



P R E F A C E

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March 2005



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1 INTRODUCTION

1.1 *Geography*

Switzerland is situated in the centre of Western Europe and borders five countries (Germany, France, Italy, Austria and Liechtenstein). It covers an area of 41,300 square kilometres, of which 65% is productive land (forests, arable land, vineyards, etc.). However, the country lacks significant natural resources, except for hydro-electric power. Its highest point is Pointe Dufour (4,634 meters) and its lowest point lake Lago Maggiore (193 meters). There are many well known lakes and rivers, and both the Rhine and the Rhone have their sources in Switzerland.

The climate is temperate with average temperatures of 1 to 5 C degrees in winter and 18 to 21 C degrees in summer, and an annual average rainfall of 1200mm (Zurich area).

Switzerland has a well developed road and railway network with multiple connections to bordering countries. As a result, all major centres are easily accessible. The River Rhine is of great importance to the Swiss economy, linking the country with major ports in Western Europe.

1.2 *Population*

The total population of Switzerland in 2003 was approximately 7.36 million. The main concentrations are in and around Zurich (about 1.2 million), Basel, Geneva, Berne, Lausanne, Winterthur, and St. Gallen. Of the total population, 22% are under 20 years of age, 62% are between 20 and 64, and 16% are older than 64; 20.4% are foreigners.

1.3 *Political system*

The Swiss Confederation comprises 26 cantons (states).

At the federal level, executive power is exercised by the Federal Council, which comprises seven members. Legislative power lies with the Federal Assembly, made up of two houses with equal powers: the Council of States (representing the cantons) and the National Council (representing the people). The constitution grants the people a right to participate in decision making through referendums and initiatives. The cantons retain sovereignty in all matters except those specifically transferred by the constitution to the Confederation.

Some 44% of total tax revenues (including VAT) are raised by the central state (federation), and the remaining 56% are raised by the cantons and communes (towns and villages).

1.4 Language

The official national languages and the percentages of the population speaking each are German (64%), French (20%), Italian (7%), and Romansch (1%). The use of English is widespread, particularly in business circles.

1.5 Currency

The monetary unit used throughout Switzerland is the Swiss franc, divided into 100 cents. Switzerland is not part of Euro Land.

1.6 Economy

Switzerland is a highly industrialised country with limited government control or direct intervention. Nationalised industries are principally confined to public utilities. With the exception of agriculture, the markets operate with as little regulatory machinery as possible.

Switzerland lacks significant natural resources. The most important industries are the production of machinery and precision instruments, metals, chemicals, pharmaceuticals, textiles, and consumer goods. Banking, insurance, and tourism are today highly significant elements in the Swiss economy.

Switzerland has great economic stability, and a well-trained and adaptable labour force. In addition there have been no major labour problems (strikes etc) for decades.

Switzerland is a full member of EFTA, however not of the EU, with which Switzerland is linked through various bilateral agreements. Likewise, Switzerland does not belong to the European Monetary System, yet is a member of the International Monetary Fund (IMF).

The labour work force is approximately 4.4 million, of which some 72.1% work in the service sector. Foreigners account for 26% of the labour force. The rate of unemployment is around 4%.

The rate of inflation has been in the range of 1% to 2% for the last few years.

2 BUSINESS ENTITIES

2.1 *Companies*

Commercial entities are organised either as corporations with a share capital (AG/SA/Ltd) or as limited liability companies (GmbH/Sarl/LLC).

The corporation is characterised by the existence of a minimum capital (CHF 100,000, thereof CHF 50,000 paid in) divided into shares which are freely transferable. Shares may be paid up either in cash or in kind. At least three founders, be they individuals or legal entities, are necessary to form a corporation, which number may be reduced subsequently. Founders and shareholders are not subject to any nationality or residence requirements. However, members of the Board of Directors must be shareholders and the majority of directors must be Swiss, EU or EFTA citizens, resident in Switzerland. The corporation may issue bearer and/or registered shares. Bearer shares must be fully paid up. The corporation must elect one or more independent auditors, who are professionally qualified. At least one auditor must have a domicile, registered office, or registered branch in Switzerland.

The limited liability company must have a minimum foundation capital of CHF 20,000 up to a maximum of CHF 2,000,000, and, in contrast to the corporation, only two founders are necessary. A member of a LLC can only hold one common share, which can be for any amount. Founders and members are not subject to any nationality or residence requirements. Contrary to the AG, there are no limitations with regard to foreign membership of the Management Board of a LLC. Only one board member with signatory powers must be resident in, but not a citizen of, Switzerland. However, it is more difficult to transfer shares in a LLC than in a corporation. Further, there is no requirement to appoint independent auditors. These advantages versus a corporation may be partly abolished by the pending revision of the relevant regulation.

