cantons permit flat-rate provisions for major real estate repairs.

1.5 Offsetting losses

Under both federal and cantonal tax laws, losses from the seven financial years prior to the tax period may be carried forward. In most of the Cantons, operating losses may be offset against real estate earnings during the same tax period.

1.6 Tax relief

Examples of tax relief are: tax rulings (cf. below) which facilitate special tax treatment, partial tax exemptions for newly-founded companies or for companies undergoing restructuring.

1.7 Taxation of corporate groups

1.7.1 Fiscal unity

The concept of taxing a consolidated group or a group of companies does not exist under Swiss tax law. Each company is treated as a separate tax-payer and files a separate return.

1.7.2 Participation relief on dividend payments

If a stock corporation or cooperative owns at least 10% of the share capital or nominal capital of an other company, or if its capital holding has a market value of at least CHF 1 million, the federal, cantonal and municipal income tax liability is reduced by the proportion of the net earnings from these participations to the total net profit. This means such qualified participation earnings are essentially tax-exempt.

1.7.3 Capital gains

For federal and cantonal tax purposes, a gain or loss from the sale or exchange of assets is treated as ordinary income or expenses. The basis for determining the gain or loss is the tax value, which is usually also the book value. However the following exemptions exist:

- Capital gains realised on investments may enjoy the same benefits as dividend income, provided the alienated investment amounts to at least 10% of the capital and the investment has been held for at least one year. In this case, the difference between the sales price and the original cost enjoy privileged tax treatment.

- The tax on profits from the alienation of operating assets may be deferred insofar as they are used to replace the assets during the financial year, or if the profits are transferred to a corresponding temporary reserve.

1.7.4 Anti-abuse regulations

Switzerland has concluded numerous double taxation conventions with third party states. These are designed to avert double international taxation. In order to prevent these provisions being abused, Switzerland has enacted certain unilateral measures. Under these measures, taxpayers must meet certain conditions to obtain relief from withholding taxes by virtue of a Swiss double taxation convention.

1.7.5 Undisclosed equity

The Federal Tax Administration issued a circular in June 1997, setting out guidelines for minimum equity. This means that assets need to be covered by equity at market values to ensure adherence to the arm's length principle (safe-haven rule):

- 20–30% of real estate
- 50% of other fixed assets
- 15% of inventories and other current assets
- 30% of investments in subsidiaries
- 40% of listed shares
- 50% of unlisted shares and other investments in companies

Taxpayers may apply different rates, provided they are able to demonstrate that the financing is performed at normal market rates. Insofar as reported debts exceed the permitted outside capital – in relation to debts owed to affiliated companies – undisclosed equity will be assumed. This will then be subject to capital tax. Taxable income also includes the debt interest payable on the proportion of the outside capital which constitutes hidden equity.

1.8 Capital tax

In addition to income tax, legal entities also pay capital tax (only cantonal). The tax is calculated on the basis of the taxable capital. Depending on the particular canton, the tax rate varies between 0.005 % and 1.5%. In some cantons capital tax is not owed if this is lower than income tax.

The cantons may reduce the taxation of the capital, which relates to participations, to patents and comparable property rights as well as to intragroup loans.

2 Withholding tax

A 35% withholding tax is levied on the following income:

- dividends from companies domiciled in Switzerland;
- interest exceeding CHF 200 on bank accounts;
- interest on public bonds;
- debentures;
- other debt obligations issued by a lender domiciled in Switzerland.

As a rule, no withholding tax is imposed on ordinary loans from group companies. In the case of companies domiciled in Switzerland, withholding tax is fully reclaimable, or can be settled using reporting pro cedures. Non-domestic companies are able to re claim withholding tax if they are domiciled in a country which has signed a double taxation convention with Switzerland. As a rule, companies which pay interest or dividends are required to deduct the 35% withholding tax directly from the gross sum and to remit this to the Federal Tax Administration. Withholding tax credits at the Federal Tax Administration may be reclaimed for the past 3 years.

