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Taxation and Investment in Switzerland 2011

Reach, relevance and reliability



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1.0 Investment climate

1.1 Business environment

Switzerland is a federal state and a parliamentary democracy. Several national referenda are held every year, and the need to build strong popular support for legislation has led to a consensual political process. The result is a stable and reliable political environment.

Located at the center of Europe, Switzerland has close economic ties with the EU and largely conforms to the economic practices of the EU even though it is not a member.

Switzerland has a modern market economy and one of the highest per capita GDPs in the world. With a highly skilled labor force, Switzerland has low unemployment rates and a highly developed service sector and advanced manufacturing. Significant industries are banking, insurance, machinery, chemicals (including health and pharmaceuticals), watches and other precision instruments and tourism.

The Swiss economy is export-oriented, with exports of goods and services accounting for almost one-half of GDP. Switzerland is a member of the World Trade Organization (WTO) and the European Free Trade Association. It has a free trade agreement with the EU, with which it has concluded two sets of bilateral accords.

EU member states are Switzerland's main trading partners. Switzerland is a net importer of food and must purchase nearly all of its energy and industrial raw materials abroad. The export sector is focused on high value-added goods, e.g. in the chemicals, pharmaceutical and precision instruments industries.

Switzerland has a tradition of supporting free trade, and tariffs for industrial goods—insofar as they still exist—are generally low. Only agriculture remains protected by fairly high tariffs.

Price controls

Switzerland is a free-market economy and, in principle, no price controls exist.

Intellectual property

Patents, industrial designs and models, trademarks and copyrights are legally recognized in Switzerland. The country offers a high level of protection for all forms of intellectual property.

1.2 Currency

The national currency is the Swiss Franc (CHF).

1.3 Banking and financing

Despite a challenging international environment, the Swiss banking system remains among the world's strongest, boosted by continued efforts to adapt to market conditions and by a currency—the Swiss franc—that remains a haven in times of global economic turmoil.

Swiss banks are responsible for their own lending practices, which are monitored by the Swiss Financial Market Supervisory Authority (FINMA).

Under an agreement with the EU, Switzerland applies the Savings Tax Directive, with Swiss paying agents withholding tax on interest payments to individuals resident in the EU. Switzerland also is in the process of adapting its policy regarding information exchange in cases of tax fraud and evasion and has been amending its double tax treaties with the exchange of information clause as set out in the Article 26 of the OECD Model Convention.

Zurich is Switzerland's largest financial center and Geneva is one of the world's most important centers for private banking.

1.4 Foreign investment

Switzerland welcomes foreign direct investment. Laissez-faire policies and federal and cantonal incentives for new investors mean that Switzerland is an attractive and popular investment location

for a variety of multinationals and enterprises. The country is frequently used as a location for international headquarters, trading companies and other entities coordinating international functions and sales (principal companies, shared services and logistics centers, research and development facilities, etc.). Such firms are, in principle, treated in the same way as local companies, but can often benefit from tax and financial incentives (see below). For practical project support, investors are often assisted by the Cantonal Economic Development Agencies.

Foreign firms do not need formal approval for direct investment in Switzerland, and no particular office oversees investments. Government permission is required, however, in certain sectors (e.g. to establish a bank or an insurance company). In most areas of business, no overall restrictions apply to the percentage of equity that foreign firms may hold.

1.5 Tax incentives

The mixed company tax privilege is granted to companies with predominantly foreign business activities. A business activity is deemed to be performed predominantly outside Switzerland if generally at least 80% of the total gross income is derived from foreign sources and at least 80% of expenses are incurred abroad. Foreign-source income of a mixed company is taxed at a combined effective rate of typically between 9%-11% (including federal tax). Swiss-source income is taxed at ordinary rates for cantonal/communal and federal income tax purposes. Incentives also are available for domiciliary companies, principal companies and finance branches.

Federal assistance in the form of a federal tax holiday is available for up to 10 years for companies bringing economic value-adding activities to specific regions in Switzerland. Most cantons also grant tax holidays to companies bringing economic value-added functions and creating significant new jobs for up to 10 years.

1.6 Exchange controls

There are no foreign exchange controls.