2.2 *Partnerships*

Partnerships can be either unlimited partnerships, where the partners each have unlimited liability for the debts and obligations of the firm as a whole, or limited partnerships, where one or more of the general partners have unlimited liability and the limited partners have liability only up to the amount of their registered contributions. Only individuals may be partners with unlimited liability, i.e. a corporation may only be limited partner in a limited partnership.

2.3 Sole Proprietorships

Many smaller businesses in Switzerland come into this category. Foreigners, except EU citizens, resident in Switzerland may only set up sole proprietorships if they have a permanent residence permit (“C-permit”). The owner of a sole proprietorship has unlimited liability.

2.4 Branches

A non-Swiss company can set up a place of business in Switzerland without forming a Swiss subsidiary company and in that case it is said to have a branch in Switzerland.

A branch is not a separate legal entity, but an extension of the foreign company and the foreign company is therefore responsible for its liabilities. One member of branch management with signature powers must be resident in, but not a citizen of, Switzerland.

2.5 Audit and Accounting Requirements

All businesses need to maintain proper books of accounts and to retain the accounting records and associated documents generally for 10 years. Corporations, but not LLCs, must have their accounts audited by professionally qualified auditors. This requirement will most likely be changed in the future (not before 2007) insofar as small corporations need no audit if all shareholders agree.

Corporations having

- outstanding bond issues,
- having their shares listed on a Swiss stock exchange, or
- exceeding two of the following parameters in two consecutive years:
 - Balance sheet total CHF 20 million
 - Revenues CHF 40 million
 - Average number of employees 200

must retain auditors who have special professional qualifications.

2.6 Filing Requirements

There are no filing requirements in Switzerland for annual financial statements except in the case of banks, finance companies, and insurance companies (see chapter 6 regarding filing for tax purposes).

3 FINANCE AND INVESTMENT

3.1 *Exchange Controls*

There are no exchange controls in Switzerland on inward or outward investment. Foreign currencies can be bought and sold freely and there are no restrictions on the maintenance of foreign currency bank accounts in Switzerland.

There are no limitations on the repatriation of profits from Switzerland.

Switzerland, in line with the EU, has enacted laws to prevent the laundering of the proceeds of serious crime. Financial and certain other institutions must obtain and retain satisfactory evidence of the identity of a potential client, and the ultimately economically entitled person (beneficiary) if different before they do any business with that client, even for relatively small sums. Failure to report suspicion of money laundering to the appropriate authorities can result in serious penalties.

3.2 Sources of Finance

3.2.1 Banking

The Swiss National Bank acts as banker to the Government. It is responsible, inter alia, for setting base interest rates.

Overdrafts with fluctuating interest rates are the most commonly used facility for financing working capital or to fund seasonally affected business. Technically, overdrafts are repayable on demand.

Banks also offer short, medium and long-term loans. The repayment terms are negotiable and the rate of interest may be fixed or variable. To obtain bank financing the business will normally be required to provide adequate security. Security will typically be in the form of fixed or floating charge over the business assets, as well as, in certain circumstances, personal guarantees from the owners including the foreign parent company if relevant.

In addition to these traditional services the banks offer various other financing arrangements, either themselves or through subsidiaries or affiliates. These include instalment credit, leasing, factoring, invoice discounting and so-called “mezzanine” finance.

Branches or subsidiaries of foreign banks in Switzerland will frequently arrange suitable finance for businesses from their own countries wishing to trade in Switzerland.

3.2.2 Stock Exchanges and Trading Facilities

Thanks to the stable economy and liberal economic system, Switzerland is widely recognised as an important financial marketplace. Indeed, it occupies one of the leading positions worldwide as a centre for financial transactions and securities trading.

The Swiss Stock Exchange (SWX) operates a globally leading, fully integrated trading and clearing system for stocks, bonds, warrants, investment funds, ETF and SWX Eurobonds.

The 100 plus domestic and foreign participant institutions listed at the SWX ensure an international trading environment and strengthen Switzerland's financial marketplace with their enormous placing power. To become and remain listed a company has to satisfy and abide by the extensive rules established by the Swiss Stock Exchange. For a company already listed on an overseas stock exchange an introduction can be made by a broker to allow its securities to be traded on the Swiss Stock Exchange.

