

Doing Business in Switzerland

Recapitulated by



MWP Treuhand Ltd.



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Office Entrance Altendorf, Schwyz

About Us

As a team that fits together perfectly and is well networked, we place great value on a high level of professional competence, trustworthiness and a high commitment to quality and customer awareness. Our approach focuses on our customers and on finding solutions, and this is also one of our strengths.

Our friendly, uncomplicated and understandable manner makes us the right partner for you. You have our word.

From corporate bookkeeping and tax returns to private matters of property and inheritance law, we are motivated to assist you according to your needs with our experience.



Taxation

Switzerland's complex tax structure has been shaped by the country's three levels of government, which are federal, cantonal and municipal.

Levied Taxes¹

The following two distinct taxes are levied

- 1) Federal taxes
- 2) Cantonal and municipal taxes

The Swiss tax system is characterised by a high degree of tax autonomy in the cantons. The Confederation, by contrast, may levy taxes only to the extent permitted by the Federal Constitution.

Swiss federalism also characterises the country's tax system. All of the 26 cantons have their own tax laws and levy very different taxes on income, assets, inheritance and other tax items. This allows the Confederation only to levy those taxes whose imposition is expressly allowed for in the federal Constitution. In contrast, the cantons are generally free to choose their taxes, except where the Federal Constitution expressly prohibits the levying of certain taxes by the cantons or reserves the right for the Confederation.

The Essentials

Which financial assets are taxed under the direct taxes?

Federal Tax:

Natural person: Income and Asset tax

Legal person: Profit and Capital tax

There are many indirect taxes but the most important three are the following:

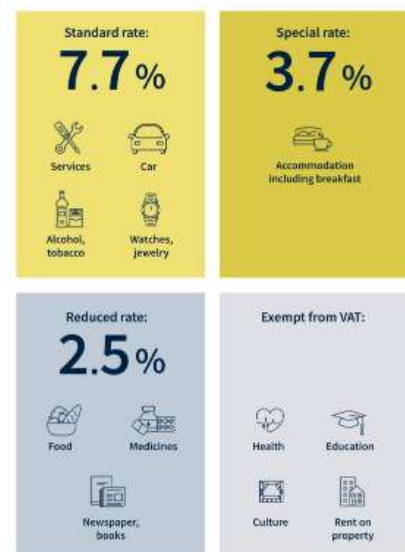
Value added tax (VAT)²

As many other countries Switzerland also taxes VAT on products and services. Depending on what is sold or bought the percentage differs, see a rough overview on the right.

Depending on what the core business of a Corporation is and a turnover of or more than CHF 100'000.00 per year, it is subject to VAT.

Key Requirements are

- Based in or have a Manufacture in Switzerland
- is independently pursuing a professional or commercial activity,
- appears under its own name and
- geared towards the sustainable generation of income from services.





Stamp duty³

Stamp duty is an indirect tax which is levied for particular business transactions. It will be taxed on issuing Participation rights above CHF 1'000'000, namely shares, participation certificates, dividend-right certificates and cooperative shares or the increase in the nominal value at a rate of 1%.

Withholding tax⁴

In Switzerland, withholding tax is levied on capital gains, lottery winnings, annuities, pensions and insurance benefits.

It is a tax to secure and animate the proper declaration and taxation of assets with anonymous owner. An amount of 35 % of the earnings, dividend income for example, as part of swiss held companies will be transferred to the federal tax office. The 35 % can be reclaimed by the annual tax return of the swiss resident person or with a special form. According to the state of residence the form can vary.

The Ordinance on Withholding Tax stipulates that most domestic corporation or cooperative must submit the annual report or a signed copy of the annual financial statements (balance sheet and income statement) and a statement based on the official form to the Swiss Federal Tax Administration within 30 days of approval of the annual financial statements, which shows the capital stock at the end of the financial year, the date of the general meeting, the approved distribution of profits and their due date.



City Zug, Zug



Taxation Individuals

Income and Wealth Tax⁵

- Income tax is calculated with the taxable income, this is calculated as following:
Net income of tax year – deductible expenses of tax year = taxable income
- Wealth tax is calculated on the swiss passed savings and property's, but for the tax rate the world wide possessions are considered.
- The tax rate for the federal tax is defined in the federal tax law Art 36 depending on the amount of income. The maximum overall rate of federal income tax is 11.5%
- The tax rate for the cantonal and communal tax is regulated individually by each canton and depends on the amount of income, same as the federal tax. The various cantonal and municipal taxes are also levied at progressive rates, with a maximum combined cantonal and municipal rate which ranges from 22% until 33%, depending on the canton and commune in which the taxpayer is resident.
- All cantons and municipalities levy net wealth tax on worldwide assets. Tax rates are reasonably low and vary widely, depending on the canton and municipality where the taxpayer resides. No net wealth tax is levied at the federal level.
- Imputed rental value is a speciality, used in Switzerland. Here, rental or lease expenses are estimated, which would have incurred if the property was rented or leased. These avoided expenses increase the owner's liquidity and are subject to income tax.