There are no distinctions between resident and nonresident accounts and no limitations on borrowing from abroad. Likewise, local borrowing by foreign-controlled firms from banks and related (or unrelated) companies is freely permitted.

A money laundering law covers banks, financial institutions, lawyers and accountants. The law provides for penalties (including prison and fines) for those who deliberately help launder money or assist with money laundering by failing to identify suspicious clients.

2.0 Setting up a business

2.1 Principal forms of business entity

The most frequently used company form is the corporation, the *société anonyme* (SA)/*Aktiengesellschaft* (AG). The Swiss limited liability company—the *société à responsabilité limitée* (SARL)/*Gesellschaft mit beschränkter Haftung* (GmbH)— has historically less often been used as a vehicle for conducting international business. However, the use of the SARL/GmbH in international business has increased significantly in recent years largely because, unlike the SA/AG, the entity can be disregarded for U.S. tax purposes under the “check-the-box” rules.

Formalities for setting up a company

To form a corporation, the founders must hold an incorporation meeting before a notary public where the articles of incorporation are resolved. The incorporation meeting is documented in a public deed. The corporation is then registered in the commercial register.

Forms of entity

Requirement for an SA/AG

Capital. The minimum capital is CHF 100,000 and the minimum nominal value of an SA/AG share is CHF 0.01. At least 20% of each share’s nominal value (or CHF 50,000, whichever is more) must be paid in by the time of the first shareholders’ meeting. Contributions in kind, such as contributions of real property, machinery, patents and know-how, are possible. In the case of contributions in kind, the founders are required to draw up a detailed report, which must be approved by the auditors.

Before dividends may be distributed, 5% of the annual net profits must be placed in a legal reserve until it reaches 20% of paid-in capital. Thereafter, 10% of any distributed amount that exceeds 5% of paid-in capital must also be placed in the reserve fund. The above amount must be appropriated until the reserve equals 50% of authorized and issued capital (this does not apply to holding companies).

Founders, shareholders. There must be at least one founding shareholder. The founders are not required to be Swiss citizens or residents.

Board of directors. There are no requirements regarding residence or the nationality of board members. However, at least one Swiss resident board member or executive director is required.

Types of shares. Registered and bearer shares are permitted, but a share must be fully paid up to be converted from registered to bearer. A corporation may restrict the negotiability of registered shares to a certain extent. Both common and a limited number of preferred shares are permitted, but non-voting shares are not permitted. Companies use participation certificates (up to the double of the share value) in place of shares to raise non-voting capital.

Control. Important decisions (e.g. changing the purpose of the corporation, issuing new preferred shares, increasing capital and restricting shareholder subscription rights) require approval by more than two-thirds of the votes and 51% of the capital present at the annual general meeting (a “double majority”).

Branch of a foreign corporation

Foreign companies may conduct business in Switzerland through a branch. A branch must be registered in the commercial registry of the canton where it is located. It may engage in all the same forms of business activity as a corporation.

Branches of foreign companies in Switzerland are taxed at the same rates as domestic companies.

2.2 Regulation of business

Mergers and acquisitions

Firms planning a merger must notify the Federal Competition Commission before the transaction takes place if the merger exceeds certain turnover thresholds. These apply when one of the

companies involved has total sales of at least CHF 2 billion or sales in Switzerland of at least CHF 500 million, or if at least two of the firms involved have a turnover in Switzerland of CHF 100 million each.

The Federal Competition Commission can stop a merger if there is a risk that it will create a market-dominating position. As a general rule, however, the Commission imposes conditions on mergers rather than blocking them. The Federal Council can allow a merger upon request if it deems the merger to be of overriding public interest.

Monopolies and restraint of trade

The Federal Law on Cartels provides a mechanism to prevent the unlawful restraint of competition. Agreements between enterprises that significantly affect competition in the market for certain goods or services and that are not justified on grounds of economic efficiency, as well as agreements that lead to the suppression of effective competition are unlawful.