3.2.3 Venture Capital Companies

For businesses that are not large enough to consider Stock Exchange entry but which require equity or mezzanine finance, Venture Capital Companies can provide equity for start-ups, for development or for management buy-outs.

Venture capital companies may also be a source of finance for a business that does not have sufficient security to borrow from a bank. However, they may require a higher return than a traditional bank.

3.3 Investment Incentives

Switzerland offers attractive grants and incentive packages on both, federal and cantonal, levels to encourage industrial investment from abroad to create jobs in economically troubled regions.

Both Swiss and foreign businesses are eligible for the benefits available through these programmes.

Investment incentives vary from region to region but are particularly generous in areas such as Solothurn, Neuchâtel, and Berne, which have troubled industrial sectors. Generally, these areas are most interested in attracting international corporations that need a skilled work force to produce high technology goods.

New ventures may be exempt from cantonal and municipal and possibly federal taxes for up to 10 years. Corporations not receiving the maximum relief may expect tax reductions of from 30% to 50% over varying periods of up to 10 years.

In addition to the tax incentives, municipalities often have land available for sale or rent at below market rates for development projects. Local authorities are also willing to help retrain workers.

3.4 Acquisition of Swiss real property

At the present time, the purchase of real property by foreigners is subject to prior authorisation, as is the purchase of shares in real property corporations or partnerships. Real estate transactions made without such prior authorisation are null and void.

No authorisation is necessary, however, for the acquisition by foreigners of business premises if the premises are wholly or mainly used as a manufacturing facility, as offices, for retailing, or for some other commercial purpose.

Individuals resident in Switzerland need no prior authorisation, if the real property serves as the primary residence of the applicants or their families. Property must be registered in the name of the purchaser, not that of an intermediary or a nominee.

Foreigners holding a C-permit may acquire real property without authorisation. Finally, based on the bilateral agreement between Switzerland and the European Union, effective 1 June 2002, EU and EFTA citizens resident in Switzerland have the right to acquire a primary residence or vacation apartment, to invest and trade in real property without any restrictions. Non-resident EU and EFTA citizens, however, still need prior authorisation.

4

EMPLOYMENT REGULATIONS AND SOCIAL SECURITY CONTRIBUTIONS

4.1 *Work Permits*

Generally, Switzerland has imposed strict regulations on immigration. Each year the federal authorities review the number of work permits issued to foreigners and, over the years, the allocations of new permits have been reduced. A first-time permit for a foreign employee is granted primarily to citizens of the EU and the EFTA and then to citizens of the other traditional recruitment areas (e.g. the USA).

In addition to the annually renewable permit (the so-called "B-permit"), which allows the holder to take up residence in Switzerland, there are short-term permits available for either 120 days or 180 days per calendar year, which are more readily obtainable. However, these do not allow the holder to take up residence in Switzerland. A permanent residence permit ("C-permit") is only issued to foreigners after an extended and uninterrupted stay in Switzerland, usually between 5 and 10 years.

Following the conclusion of bilateral agreements between Switzerland and the EU, the entry stipulations for EU and EFTA citizens have been liberalised. After a transitional period, the free movement of EU and EFTA citizens into Switzerland and Swiss citizens into the EU and EFTA has become a reality, except, at this time, for the new member states of the EU.

4.2 *Engagement and Dismissal*

By law, the contract of employment need not be in writing. However, for practical purposes, and, in particular, if the employer has to seek a work permit for a foreign employee, contracts of employment are generally in writing.

A contract of employment may be terminated by either party during the first year with a notice period of one month, from the second to the end of the ninth year with a notice period of two months, and thereafter with a notice period of three months. The contract may provide for longer notice periods (of equal length for both employer and employee). Upon request of the employee, the reasons for dismissal must be given in writing.

4.3 Trade Unions and Worker Councils

There is no legal requirement for employers to recognise any trade union. Agreements between employers and trade unions over pay and conditions are binding for the contracting parties and in the case of so-called “declarations of general acceptance” for all persons and employers in that specific field.

There is no legal requirement for employees to be represented on the board of directors of companies. However, companies with at least 50 employees are required to set up a body which represents the employees, if the employees vote by secret ballot to have such a body. The employer is then required to inform the body extensively and in a timely manner of all matters necessary for the conduct of the employees’ duties and, at least annually, on the effect of business trends on the employees and on employment generally. In addition, the law grants such a body a right to be consulted on questions regarding workplace health and safety, the transfer of all or part of the business to a third party, and mass dismissals. In companies without a representative body, employees have individual rights to information and consultation.

