Doing Business in Switzerland

COMPANY FOUNDATION

Switzerland is one of the world's most popular company locations. In 2019, for the sixth year in a row, more than 41,000 new companies were entered into the Swiss commercial register. Establishing a company can be done quickly and easily. Numerous official and private organizations assist entrepreneurs in selecting the appropriate legal form for their company and can provide advice and support. If all the requirements are met, set- ting up a company can take as little as two to three weeks. Furthermore, a company can be adopted into the commercial register within approximately five days, if it makes use of the express service, which is subject to a little fee.

PERSONS AUTHORIZED TO CREATE A COMPANY

It is, in principle, possible for any citizen to create a company or to hold a stake in a company in Switzerland. When founding a business, at least one of the people involved must have right of residence in Switzerland. People from the EU zone possess the right to freedom of residence and work in Switzerland, due to the freedom of movement in place. In order to conduct business in this country on a permanent basis, citizens from third countries require work and residence permits.

CHOICE OF LEGAL FORM

Which of the various legal forms is suitable depends on the objectives and requirements of the company. The following company types are particularly popular among foreign investors:
- Private limited company (Sagl/Sàrl/GmbH)
- Public limited company (SA/AG)
- Branch

CHOICE OF LOCATION

A domicile address is required for establishing a company. If the location is yet to be defined, one can also register the company under the name of the appointed legal attorney or notary.

BEFORE THE COMPANY IS FOUNDED

<u>Business plan:</u> This plan can be used as a basis for starting a business. It must demonstrate how the business concept can be realized and contain statements regarding the strategy, market situation, planned measures and financial requirements.
<u>Market analysis and market research:</u> Another important element of the business plan is the analysis of the potential market. One can access a number of service providers who specialize in conducting market analyses and research and determine how well a product might be received on the market.

Nomination of institutions and the definition of articles of association: The articles of association for public and private limited companies must contain information on their legal form, objective, head office location, share capital and contributions from shareholders.
Permits: It is necessary to clarify whether a working/residence permit must be obtained for a particular activity and whether other statutory requirements must be met at municipal, cantonal or federal level.

ASSIGNING A NAME

Regix can be used to check whether the name requested for a company has already been taken or not. It is also advised to commission an investigation with the Swiss Federal Commercial Registry Office before setting up a new business or changing a company name. Public and private limited companies must be stated by name, should these company forms be decided upon. Names of sole proprietorship companies must contain the surname of the founder.
Domain: It is advisable to check the availability of relevant domains as early as possible and to register these domains. The SWITCH foundation assigns and manages all domain names belonging to the ".ch" suffix, on behalf of the Federal Office of Communications.

ENTRY IN THE COMMERCIAL REGISTER

A written application must be submitted, with certified signatures, for entry in the commercial register. The guidelines for the entry procedure are outlined in the Swiss Code of Obligations, as well as in the Commercial Register Ordinance. This information is made available to the public. Certification, in addition to authorized signatures, are required for entry in the commercial register. This procedure serves to definitively prove the identity of the signatory. The signatures are generally certified by notaries, commercial registry offices and, in some cases, by city and municipal authorities.

FURTHER STEPS AND OBLIGATIONS

Value-added tax: Whether, and to what extent, a company is obligated to pay value-added tax is dependent on a number of different factors. Value-added tax is generally payable on annual turnover generated in Switzerland in excess of 100,000 Swiss francs.
Accounting obligation: When registering as a public or private limited company, the company is required to arrange for book- keeping services. The associated costs can be recorded on the date the company was founded. During the span of two consecutive years, if a public or private limited company exceeds certain thresholds relating to balance sheet totals, revenues and full-time positions offered, a regular audit is required by law. In all other cases, a limited audit applies, unless the company consists of few- er than ten full-time employees and all shareholders vote against an audit.
Insurance obligations AHV/IV/EO: The pension system in Switzerland (AHV) ensures the basic needs of the elderly and surviving dependents. The disability insurance (IV) is intended for the financial consequences of disability. The federal law on income compensation (EO) partly compensates for the loss of income while engaging in military, civil protection or civil service. These insurance policies are financed by employee and employer contributions and by state contributions.
Compensation funds: They recover AHV/IV contributions from employers and insured persons and then pay out the pensions due.
Professional pension (BVG): The aim of the professional pension, along with the AHV/IV, is to ensure that the employee's standard of living can be maintained following retirement. The

professional pension is managed by pension funds and financed by contri- butions from the employee and employer, with the employer contributing at least 50%.
Accident insurance (UVG): Accident insurance is obligatory in Switzerland and is usually covered by the services of the Swiss accident insurance institution (SUVA). Supplemental health insurance policies (e.g. per diem sickness indemnity) and business insurance policies are, however, voluntary in most industries.
Business insurance policies: A company can, in principle, decide for itself which risks it would like to hedge. However, depending on in which industry it operates, it is worth clarifying which risks it is reasonable to take out insurance against.
Business liability insurance: Business liability insurance covers damage which could potentially harm the business owner and his/her deputy or employees of third parties. It is not mandatory to conclude this type of insurance policy, but it is highly recommended.