A company holding a dominant market position violates Switzerland's cartel law if it engages in illegal competition-restricting activities. Practices of such companies are illegal if they, through the abuse of their position, prevent other companies from entering into or competing in the market or when they discriminate against trading partners. In particular, the following activities may constitute unlawful practices: refusal to trade (e.g. refusal to supply or buy goods); discrimination against trading partners with regard to prices or other conditions of trade; the imposition of unfair prices or other unfair conditions of trade; the under-cutting of prices or other conditions directed against a specific competitor; imposing restrictions on production, sales or technical development; and the conclusion of contracts only on the condition that partners agree to supply additional goods or services. Some exceptions apply, and limits on competition are legal when justified by overriding legitimate interests and when the results do not adversely affect public welfare.

2.3 Accounting, filing and auditing filing requirements

Companies must present accounts for the current and the preceding financial year to the general meeting of shareholders. Companies listed on the stock exchange or with outstanding bond issues must publish annual and consolidated accounts as approved by the annual general meeting and the auditors' report in the Swiss Commercial Gazette or provide such information upon request.

Depending on the size of the corporation and whether it qualifies as a public company, the shareholders must elect as auditor a supervised auditing firm, an admitted audit expert or an admitted auditor. If certain conditions are satisfied and all shareholders agree, small companies may waive the requirement to elect an auditor.

Shareholders may elect one or more auditors. The auditors must be independent, which means they may not be board members or employees, and at least one must be domiciled in Switzerland.

Auditors must prepare a report for the board of directors and be present at the annual general meeting unless shareholders unanimously waive their presence.

Swiss GAAP applies.

3.0 Business taxation

3.1 Overview

Tax is imposed in Switzerland at the federal and cantonal/communal levels. The Federal Tax Harmonization Law (FTHL) has generally harmonized the tax systems of the cantons with respect to the tax base, as well as with the federal income tax law. While the FTHL harmonizes the major tenets of cantonal/communal tax systems, one significant aspect is not harmonized—the tax rates, which may be independently set by the cantons and municipalities.

Swiss tax rates for multinationals are favorable compared with the rates in other European countries. On average, headquarter companies in Switzerland are subject to an income tax rate of 8%-10%.

Other federal taxes that are imposed are withholding tax, stamp issuance and transfer tax, and value added tax (VAT). At the cantonal/communal level, companies are also subject to capital taxes on net equity and real estate taxes based on the relevant tax legislation.

Special tax regimes

Various tax privileges exist at the cantonal level, in particular for holding companies and domiciliary/mixed companies. At the federal tax level, such companies remain subject to ordinary taxation.

The holding company tax privilege is granted to companies whose primary statutory purpose is the holding of participations (i.e. where at least two-thirds of the total assets consist of investments in subsidiaries or, alternatively, at least two-thirds of income is derived from qualifying investments) and that have no active trade or business in Switzerland. A company with the holding company privilege is fully exempt from cantonal and communal income taxes. The effective federal income tax rate on income other than from qualifying participations is 7.8%.

The domiciliary company tax privilege is granted to companies that only carry out administrative activities in Switzerland. Pure domiciliary companies may not have their own personnel and own office in Switzerland. Foreign-source income of a domiciliary company is exempt from cantonal and communal income taxes in many cantons. Consequently, the foreign-source income of a domiciliary company is only subject to the federal effective tax rate of 7.8%. Swiss-source income is taxed at ordinary rates for cantonal/communal and federal income tax purposes.

The mixed company tax privilege is granted to companies with predominantly foreign business activities. A mixed company is allowed to perform subordinate business activities in Switzerland, as well as have its own personnel and office in Switzerland. A business activity is deemed to be performed predominantly outside of Switzerland if at least 80% of the total gross income derives from foreign sources and at least 80% of the expenses are incurred abroad. Foreign-source income of a mixed company is taxed at a combined effective rate of typically between 9%-11% (including federal tax). Swiss-source income is taxed at ordinary rates for cantonal/communal and federal income tax purposes.

Other tax advantages may be obtained by way of a tax ruling for principal companies, finance branches, among others, in addition to the above incentives. Tax holidays may also apply.

3.2 Residence

Companies with their legal seat (registered office) or place of effective management in Switzerland are considered resident for tax purposes.