4.4 Social Security Contributions

All employers are liable for social security contributions with regard to their employees. Rates of contributions for employers and employees are set out in Appendix 7.

5 TAXATION

5.1 *Companies*

5.1.1 *Scope*

A company domiciled in Switzerland, is subject to Swiss income and capital taxes. The Confederation, each canton and commune, and, sometimes, even churches have taxing jurisdiction. Certain types of corporations, including holding, mixed, domiciliary and service companies, enjoy special tax treatment, as explained in section 5.1.6 below. Usually, foreign controlled corporations operating in Switzerland are taxed the same way as Swiss domestic corporations. Non-resident corporations with a branch in Switzerland are subject to tax on their branch income and branch capital, the same as resident corporations; subject, however, to special allocation rules.

5.1.2 *Taxable Income*

Swiss corporation tax is charged on a company's worldwide income from all sources and capital for each of its accounting periods, except as explained in sections 5.1.4 and 5.1.6 below.

Capital gains are included in the ordinary income of a corporation and are fully taxable, except for gains on sales of qualified investments (see section 5.1.4). There are no separate rates applicable to capital gains.

Realised exchange gains are included in ordinary income; unrealised gains, however, are deferred until realised in accordance with Swiss accounting practice.

Related party transactions must be recorded at arm's-length prices. Any deficiency of income or excess of expense incurred on related party transactions represent hidden profit distributions and are to be added back to taxable income. In addition, hidden profit distributions are subject to the 35% Swiss withholding tax, possibly reduced due to the relevant tax treaty, if any. Such withholding tax has to be charged on to the recipient of the profit distribution. If not charged on, the benefit must be grossed up resulting in an effective withholding tax payable of 53.85% (i.e. 35% of 153.85%).

5.1.3 Deductions from Gross Income

Business expenses must be wholly and exclusively incurred for the purpose of the business to qualify as deductible.

Generally, interest is a deductible business expense. Rates of interest applied on related party loans must reflect fair market terms and conditions. The Swiss tax administration regularly publishes guidelines as to the interest rates considered appropriate on Swiss Franc loans and borrowings. The deduction of interest expense is further limited by the debt-equity provisions for tax purposes; as a rule of thumb a ratio of 6 to 1 is acceptable.

All income and capital tax expenses incurred by a corporation are fully deductible to arrive at taxable income. Because of the deductibility of the tax expense, the effective tax rate (expressed as a percentage of pretax income) is consistently lower than the statutory rate.

Unlike the treatment of exchange gains to be included in gross income, both realised and unrealised exchange losses are tax deductible (principle of imparity).

Depreciation and amortisation are deductible using allowable rates. The methods of depreciation currently used are the straight-line and the declining-balance methods. Generally allowable depreciation rates are stated in Federal tax administration circulars, yet some cantons may accept accelerated depreciation.

Inventories must be carried at the lower of cost or market, taking into account necessary provisions for special risks, such as obsolescence, slow moving stock, etc. From this lower value, an additional provision of one third may be made. This represents a hidden reserve (i.e. a provision made for tax purposes but which is not economically necessary).

A provision for bad and doubtful debts is allowed within limits. Swiss tax laws allow, after having accounted for specific risks, general provisions of up to 5% against domestic debtors and of up to 10% against foreign debtors. Some cantons may allow, in practice, even higher general provisions of up to 10%, or 20%, respectively. Again, such general provisions are hidden reserves.

Swiss federal and cantonal tax laws allow tax losses to be carried forward for up to seven years. Generally tax losses cannot be carried back to previous years.

5.1.4 Exclusions from Taxable Income

Qualified dividend income and capital gains on the sale of qualified participations are excluded from taxable income for federal and most cantonal tax purposes (except for participations acquired before 1997 and sold before 2007, which are subject to federal and some cantonal taxes) as well as income derived from foreign permanent establishments and branches, from foreign real estate, from foreign partnership, provided that the business of the partnership is carried out abroad and is not considered passive portfolio income.

Also excluded are contributions from shareholders, however, forgiveness of debts by shareholders may be taxable.

5.1.5 Administration and Due Dates for Payments

A system of self-assessment operates. A corporation tax return is required from companies in respect of each accounting period.

Federal tax is due on 31 March. Cantonal and communal taxes are usually due in several instalments depending on the canton of residence. Interest is payable or receivable on any under/overpayments of tax subsequently agreed.

