Setting up your Business in Switzerland
Issues to consider

Switzerland is a modern country that offers local and foreign investors efficient surroundings with the greatest possible independence. However, as in every country, it is advisable to clarify strategic points such as general and company law, fiscal and other legal questions beforehand.

However there are a number of issues which you must consider when you are looking to set up your business in Switzerland. This document takes you through some of the common questions we come across and gives you practical information about the issues you need to consider.

What type of Business Structure should we use?

There are advantages and disadvantages to all of them, and there is no one correct answer, it's all dependent on your specific business circumstances and needs. A brief overview of the main structures is below:

Establishment (a branch of your overseas business)

- Not a separate legal entity but an extension of the overseas parent company
- No limited liability or ring-fencing of the Swiss operations
- If have a permanent establishment in Switzerland then profits from this PE are liable to Swiss Corporation tax
- Must file **parent company accounts**, prepared under Swiss Company Law, at Companies House for public inspection, even if these are not made publically available overseas: yes. There are no filling requirements.

Limited Company:

- Provides limited liability and ring-fencing to Swiss operations
- Gives a perception of a local business, with longevity
- Corporation tax to be paid on company profits
- No filing requirements
- Accounts require full auditing if 2 of the following 3 criteria are met within 2 years:

Gross Assets	>	CHF 20 m
Revenues	>	CHF 40 m
Employees	>	250

  Below these criteria a limited review or no audit is required.

Partnership:

- Members (partners) have joint liability
- Profits are allocated to members who then pay Income Tax on these profits personally

How much Corporation Tax will the business pay?

Corporate and Branch tax rates range between 11.3 % - 24.4 %.

Taxes are levied at federal and cantonal / communal level. Since Switzerland is a confederation of 26 cantons the cantonal / communal tax rates vary widely depending on the canton and commune in which the company is located.

Capital/Canton

Zurich/Zurich	21.1%
Zug/Zug	14.6%
Geneva/Geneva	24.2%
Nidwalden/Nidwalden	12.7%

- There is no progression on the tax rate
- Taxes are deductible as costs
- Lower rates are available for privileged companies
- Participation exemption rules for dividends and capital gains on qualifying investment
- Carry-forward of net operation losses for 7 years

What if we use Switzerland to set up our holding company?

Switzerland's tax legislation means that it is a very attractive place to set up a holding company.

At cantonal / communal level, holding companies are completely exempt from corporate income tax. This includes also all types of income derived from financial participations, such as dividends, interests or capital gains. At federal level, dividends and capital gains on qualifying investments qualify for the participation exemption.

Swiss companies distributing dividends are generally required to pay withholding tax at the rate of 35 %. However, dividends distributed on substantial participations may qualify for an additional reduction or a full exemption from withholding tax under a comprehensive income tax treaty or under the Switzerland - EU agreement. Switzerland has entered into approximately 90 double tax treaties.

What if we make cross-border transactions between group companies?

Switzerland follows internationally recognised **Transfer Pricing** (TP) rules where cross-border trading and financial transactions between affiliated entities have to be conducted on an arm's length basis. The price and terms should be the same as if the transactions had been between completely independent parties.

However, Switzerland does not have statutory transfer pricing rules. Therefore, it is recommended to discuss transfer-pricing issues with the tax authorities. Rulings in this connection are common.

Intercompany charges should be determined at arm's length. OECD guidelines are accepted by the tax authorities.

If an entity is exempt from the Swiss transfer pricing regime it may fall under the scrutiny of the other international tax jurisdictions where it transacts. There may also be other tax regulations which ensure transactions are undertaken at a commercial value.

What Employment Taxes and Social Security will need to be paid?

If individuals are resident in Switzerland then they are subject to Swiss tax laws.

We would advise any new entrant to Switzerland or person who spends time working in Switzerland to take professional advice to determine whether they are Swiss tax resident.

Current Personal Income Tax rates in Switzerland are:

Income taxes are levied at the federal and cantonal / communal level. The tax rates vary widely depending on the canton and commune in which a person is resident.

Capital/Canton	Gross salary CHF 100,000	Gross salary CHF 150,000	Gross salary CHF 500,000
Zurich/Zurich	4.97 %	9.21 %	26.31 %
Zug/Zug	1.78 %	4.14 %	17.63 %
Geneva/Geneva	3.30 %	9.80 %	28.07 %

(married/2 children) & (2012)

There is also a wealth tax. There is no capital gains tax.

Current Social Security rates are:
On salaries paid, shared equally between employee and employer. Main types:

Federal retirement plan & disability insurance	10.25 %
Supplementing retirement plans by employers	ca. 10 - 20% Rates vary by plan, gender and age
Family allowance plan	ca. 1.2 % (paid by employer only) rates vary by cantons
Federal unemployment insurance	2.2 % (paid up to an annual gross income of CHF 148'200) 1.0 % for salaries over CHF148'200
Illness & accident insurance	partly voluntary

It is the employers' legal responsibility to pay social security deductions to the authorities. Taxes on income have to be paid by the individuals.

Switzerland has a Reciprocal Agreement with the USA, EU countries and many others whereby when an overseas national of those countries is seconded to Switzerland for a defined period of time and continues to pay social security in his/her home country, then the employer and employee are exempt from paying Swiss social security.

What is Value Added Tax (VAT) and should the business be registered?

VAT is a "goods and services tax" on supplies made, the standard rate of which is 8%. If a business makes taxable supplies in excess of CHF 100'000 in any 12 months then it MUST be registered for VAT.

There are three types of supply

- Taxable – must charge VAT on supplies, can reclaim input VAT
- Exempt – cannot charge VAT nor reclaim input VAT
- Outside the scope – not in the Swiss VAT system

The supply of most types of goods and services within Switzerland would be classed as Taxable supplies.

If a Swiss entity sells goods or provides services to companies outside Switzerland then there is no VAT chargeable on these exports, however on the basis that the supply would be VAT'able if made in Switzerland then the entity will be able to reclaim all its input VAT.

Can we provide Share option plans to our staff?

Many companies see Share Option plans as being an important way of attracting, motivating and retaining key staff.

Switzerland has a number of "approved" share option plans which give tax benefits to employees and employers alike and it is often possible to adapt an overseas stock option plan to fit into one of these "approved" plans.

However this is a very technically complex area and careful planning needs to be undertaken as soon as share option plans are being considered for implementation in Switzerland.

How else can we compensate our employees?

Switzerland has a very comprehensive range of compensation and benefit options available for companies to offer their employees.

Optional pension plans, private medical insurance and life and disability cover are common-place benefits provided by many Swiss businesses to their workforce.

To discuss your requirements please contact the International Office on +44 (0) 1245 449266 or email us directly.

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