3.3 Taxable income and rates

Resident companies are taxed on their worldwide income, except for profits derived from foreign branches and foreign immovable property, which are tax exempt. Nonresident companies are taxed on permanent establishment/branch income and/or immovable property located in Switzerland.

The federal statutory tax rate of 8.5% is levied on net income. Since income and capital taxes are deductible in determining taxable income, the effective tax rate that a company pays on its profits before tax is 7.8%. Branches of foreign companies in Switzerland are taxed at the same rates as domestic companies.

The cantonal/communal level rates vary widely, depending on the place of legal seat or management of the company, and in the last years several cantons have revised their corporate tax rates to become even more attractive to investors. Most cantons apply a flat base rate (although a few still apply a progressive tax rate mostly related to the ratio of net profits to net equity). The base tax is then subject to the cantonal and municipal multiplier. The multiplier is changed annually. Although the base rates and multipliers have in tendency decreased in recent years, the cantons have increasingly used tax exemptions and privileges to attract investment. For companies subject to the ordinary tax rules, the maximum combined effective tax rates on profit before tax range from approximately 12% (Canton of Obwalden, Canton of Appenzell Ausserrhoden and Canton of Schwyz) to approximately 22%, with an average of approximately 20%.

Taxable income defined

The base for federal and cantonal/communal income tax is, in principle, a company's worldwide income, including dividends, interest, royalties and capital gains. Income from foreign branches and foreign real estate is exempt from the Swiss tax base.

Although dividends received from domestic or foreign subsidiaries fall within the scope of business income, where a Swiss company has an equity stake of at least 10% or a market value of CHF 1 million, an exemption is available in proportion to the ratio of net earnings on the participation to total net profits. Thus, net earnings of such subsidiaries are exempt from tax. Net earnings from a participation are defined for this purpose as gross earnings less financing costs relating to the participation and an additional 5% to cover administrative fees. All cantons grant the same reductions under similar conditions.

Gains resulting from foreign exchange fluctuations on import and export transactions, foreign currency loans and forward exchange contracts are taxed as ordinary income. Losses on such transactions are deductible. Unrealized gains and losses from the translation of financial statements kept in a functional currency into Swiss Francs are disregarded for tax purposes.

Deductions

To calculate taxable income, companies may deduct normal business expenses, depreciation and the federal, cantonal and municipal taxes on both income and capital paid in or accrued during the period of calculation.

Interest generally may be deducted subject to arm's length and thin capitalization rules.

Indirect taxes (such as import duties) and foreign taxes (not covered under unilateral or tax treaty relief provisions) also are deductible.

Depreciation

All assets normally employed in a business are depreciable in accordance with "commercial use." Both the straight-line and declining-balance methods are acceptable, but depreciation may be taken only on the basis of historical cost. Accelerated depreciation is available for certain assets.

Official guidelines for depreciation percentages are published by the federal tax authorities. Typical annual declining-balance rates are 3%-4% on commercial buildings; 7%-8% on industrial buildings; 25% on office equipment and furniture; 30% on machinery and vehicles other than cars; 40% on patents, goodwill, cars, electronic data processing equipment and machinery subject to abnormal use; and 45% on hand tools and smaller equipment. These rates are halved if the straight-line method is used.

Cantons are free to establish their own depreciation rates, but normally follow the federal rules.

Inventory must be valued at cost or market price, whichever is lower. Taxpayers may establish an inventory reserve of as much as one-third of this valuation.

Losses

Losses may be carried forward for seven fiscal years and may be set off against any income, including capital gains. Losses may not be carried back.

3.4 Capital gains taxation

There is no specific capital gains tax levied at the federal level. Capital gains on the sale of assets (including real property) are treated as ordinary income (and losses are deductible) regardless of how long the assets have been held. If assets are sold to a shareholder or related company at a less-than-fair price, gains may be reassessed for tax purposes.

Capital gains derived from the sale of a participation benefit from participation relief if the participation is at least a 10% interest and has been held for more than one year.

Revaluation gains (i.e. on inventory and stock of raw materials) must be added to ordinary profits and taxed with such profits. Rollover relief is available for the replacement of long-term assets that are necessary for business purposes, provided an asset with the same or similar function is purchased.