5.1.6 Tax Privileged Corporations

Special rules, involving either exemption from or significant reduction of cantonal taxes, apply to certain types of corporation. At the federal tax level, however, there are no privileged corporations.

Holding companies, i.e. companies which generally do not carry out any business activities within Switzerland, and of which qualified participations or revenues derived there from represent at least 2/3 of total assets or of total revenue, are exempt from cantonal income tax. As a result, any other income, e.g. interest income, royalties, management fees, etc. is only subject to federal income tax at the statutory rate of 8.5%, i.e. at an effective pretax rate of 7.83%, except for income from Swiss real estate which is fully taxable.

Management companies (domiciliary or mixed companies) do not conduct any business activities in Switzerland or their business activities are primarily related to business abroad. Generally, 80% of their revenue must derive from abroad, i.e. must be so-called foreign-source income. They may have local staff and premises in Switzerland.

Such management companies are subject to full federal tax at the statutory rate of 8.5%. The foreign source income is subject to cantonal taxes generally only in proportion to the extent of the related Swiss activities. As a result, a management company without any staff and premises in Switzerland may, in certain cantons, not be liable to any cantonal tax, resulting in an effective federal tax liability of 7.83% of pretax income. Even with staff and premises in Switzerland, the effective cantonal tax liability generally amounts to 1% to 3% of pretax income. The overall tax burden on foreign-source income, including federal tax, amounts, thus, to some 9% to 11%. Swiss source income is, however, fully taxable.

Finally, service companies providing group coordination or management services are required to show a net taxable margin of 5% of total expenses.

5.1.7 Withholding Tax

Federal withholding tax is levied at source on

- Interest on deposits with Swiss banks and derived from bonds and similar negotiable debt instruments issued by Swiss resident borrowers. The definition of a Swiss bank for withholding tax purposes is broader than under the Banking Law and may include any company having a certain number of qualifying interest bearing deposits.
- Profit distributions, such as ordinary dividends, liquidation proceeds, stock dividends, constructive dividends, or hidden profit distributions.

In general, the payer of the income is required to withhold 35% irrespective of whether the recipient is entitled to a full or partial refund. Relief may be obtained as follows:

- Swiss resident taxpayers receive a refund by way of cash (corporate taxpayers) or credit against income tax payable (individual taxpayers).

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- Non-residents receive relief upon application for a refund in accordance with the respective double tax treaty, if any. However, for qualifying dividends to foreign corporate shareholders the Swiss tax administration grants upon application a reduction of the withholding tax at source.

No withholding tax is levied on

- Royalty payments
- Interest on any loans and advances where the borrower is not a Swiss bank.
- Interest on interbank loans between Swiss and/or foreign banks.
- Interest on fiduciary deposits
- Remittances of branch profits by a Swiss branch to its foreign head office.

According to the EU Savings Taxation Agreement, there is no withholding tax on dividends paid by Swiss subsidiaries to their qualifying EU parent company (and vice versa).

5.1.8 Tax planning

An international group intending to set up operations in Switzerland should give early consideration to the manner in which its investment will be structured, in order not only to avoid excessive taxes both in the home country and in Switzerland but also to take advantage of the significant tax privileges Switzerland offers for specific operations.

5.2 Individuals

5.2.1 Overview

Individuals who are resident in Switzerland are generally subject to Swiss federal and cantonal/communal income taxes on the aggregate of their worldwide income. Swiss citizens and foreigners with permanent residence permits ("C-permit") or married to a Swiss citizen or to a C-permit holder are taxed based on a self-assessment system. The highest aggregate effective tax rates, e.g. on a gross salary of CHF 200,000, amount to between 10% and 26%, depending on the canton/commune of residence. Other foreigners, paid by a Swiss company, are regularly

taxed at source. If a certain annual level of income (or net wealth in certain cantons) is reached, generally CHF 120,000, they must file retroactively ordinary tax returns and can, subject to certain guarantees, apply for exemption from being taxed at source.

In addition to the income tax, most cantons but not the federation, levy a net wealth tax on the worldwide wealth, generally up to a level of 0.5 %. Geneva: 1% if the net wealth is over 5 million.

Finally, there is a church tax in most cantons imposed on individuals belonging to one of the three recognised churches, i.e. the Swiss Protestant, the Roman Catholic, and the Christ Catholic Churches. Church taxes may amount to between 8% and 15% of total income tax.

5.2.2 Sole Proprietorships

Self-employed individuals are liable to income tax on their profits adjusted for tax purposes. However, some adjustments differ quite significantly from those for corporation tax (e.g. no deduction of taxes).