Monetary benefits (or hidden profit distributions) are also subject to withholding tax. Such monetary benefits may derive, for example, from failure to charge interest or from insufficient interest on loans to shareholders or to persons affiliated therewith, from excessive prices paid for assets, fees or other remuneration paid to shareholders or to persons affiliated therewith, insofar as the normal market price was not paid for this purpose.

With effect from 1 July 2005 taxpayers have the opportunity to apply Art. 1 of the Savings Interest Agreement between Switzerland and the European Union. This draws upon the EU Parent-Subsidiary Directive. The rules mean that under certain circumstances that no withholding tax will be imposed upon dividends received from qualified investments.

3 Value added tax

Value added tax is a consumption tax which is collected by companies. Companies pay input tax to suppliers on their purchases. They then impose value added tax on the net price of their sales. The effective tax burden is shown as the difference between value added tax and input tax. The taxpayer pays this to the Federal Tax Administration. A company whose input tax exceeds its value added tax is entitled to a refund.

Companies are required to register for value added tax if their total annual taxable sales exceed CHF 100,000.

In addition, non-registered companies which import services from abroad that exceed CHF 10,000 per year, must declare such sales to the tax authorities.

3.1 Tax rates

Standard rate: 7.7% as per 1 January 2018.

The rate for food products, drinks, agricultural products, pharmaceuticals and newspapers is 2.5% (reduced rate).

Special rate for hotel services: 3.7%.

The tax is not imposed on exported goods and services.

4 Personal income tax

Natural persons domiciled or resident in Switzerland are subject to federal, cantonal and municipal taxes on their global income, with the exception of income from non-domestic real estate, non-domes tic business enterprises and non-domestic permanent establishments. However, these are taken into account for the purpose of determining the tax rate. As a rule, private capital gains, with the exception of capital gains on real estate, are tax-exempt. Various non-domestic sources of income are exempted from tax on account of existing double taxation conventions.

A tax domicile is deemed to have been established if the taxpayer's domicile is of a permanent nature. In addition, residency in Switzerland may establish an unlimited tax liability if this lasts for at least three months (without gainful employment) or at least one month (with gainful employment).

4.1 Tax rates

As a rule, income tax is imposed on a progressive scale. The rates differ from canton to canton, as well as from municipality to municipality. The following table provides an overview of the percentage tax rates applicable in the year 2019 in the municipality of Wollerau:

Taxable income in CHF	Income tax for unmarried people in %	Income tax for married couples in %
100,000	10.85	8.73
150,000	13.46	11.64
200,000	15.44	14.32
250,000	17.24	15.93
300,000	18.92	17.00
500,000	21.55	19.73
700,000	22.28	21.84
1,000,000	22.42	22.42

4.2 Dividend taxation

In order to reduce the economic double taxation of business profits, Switzerland taxes only a part of the distribution of profits from participations of at least 10% of the company capital. The extend of the relief deviate among the Cantons. For the Direct Federal tax, the relief is 30% of the brute amount for participations belonging to the private assets resp. of the net amount after deduction of the allocable costs for participations belonging to the business assets.

5 Other taxes

5.1 Issuance stamp duty

A 1% issuance stamp duty is charged on the issuance or increase in the par value of all shares or capital contributions of domestic corporate stakes in excess of the first CHF 1 million. In addition, concealed and open contributions to equity capital are also subject to issuance stamp duty. However, the establishment or increase in shareholdings in conjunction with mergers, conversions or similar transactions are exempted from the tax.

5.2 Transaction stamp duty

The federal government imposes a transaction stamp duty on the purchase, sale or brokerage of Swiss and non-domestic securities by domestic se-curities traders (such as banks and other financial institutions, managers of investments funds, com-panies with securities with a book value of more than CHF 10 million, etc.). Transactions in the following securities are subject to transaction stamp duty: securities, bonds, debentures and promissory notes. The rate of duty is 0.15% for domestic securities and 0.3% for non-domestic securities. The imposed duty is usually divided equally be tween the buyer and the seller.