Cantonal tax rules vary with respect to the treatment of capital gains. Generally, the cantons tax corporate capital gains as ordinary income. Many cantons apply special rules to gains from the sale of real property—these may be taxed as ordinary income or subject to a special gains tax.

3.5 Double taxation relief

Unilateral relief

As noted above, foreign-source income is included in taxable income, but relief is granted for dividend income. Foreign-source income is taxed net of foreign taxes; no credit is given for foreign taxes paid (except for non-refundable withholding taxes on dividends, interest and royalties under applicable tax treaties).

Tax treaties

Switzerland has a broad tax treaty network, with most treaties following the OECD model treaty, and Switzerland is implementing the OECD initiative on exchange of information.

To obtain benefits under one of Switzerland's tax treaties, the payer of income, the recipient and the tax authorities in the treaty partner country must sign a specific form that certifies the residence of the recipient and confirms that the information about the recipient is accurate and submit the form to the Swiss federal tax administration before the distribution is made.

Foreign-owned companies that benefit from a tax reduction under tax treaties are subject to special unilateral measures against treaty abuse. These rules apply where the taxpayer receives dividends, interest or royalties on which withholding taxes were reduced or waived in the country of origin under a tax treaty.

Switzerland Tax Treaty Network			
Albania	Egypt	Kuwait	Romania
Algeria	Estonia	Kyrgyzstan	Russia
Anguilla	Faroe Islands	Latvia	Serbia
Antigua & Barbuda	Finland	Liechtenstein	Singapore
Argentina	France	Lithuania	Slovakia
Armenia	Gambia	Luxembourg	Slovenia
Australia	Germany	Macedonia	South Africa
Austria	Ghana	Malawi	Spain
Azerbaijan	Greece	Malaysia	Sri Lanka

Bangladesh	Grenada	Mexico	St. Kitts & Nevis
Barbados	Hungary	Moldova	St. Lucia
Belarus	Iceland	Mongolia	St. Vincent & the Grenadines
Belgium	India	Montenegro	Sweden
Belize	Indonesia	Montserrat	Thailand
British Virgin Islands	Iran	Morocco	Trinidad & Tobago
Bulgaria	Ireland	Netherlands	Tunisia
Canada	Israel	New Zealand	Ukraine
Chile	Italy	Norway	United Kingdom
China	Ivory Coast	Pakistan	United States
Croatia	Jamaica	Philippines	Uzbekistan
Czech Republic	Japan	Poland	Venezuela
Denmark	Kazakhstan	Portugal	Vietnam
Dominica	Korea (R.O.K.)	Qatar	Zambia
Ecuador			

3.6 Transactions between related parties

Transfer pricing

Although Switzerland does not have formal transfer pricing legislation or documentation requirements, all related party transactions with Swiss entities are required to be conducted at arm's length. In general, Switzerland follows the OECD rules on transfer pricing.

Thin capitalization

The Swiss thin capitalization rules are not defined in the tax law per se. Instead, a circular letter of the federal tax authorities sets forth safe harbor rules that apply to related party debt. An asset-based test is used to determine whether a company is adequately financed. The rules require that each asset class is underpinned by a certain amount of equity.

Controlled foreign companies

Switzerland does not have a CFC regime.

3.7 Administration

Tax year

The tax year is generally the calendar year, unless the company uses a different year. Federal and cantonal/communal income tax is assessed each year on income of the current year. The taxable base is a company's current year and its accounting year.

Filing and payment

There is combined tax return filing for both federal and cantonal/communal income tax purposes. A self-assessment procedure applies. Federal income tax must be paid by 31 March of the year following the tax year; the due date for the payment of cantonal/communal income tax varies in the cantons.

Consolidated returns

Switzerland does not allow tax consolidation for income tax purposes. Thus, consolidated income tax returns may not be filed.

Rulings

Advance rulings may be obtained from the tax authorities on the federal and cantonal tax consequences of a planned transaction.

3.8 Other taxes on business

See discussion under section 5.8, below.