5.2.3 Partnerships

Partnerships are taxed in the same way as the self-employed, so that the individual partners are taxed on their share of the profits and capital as adjusted for tax purposes. A partner is not liable for the unpaid tax of another partner, except at least at the federal level for taxes due by a non-resident partner.

A partnership controlled and managed in Switzerland is liable to income tax on both its Swiss and non-Swiss income. This includes any profits due to partners not resident in Switzerland.

A partnership controlled and managed outside Switzerland which carries on part of its business in Switzerland through a branch or agency will be subject to Swiss income tax on the profits of the branch and on the capital allocated to the branch.

Profits attributable to a corporate partner are assessed separately on the company, broadly under corporation tax rules.

5.2.4 Taxation of Employees

Employees resident in Switzerland are subject to income tax and social security contributions on all worldwide earnings and most benefits provided by an employer in cash or in kind. By virtue of a respective treaty provision, foreign source earned income may be exempt from Swiss income tax but is taken into consideration for the purposes of determining the progressive tax rate applicable to the non-exempt income.

5.2.5 Deduction at Source

As mentioned above, there is no source tax withheld on compensation paid to Swiss citizens or foreigners with a permanent residence permit (C-permit), or married to a Swiss citizen or a C-permit holder. For taxation of expatriates in detail see section 5.3 below.

On the other hand, social security contributions are deducted at source by the employer and remitted together with the employer's share to the relevant authorities.

5.2.6 Taxation of Savings Income

Savings income from domestic and foreign sources such as dividends and interest are included in taxable income. Swiss source savings income is generally subject to a 35% withholding tax, offset in full against Swiss tax on income and net worth due by a Swiss resident. Foreign withholding tax is, depending on the respective treaty, either exempt or partially reduced at source and the remaining tax is creditable against the Swiss income tax. In the absence of a treaty, the savings income is to be reported net, i.e. after deduction of foreign withholding tax.

5.2.7 Income from Land and Real Property

Swiss source rental income is taxable in Switzerland as ordinary income. Foreign source rental income is exempt. However, this is taken into account for the determination the tax rate applicable to non-exempt income.

According to present law, which may change due to pending proposals, a resident taxpayer owning and living in a house or apartment in Switzerland will generally be taxed on the hypothetical rental value of the property.

5.2.8 Capital Gains

Capital gains realised upon disposal of movable property are generally exempt from federal as well as cantonal/communal taxes. However, if a taxpayer is engaged in a trade or business, such as a securities dealer, any gain on disposal of business assets forms part of taxable income (and, in addition, are subject to social security contributions).

Capital gains realised upon disposal of real property are generally subject to a separate real property gains tax in the various cantons, however, exempt from federal tax. If the real property represents business property, e.g. for a real estate dealer, the gain is included in business profits subject to federal and cantonal income tax and social security contributions.

5.2.9 Deductible Expenses

Social security, unemployment and pension fund contributions paid by the employee are fully deductible. Medical expense deductions are only allowed within limits.

Interest expense is deductible within limits.

5.2.10 Inheritance and Gift Tax

Inheritance tax is imposed by the cantons and communes on the estates of deceased residents and on Swiss real property or, in certain cantons, on other Swiss business properties of deceased non-residents.

Gift tax is imposed by the cantons and communes on gifts made by Swiss resident donors and on gifts of Swiss real property made by Swiss and non-Swiss resident donors.

In most cantons, transfers to a spouse or descendants are exempt. Otherwise the rates depend on the amount and on the relationship between the deceased and the heirs, or between the donor and the donee, respectively. Gifts to and inheritances received from unrelated persons attract rates ranging from 20% to some 50%.

5.3 Expatriates

5.3.1 Scope of Swiss Taxation

An individual's liability to taxation in Switzerland is based on the concept of residence. Residence under Swiss law is defined as the place where a person stays with the intention of settling there permanently and which, therefore, provides the centre of his personal and business interests. However, for tax purposes, a person will also be considered resident if he remains within Switzerland for a protracted period, i.e. more than 90 days (30 days if working), even if he is not engaged in a gainful activity.

Tax treaties also contain rules regarding the definition of residence, which come into play when an individual is considered to be tax resident in both countries based on the laws of these countries.

An individual considered resident in Switzerland is taxed on his worldwide income and net wealth, except for real property, partnerships and permanent establishments outside Switzerland.