5.3 Real estate capital gains tax

Capital gains derived from the sale of Swiss real estate or majority holdings in real estate companies are subject to the so-called real estate capital gains tax. The tax is levied on the difference between the acquisition price and the sales proceeds. Tax rates vary according to the canton and the length of time the assets were held.

5.4 Gift and Inheritance tax

Most cantons impose an inheritance or gift tax. However, with a few exceptions, spouses and direct descendants are exempted from this tax. As a rule, cantonal inheritance tax is levied on the entire estate of the deceased party, insofar as this party's last domicile was in Switzerland. The tax rates vary according to how closely the testator and the beneficiaries were related, and are dependent upon the particular canton levying the tax. There is no gift or inheritance tax in the Canton of Schwyz.

6 Deadlines for submission of forms

6.1 Tax declarations for legal entities and natural persons

It is essentially the case that the deadline for the filing of tax returns is March or April, depending on the particular canton. Requests for an extension of the deadline may be obtained from the tax authority.

6.2 Value added tax settlement

As a rule, value added tax is settled on a quarterly basis. The respective settlement must be submitted to the Federal Tax Administration within 60 days of the end of the quarter.

6.3 Withholding tax

Withholding tax must be reported and / or paid within 30 days of the taxable benefit (e.g. dividend distributions).

7 Default interest and tax penalties

Penalties for late filing of tax returns may reach CHF 1,000. In serious or repeat cases the penalty may rise to CHF 10,000.

Default interest is based upon applicable cantonal tax legislation.

8 Miscellaneous

8.1 Tax relief

In most cantons, the cantonal government may grant tax relief in respect of cantonal income tax. This is possible for companies which have been newly founded and serve the economic interest of the canton. The granting of tax relief is subject to certain criteria and conditions. This either reduces the tax rates or exempts a specific level of income from tax. As a rule, no tax relief is available on direct federal tax.

8.2 Patent box

Companies domiciled in Switzerland have the opportunity to benefit from tax advantages in connection with the so-called patent box. The corresponding law is entered into force on 1 January 2020.

Upon a taxable person's or company's request, the net profit resulting from patents or income from patents, respectively, is taken into account in the ratio of qualifying R&D expenses to total R&D expenses per patent for the calculation of the taxable net profit. This may result in a reduction in income of up to 90%, entailing corresponding tax advantages. In order for patents to be taken into consideration for the box, they must relate to research and development activities (nexus approach) and, in accordance with OECD guidelines, they must be novel, useful and non-obvious.

8.3 Excessive deductions for R&D expenses

Up to 150% of the explicit commercially justified R&D expenses incurred, directly or indirecty via third parites, by a taxable person or company in Switzerland may be deemed deductible. In Switzerland, the competence lies with the cantons, which may grant their approval upon request.

8.4 Notional interest deduction

The notional interest deduction (NID) is a measure intended only for "high-tax " cantons and is only applicable in the canton of Zurich. The measure is be limited to cantonal and communal taxes. A NID is granted on safety equity, i.e. the equity which in the long term exceeds the average equity required for business operations. Companies with an above-average equity ratio may thus benefit from the NID. The safety equity is calculated by deducting the core capital from the effectively available equity (NID only applies if there is a surplus). The core capital is calculated by multiplying the risk-weighted assets by a capital adequacy rate. These capital adequacy rates are still to be defined by the authorities. The NID cannot be applied to participations, non-operating assets, goodwill from the disclosure of hidden reserves or assets created for the purpose of benefitting from unjustified tax benefits. The applicable interest rate will be based on the yield on ten-year Swiss federal bonds. To the extent that safety equity is proportionately attributable to receivables of all kinds from related parties, a higher arm's length interest rate may be applied (so-called margin taxation).

Disclaimer

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