4.0 Withholding taxes

Under Switzerland's agreement with the EU, withholding tax is no longer imposed on cross-border payments of dividends, interest and royalties between related companies residing in EU member states and Switzerland when the capital participation is 25% or more and certain other criteria are met. For some EU member states, transitional provisions allow withholding tax to be levied on certain types of payments for a limited period.

4.1 Dividends

Under domestic law, dividends are subject to a 35% withholding tax. In addition to the Switzerland-EU Savings Agreement, discussed above, many tax treaties provide for a 0% or 5% residual withholding tax rate for qualifying investments. The repayment of nominal share capital and capital surplus is exempt from withholding tax.

4.2 Interest

Under domestic law, no withholding tax is levied on interest. Exceptions apply to interest derived from deposits with Swiss banks, bonds and bond-like loans, which are subject to a 35% withholding tax at the federal level. Interest paid to a nonresident on receivables secured by Swiss real estate is subject to tax at source. The 35% withholding tax and the tax at source levied under domestic law can be reduced under a tax treaty to typically 0% or 10% with most investor countries.

4.3 Royalties

Switzerland does not levy withholding tax on royalties.

4.4 Branch remittance tax

Switzerland does not impose a branch remittance tax.

4.5 Wage tax/social security contributions

The annual contribution of 10.3% for 2011 (increased from 10.1%) of total employee remuneration (with no ceiling) is divided between the employer and employee. Employers are required to deduct contributions from salary payments and remit the total amount to the social security authorities. (See also section 7.2 Wages and benefits.)

5.0 Indirect and other taxes

5.1 Value added tax

VAT applies to the sales of goods and services in Switzerland and to imports of goods and services into Switzerland. Exports of goods and services are, in principle, zero-rated.

The standard VAT rate is 8%. Certain goods and services are subject to a reduced rate of 2.5% and others (such as most banking services) are exempt. A special 3.8% rate applies to the hotel and lodging industry.

Enterprises whose annual turnover exceeds CHF 100,000 must register for VAT purposes.

VAT returns must be filed quarterly and the relevant VAT amount remitted to the federal tax authorities. Swiss group companies may form a consolidated group for VAT purposes and file joint returns.

5.2 Capital tax

Federal stamp taxes are levied on the issuance of securities and on the transfer of securities, as discussed under “5.5 Stamp duty,” below.

5.3 Real estate tax

Some cantons levy real property tax.

5.4 Transfer tax

Transfer tax on immovable property is levied by most cantons and sometimes the municipality, but not the federal government.

The transfer of securities by Swiss securities dealers is subject to a 0.15% tax on Swiss securities and 0.3% on foreign securities.

5.5 Stamp duty

There are three federal stamp taxes: tax on the issuance of securities, tax on the transfer of securities and tax on insurance premiums.

Resident companies issuing Swiss securities pay 1% for the issuing of shares and 0.12% per year for bonds. Reorganizations, such as mergers, spin-offs of corporate assets or transfers of a company's domicile from abroad to Switzerland, are exempt from the stamp tax in certain cases.

The transfer of securities by securities dealers is subject to a 0.15% tax on the transfer of Swiss titles and 0.3% on foreign titles. For intragroup reorganizations, it is often possible to execute such transfers on a tax-neutral basis.

A 5% stamp duty is levied on premiums paid for domestic insurance and for insurance contracts between Swiss residents and foreign insurers. There also is a 2.5% stamp tax on single premium life insurance contracts if these are intended for savings purposes. The duty is not charged on premiums for, among others, old age, illness and accident policies.

5.6 Customs and excise duties

The federal and cantonal governments levy excise taxes on a number of products.

5.7 Environmental taxes

Switzerland imposes “prepaid elimination fees” on imported item, which fees are collected by the importer/distributor on behalf of the relevant government agency.

5.8 Other taxes

Net wealth tax

A corporate net wealth tax is imposed at varying rates depending on the canton and the type of tax privilege (typically between 0.001% and 0.5%). The net wealth tax may be credited against the income tax liability in many cantons.

6.0 Taxes on individuals

6.1 Residence

Individuals of Swiss or foreign nationality are subject to income tax on their worldwide income if they are domiciled in Switzerland, resident in Switzerland without gainful activity for more than 90 days or if they conduct a gainful activity for more than 30 days.