An individual who moves to Switzerland and takes up employment is considered resident and thus subject to Swiss income taxes on his worldwide income from the date of arrival. However, if a tax treaty or Swiss domestic law provides specifically for taxation by the country of source, the exempt income is taken into consideration only for the purposes of determining the applicable tax rate (exemption with progression).

There are no general tax concessions for expatriates. However, in some cantons some exceptions apply, for example: In some cantons housing allowances are not taxable for the first three years or taxed very moderately; or business cars are not taxable; or schooling fees are not taxable.

Unless the expatriate holds a permanent residence permit ("C-permit"), or he is exclusively paid from abroad, he is generally subject to tax at source on his employment income. This tax can be final if certain conditions are met. An annual salary exceeding certain thresholds, usually CHF 120,000.00 can lead to the obligation to file retroactively an ordinary tax return, or, in addition, if certain bank guarantees by the employer are provided, he may even be exempt from the deduction at source. Tax withheld at source will be credited against the final tax liability.

5.3.2 Social Security Contributions

Switzerland has reciprocal social security agreements with many countries under which employees may continue to pay the home country contributions for a specified period of time. This is in particular interesting for expatriates where the home country applies a ceiling for social security contributions whereas Switzerland levies these on the total remuneration. These agreements can also provide for protection of benefits.

5.4 Lump-Sum Taxation of Resident Aliens

Resident aliens who are not engaged in any gainful activity in Switzerland may be eligible for this special taxation. This is a so-called lump-sum tax based on deemed taxable income which, in turn, is a function of the living expenses the taxpayer incurs in Switzerland.

The tax due is, in principle, the higher of:

- the tax calculated on certain specific items of actual income, such as income from Swiss real property, Swiss source investment income, pensions, and annuities
- the tax due on five times the rental expense, or the deemed rental income, of the taxpayer
- a negotiated amount on a deemed income.

The lump-sum taxation must be requested by the taxpayer and a special tax return is to be filed.

5.5 Tax Planning

There are significant differences in tax burdens for individuals depending on the canton and commune of residence. Also gift and inheritance taxes vary greatly. Detailed advice is necessary for the maximum benefit to be obtained. In particular companies which plan to send employees to Switzerland are highly recommended to seek advice before their arrival or as soon as they arrive, so that prompt action can be taken where appropriate to minimise the overall tax and social security contribution burden in Switzerland and in the home country.

5.6 Value Added Tax

In common with the EU, Switzerland imposes value added tax (VAT) on the consumption of goods and services. Swiss VAT law is similar to that of the EU.

In general terms, businesses do not themselves suffer VAT, as it is a tax payable by the ultimate consumer, but businesses are responsible for the administration and collection of tax.

Businesses with an annual sales turnover in excess of the registration limit, currently CHF 75,000, are generally required to register.

For most categories of goods and services, VAT must be added at the standard rate, currently 7.6%.

Special rates of 3.6% and 2.4% apply to specific categories of goods and services.

Some categories are “zero-rated”. This means that a nil rate of tax is charged, but the business supplying the goods or services is nevertheless entitled to a refund of the VAT it has incurred on its purchases. Businesses making only zero-rated supplies will therefore be in a position to obtain periodic refunds from the tax authorities.

Some services are “exempt”. Again, there is no VAT to be charged, but in contrast to the position on zero-rated supplies the supplier is not entitled to a refund of the VAT paid on purchases. Businesses that make exempt supplies in addition to either standard-rated or zero rated supplies may be able to recover part of the VAT they incur on their purchases.

The principal categories of main goods and services classed as zero-rated or exempt are listed in Appendix 4.

Exports are generally zero-rated. VAT must be paid on the importation of goods, and of some services, into Switzerland.

The VAT compliance regulations are strict; therefore businesses need to avoid potential problems by implementing an efficient accounting system at an early stage.

5.7 Other Taxes

A stamp duty of 1% is generally levied on share issues and capital contributions with an exemption of up to CHF 250,000.

A stamp duty of 0.15% is payable on the transfer of Swiss securities and 0.30% on foreign securities provided the intermediary is a Swiss bank or securities dealer. However, the law contains numerous exceptions.

A stamp duty of 2.5% to 5% is, in principle, levied on insurance premiums, however, with a great number of exceptions.



APPENDIX 1

Withholding taxes on interest payments by Swiss banks and on Swiss bonds and notes (Net treaty rates, 2005)

There is no withholding tax on royalty payments.

Generally, there is no Swiss withholding tax imposed on interest payments by Swiss resident non-bank borrowers, e.g. on inter-company loans and advances, except on bonds, notes and similar negotiable debt instruments.