COSTS OF FORMING A COMPANY

The costs for forming a stock corporation (for a limited liability company the fees and consulting costs are slightly lower) comprise various fees:

Stock corporation (SA/AG)

Share capital	100’000+
Consultancy	1’000 – 4’000
Startup	800 – 2’500
Trade register fees	600
Issue stamp tax	1% for capital of more than 1’000’000

Limited liability company (SAGL/SàRL/GmbH)

Share capital	20’000+
Consultancy	600 – 2’000
Startup	700 – 2'000
Trade register fees	600
Issue stamp tax	1% for capital of more than 1’000’000

Source: EasyGov.swiss, 2018
(all amounts in CHF are approximate)

CORPORATE TAXATION

Switzerland is known for its lean government, low taxes and duties.
The low tax rates for companies and private individuals are one of the essential reasons international companies choose to set up offices in Switzerland. In addition to the low tax rates,there are further advantages that contribute to Switzerland being a popular location, including smooth cooperation between authorities and companies, an extensive network of double tax treaties and a low value-added tax.

THE SWISS TAX SYSTEM

- The Swiss tax system boasts a federal structure, meaning taxes are raised at Federal (national), Cantonal and Municipal level.
- Effective tax rates for Swiss companies vary from canton to canton, starting at around 11.91%, with the average rate being around 15%. Switzerland is therefore highly competitive by international standards.
- At federal level, a statutory tax rate of 8.5% applies to corporations and co-operatives, while associations, foundations and other legal entities, as well as investment funds, are taxed at 4.25%.
- A number of double taxation agreements (DTA) ensure that individuals and legal entities who earn income in two countries are not taxed twice. At present, over 100 such DTAs are in force.
- At just 7.7%, Switzerland has the second lowest value-added tax rate in Europe.
- The stable political environment supports the stability of the tax system, helping companies carry out long-term planning.
- Thanks to the trusting exchange between the tax authorities and the companies, it is also ensured that appropriate solutions for appropriate taxation are found even in complex cases.
- Switzerland applies the practice of advance tax rulings. These are advance confirmations regarding the (fiscal) legal eligibility of specific circumstances on the part of the authorities.
- The standard practice for advance tax rulings means that companies enjoy a greater degree of legal certainty.

TRAF

On 19 May 2019, the Swiss electorate adopted the Federal Law on Tax Reform and AHV Financing (TRAF) with a majority of 66.4%. The adoption of the TRAF means that the Swiss tax system has been modernized and now offers companies an attractive tax environment in line with internationally established tax practices.
Corporate Income Tax rates vary depending on the location and are between 11.9–21.6% for companies, depending on in which canton said company is located.
An average CIT of 15% is the aim of the latest Federal Fiscal Law, as sought by Cantons.
This tax reform ensures an internationally accepted corporate taxation system.

In line with internationally recognized standards, Switzerland has replaced its previous system, which favored holding, management and mixed companies, with new regulations.
To ensure that Switzerland remains attractive as a tax jurisdiction for foreign companies, various tax measures aimed at increasing the competitiveness of Switzerland as a company location were introduced. After the TRAF was adopted by the Swiss electorate with a majority of 66.4% on 19 May 2019, the standards entered into force at federal level on 1 January 2020. In addition,the

reform was implemented at cantonal level. Most cantonal implementing provisions entered into force on 1 January 2020, too.

The TRAF comprises the following core elements:

- Patent box: A patent box that is consistent with the OECD regulations will result in preferential tax treatment of revenue from patents and similar rights (e.g. license revenues from patents).
- Increased tax breaks for research and development expenditure: The cantons have the opportunity to supplement the patent box with input-oriented special tax breaks for research and development costs.
- Maximal relief: Tax relief for income through the patent box and deductions for R&D expenses may not exceed 70%.
- Two-rate solution/step-up under old legislation: These two transitional solutions, which are available as alternatives in many cantons, mean that the tax burden should remain at the current or only a slightly higher level during the transition in spite of the relinquishment of a privileged tax status.
- Withholding tax: a 35% federal tax levied directly at source on income from movable capital assets, on Swiss lottery winnings of one million Swiss francs or more and on certain insurance benefits.
- Switzerland raises so-called stamp duty, a form of legal tax, on the issue and trading of securities. Firstly, the stamp duty on newly issued securities is charged when issuing securities and shares (CHF 1 million or more). Secondly, turnover tax is charged when trading in securities such as stocks and bonds, in so far as a securities trader is involved as either a contract party or an intermediary. There are exceptions to this rule for qualifying group internal restructuring.
- At 27.9%, Switzerland enjoys the lowest fiscal quota in continental Europe (tax revenues incl. social security contributions as a percentage of GDP).

It is up to the cantons to reduce the tax rates at cantonal and municipal level within the limits of their budgets. Several cantons already offer an effective overall tax burden (federal, cantonal and municipal taxes) of less than 13%. In various cantons, reductions of the tax rates at cantonal and municipal level for upcoming years are planned or already adopted.
Thanks to the core elements of the TRAF that are available to the cantons and the comparatively attractive profit tax burden in many places, it is clear that companies operating in Switzerland will continue to benefit from internationally competitive conditions.

PTA Dynamix SA

Via Valdani 1|6830 Chiasso|Switzerland

T +41916956050
www.ptadynamix.com
info@ptadynamix.com