Expatriates working in Switzerland pay the same tax as Swiss nationals. However, certain special employment costs may be deducted from the tax base.

6.2 Taxable income and rates

Personal taxes in Switzerland are levied at the federal and cantonal/communal levels. Tax rates vary at the cantonal/communal levels. The tax burden on individuals is considered moderate. Swiss tax rates progress gradually, and the top rates are modest by international standards.

Taxable income

Federal income tax applies to all income derived from compensation for work performed and from capital (both real and movable property). Gross income from Swiss capital is taxable; income from foreign capital is taxed only after deduction of foreign withholding taxes. Capital gains and capital appreciation derived from the sale or realization of assets, through the increased value of tangible and intangible assets of a firm or through lottery prizes are subject to tax. Gains realized on the sale of securities or real property generally are not subject to federal tax.

All cantons levy taxes on personal income with deductions that vary from the federal deductions. Cantons also levy a separate capital gains tax on the sale of real property, but no canton levies taxes on personal capital gains from movable property. Cantons tax at source the wages of foreigners working temporarily in Switzerland (i.e. the employer must deduct the tax from the salary and remit it on behalf of the foreign employee to the tax authorities). Municipal tax is based on a multiplier of cantonal tax.

Deductions and reliefs

Various expenses may be deducted in computing taxable income, including interest on loans, alimony and certain donations. Personal allowances are granted to the taxpayer, his/her spouse and dependent children.

Rates

The maximum federal tax rate is 11.5% for income over CHF 843,600 (married persons). Income tax is levied by the cantons at rates up to approximately 30%. Therefore a maximum tax rate of approximately 40% may apply (federal, cantonal/communal tax).

In most cantons, the maximum tax rate is substantially lower than 40%. For example, the lowest tax rate is approximately 19% (federal, cantonal/communal income tax) in the Canton of Schwyz (Wollerau). A married person with two children having gross employment income of CHF 100,000 pays federal and cantonal/communal income taxes of 5%-10%, depending on the location of residence.

6.3 Inheritance and gift tax

There is no federal inheritance and gift tax, although the cantons may levy the tax.

6.4 Net wealth tax

There is no federal tax on individuals' net wealth, although each canton levies a small tax on capital exceeding specific thresholds that vary by canton. Capital includes, among others, real property and the value of life insurance policies, net of outstanding debt.

6.5 Real property tax

The municipalities and some cantons levy real property tax at rates ranging between 0.05% and 0.3% of the value of the property.

6.6 Social security taxes

Federal old age and disability insurance (AHV/IV/EO) is mandatory for all employees. The annual contribution of 10.3% of total employee remuneration (with no ceiling) is divided between the employer and the employee. The employer is required to deduct contributions from salary and remit the total amount to the social security authorities.

6.7 Other taxes

None

6.8 Compliance

The tax year for individuals is the calendar year.

Filing deadlines vary from canton to canton and apply for both federal and cantonal/communal taxes. Cantons tax at source the wages of foreigners working temporarily in Switzerland (i.e. the employer must deduct the tax from salary and remit it on behalf of the foreign employee to the tax authorities).

7.0 Labor environment

7.1 Employees' rights and remuneration

Swiss labor law is not stringent. Companies have freedom in hiring and terminating employment at will. It is therefore possible for companies located in Switzerland to restructure with relative ease to remain competitive. Nevertheless, companies often offer generous social packages for those whose employment is terminated because of restructuring; such workforce changes are often accomplished through early retirement and retraining workers for other jobs.

Switzerland's main employment laws are the Swiss Code of Obligations and the Law on Labor in Industry, Handicrafts and Trade, supplemented by additional rules. Other federal laws cover factory working conditions, arbitration of labor conflicts, collective wage agreements and worker information and consultation. Compensation practices also are subject to a variety of laws.

Working hours

In theory, the legal maximum work week is 45 hours in industry for technicians and white collar employees, and 50 hours for other employees (e.g. in the building industry and agriculture). However, collective or individual contracts normally set shorter weeks, and around 70% of industrial employees and tradesmen officially work less than 43 hours per week.