State	%	State	%	
Australia	10	Japan	10	
Austria	0	Luxembourg	10	
Belgium	10	Netherlands	5	
Canada	10	New Zealand	10	
China	10	Norway	0	
Denmark	0	Pakistan	35	1)
France	0	Portugal	10	
Germany	0	South Africa	25	2)
Greece	10	Spain	10	
India	10	United Kingdom	0	
Ireland	0	United States	0	
Italy	12.5			



APPENDIX 2

Withholding taxes on dividend payments by Swiss resident companies (Net treaty rates, 2005)

State	Portfolio Dividend in %	Participation Dividend in %	State	Portfolio Dividend in %	Participation Dividend in %
Australia	15	15	Japan	15	10
Austria	15	0	Luxembourg	15	0
Belgium	15	10	Netherlands	15	0
Canada	15	5	New Zealand	15	15
China	10	10	Norway	15	5
Denmark	0	0	Pakistan	35	15
France	15	0	Portugal	15	10
Germany	15	0	South Africa	7.5	7.5
Greece	15	5	Spain	15	10
India	10	10	United Kingdom	15	5
Ireland	15	10	United States	15	5
Italy	15	15			



APPENDIX 3

Effective rates of corporation tax (ordinarily taxed including federal, cantonal and communal taxes)

Total tax rate on profit before tax; depending on the return on equity

Canton/commune	Tax in %
Zug	13.0-16.5
Zurich	24.1
Geneva	24.5



APPENDIX 4

VAT: Zero-rating and exemptions

The principle categories of goods and services classed as zero-rated or exempt are as follows:

Zero-rated	Exempt
Exports of goods	Postal services
Exports of services	Rent Banking
Work on movable goods for a foreign person, provided the goods are exported	Insurance Medical, hospital Most educational services Welfare, cultural services Land Sports Betting



APPENDIX 5

Rates of individual income tax (including federal, cantonal and communal taxes); married, no children, no church tax.

Canton/Commune	Taxable income	Tax in %
Zug	100,000	11.1
	200,000	18.4
	300,000	21.
Zurich	100,000	14.3
	200,000	23.5
	300,000	28.5
Geneva	100,000	19.3
	200,000	29.8
	300,000	34.5



APPENDIX 6

Inheritance / Gift tax

Canton (commune: capital)	Tax exempt	All others/Tax rates
Zug	Descendants, spouses lifetime companion 300,000	from 2% to 20% depending on the degree of relationship and the amount received
Zurich	Descendants and spouses 300.000	from 2% up to 36% depending on the degree of relationship and the amount received
Geneva	Family in direct line and spouses	from 0% up to 54% depending on the degree of relationship and the amount received

At present, only the canton of Schwyz does not impose any inheritance and/or gift tax.



APPENDIX 7

Social security contributions (old age, disability and unemployment) amount to 12.1% from gross salary up to CHF 106,800.- and to 10.1% without ceiling for gross salaries exceeding CHF 106,800.-. Contributions are borne equally by employer and employee.

In addition, employed persons have mandatory private pension fund insurance (BVG) with rates of 10% to 24% (of which at least half is to be borne by the employer). The additional mandatory accident and family allowance insurance is to be borne by the employer only (2% to 3%).

Rates of social security contributions

Total social security contributions for the employer amount to about 14% - 20% of gross salary:

Social security costs to be borne by the employer	miscellaneous	accident insurance etc.	about 2% to 3%
	BVG	employer pension fund contribution	about 5% to 12%
	AHV	employer old age & disability insurance	5.05% no ceiling
	ALV	employer unemployment insurance	1% ceiling CHF 106,800.-

Gross salary

Social security costs to be borne by the employee	AHV	employee old age & disability insurance	5.05% no ceiling
	ALV	employee unemployment insurance	1% ceiling CHF 106,800.-
	BVG	employee pension fund contribution	about 5% to 12%



NOTES

Doing business in Switzerland



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MEMBER FIRM CONTACT DETAILS

Baker Tilly (Switzerland) AG, the Swiss member firm of Baker Tilly International, has national coverage through its dense network of offices. Baker Tilly (Switzerland) AG, together with its partner firms, OBT AG and Dominik Spiess SA is a top 6 accounting firm in Switzerland which specialises in providing an integrated range of services to small and medium enterprises, associations, non-profit organisations, and high net wealth individuals; management and finance services, IT services, auditing and accounting services, personal and corporate tax, VAT, and legal consulting.

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