7.2 Wages and benefits

Switzerland does not have a national minimum wage. Salaries in non-union businesses are agreed directly between the employer and employee, and depend on prevailing economic conditions. Wages in industry are set in collective agreements.

Safeguards are being put in place to prevent "wage dumping," the practice in which salaries paid to workers from the EU are lower than local wages. One measure is the establishment of federal and cantonal tripartite commissions comprising state, worker and employer representatives to oversee and correct any abusive salary situation.

Pensions and disability insurance

Federal old-age and disability insurance (AHV/IV/EO) is mandatory for all personnel. The annual contribution of 10.3% for 2011 of total employee remuneration (with no ceiling) is divided between the employer and employee. Employers are required to deduct contributions from salary payments and remit the total amount to the social security authorities.

Employee pension funds are compulsory under federal law for all employees subject to the AHV law, which sets the framework for minimum contributions and benefits. Called the "second-pillar," these funds add on average approximately 17.4% of base salary to the cost of compulsory benefits whereas the employer has to pay at least half of that contribution. The percentage to be paid varies within a range of 4%-14% or more for each party and depends on the employee's age.

Accident insurance

Under federal law, all companies must have occupational accident insurance (UVG) for their employees. In the service sector, such coverage is obtained through private insurance companies. The cost borne by the employer for work and non-work-related insurance depends on the class of risks and on the economic sector.

Other benefits

Employers must grant at least four to five weeks of holidays each year depending on the circumstances. In addition, there are a number of legal national holidays and cantonal legislation and some collective agreements grant other holidays.

The Code of Obligations gives employees the right to receive a salary during a specified number of weeks for sickness, accident, pregnancy and childbirth.

Family allowances are compulsory in all cantons. Depending on the canton, employers may contribute to a public fund or to an approved private fund of their choice (run by an employers'

association). Contributions vary depending on the canton. In the Canton of Zurich, the contributions amount to 1.2% of gross salary.

Compulsory unemployment funds are public (cantonal or municipal) or private (jointly run by employers' associations and trade unions or by the unions alone). Contributions, which are shared equally by the employer and the employee, are currently 1% for each party with a ceiling at CHF 126,000 of gross salary.

Health insurance is compulsory for Swiss citizens but must be privately organized on an individual basis. Employers may ask for proof that a new hire is insured. Some large employers use collective policies to provide staff insurance on a voluntary basis.

7.3 Termination of employment

No onerous restrictions are imposed on the dismissal of the workforce. Legal minimum termination notices (valid for both employers and employees) are fixed at one month for employees with less than one year of service, two months for those with one to nine years on the job and three months for those with more than nine years of service. The notice periods may be extended by contract and are counted from the last day of the month in which notice is given.

The Code of Obligations stipulates that companies must inform and consult with employees when planning mass dismissals. Collective agreements in some industrial sectors require prior notification of a plant closure. Redundancy plans are not obligatory.

7.4 Labor-management relations

Switzerland does not have strong trade unions. Strikes are rare and conflicts are, in general, resolved by way of negotiations. Unions are normally set up on an industry basis and are aligned with one of Switzerland's national confederations.

7.5 Employment of foreigners

Switzerland has a dual system for the admission of foreign workers. Citizens of an EU or EFTA Member State can benefit from the bilateral agreements between Switzerland and the EU. EU persons have a right to reside and work in Switzerland. For all other countries, work permits are subject to contingents with preference to highly qualified persons.

8.0 Deloitte International Tax Source

Professionals of the member firms of Deloitte Touche Tohmatsu Limited have created the Deloitte International Tax Source (DITS), an online resource that assists multinational companies in operating globally, placing up-to-date worldwide tax rates and other crucial tax material within easy reach 24/7.

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Zurich

General Guisan-Quai 38
P.O. Box 2232
8022 Zurich
Switzerland

Tel: +41 0 44 421 6000

Fax: +41 0 44 421 6600

Geneva

Route de Pré-Bois 20
P.O. Box 1808
1215 Geneva 15
Switzerland

Tel: +41 0 22 747 7000

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