Capital gains tax

Private capital gains derived from sales of movable assets are generally not taxed at federal level or at the cantonal level. Capital gains derived from sales of immovable assets are subject to a separate tax in all cantons.

Inheritance and gift taxes⁶

Almost all cantons levy separate inheritance and gift taxes. Rates vary widely depending on the canton where the deceased or donor is domiciled. Descendants are usually exempt inheritance tax at the Cantonal level, no inheritance or gift taxes are imposed at the federal level.



Taxation Corporation⁷

- At the federal tax level, the income tax is levied at a flat rate of 8.5% of taxable income. Because taxes are considered as deductible expenses, the effective federal corporate income tax rate is approximately 7.8%.
- At the cantonal and communal tax level no standard tax rates exists. Cantonal and communal tax rates vary widely. The cantonal and communal tax rates are usually a certain percentage (known as “multiplier”) of the relevant cantonal statutory tax rates. The total effective maximum tax burden, which consists of federal, cantonal and communal taxes ranges from 12% to 21%, depending on the canton and commune in which the taxable entity is located. Down below you can find an fictive comparison of each Canton.
- Cooperation’s are obligated to pay in many cantons Church Tax as well. It is a remain of the old days for sure but for now it is still effective.
- Losses from the previous 7 years can be deducted of the taxable profit of the current year. If a loss carried forward cannot be fully offset against income within this period, the remaining amount is forfeited. No pro rata temporis calculations can be made. Retrospective offsetting of losses is not permitted in Switzerland.

Tax comparison for a Corporation with a Capital and an annual Profit of each CHF100'000.00:

Taxes in CHF	Zug	Nidwalden	Valais	Lucerne	Uri	Appenzell	Glarus	Obwalden	Basel	Thurgau	Neuchatel	Schaffhausen	Aargau
Total tax on profits	11'834.00	11'968.00	11'899.00	12'163.00	12'619.00	12'658.00	12'239.00	12'731.00	13'005.00	13'207.00	13'565.00	13'796.00	12'915.00
Total canton, municipality, parish	133.00	19.00	393.00	337.00	2.00	0.00	460.00	2.00	186.00	0.00	0.00	9.00	900.00
Total tax on profits and capital	11'967.00	11'987.00	12'292.00	12'500.00	12'621.00	12'658.00	12'699.00	12'733.00	13'191.00	13'207.00	13'565.00	13'805.00	13'815.00
Taxes in CHF	Geneva	Vaud	Schwyz	Fribourg	St. Gallen	Aargau	Solothurn	Grisons	Jura	Basel District	Bern	Ticino	Zurich
Total tax on profits	14'003.00	14'004.00	14'052.00	14'106.00	14'395.00	15'061.00	15'288.00	14'649.00	15'944.00	16'443.00	18'334.00	19'150.00	19'593.00
Total canton, municipality, parish	0.00	0.00	0.00	0.00	0.00	0.00	0.00	831.00	342.00	480.00	0.00	0.00	308.00
Total tax on profits and capital	14'003.00	14'004.00	14'052.00	14'106.00	14'395.00	15'061.00	15'288.00	15'480.00	16'286.00	16'923.00	18'334.00	19'150.00	19'901.00



Types of Corporations and main features⁸

The following ones are the main types

- Joint stock company
- Limited liability company
- Sole proprietorship
- General partnership

Depending on the Corporation the founding process and needed documents vary.

Most common in Switzerland are Limited Liability companies and Joint stock companies, Sole proprietorships, General partnership which is why we have listed the founding process and most important details regarding those three corporations:

Limited liability, Joint stock company

The following founding process remains the same for both corporations, details regarding the Capital and titles differ, as you can see in the spread sheet on page 11.

1. Preparing Statutes according to spread sheet.
2. Deposit the founding share capital to a restricted capital payment account.
3. Appointment with the Notary with all founding Members of the Corporation for notarising the founding of the corporation and the required incorporation documents¹.
4. Sending in application for the commercial register with the notarised incorporation documents.
5. Application to the cantonal social security institutions as a Corporation.
6. Application to VAT if the expected annual turnover is more than CHF 100'000.00.

General partnership

A general partnership is a valid option to be considered if multiple parties are collaborating on a project without a fixed end and interrelated interests or fluid transitions of responsibility.

1. There are no legal requirements in regard to the founding process other than the entry of the partnership in the commercial register.
2. It is also advisable to lay out a partnership agreement. Otherwise the federal law will take place.

¹ Incorporation documents:

- Statutes, if they are not already prepared by Notary, itself
- Official Payment confirmation from Bank for restricted capital payment account
- Approved valid Identification Card or Passport of founding members



Sole proprietorship

This Corporation has the greatest advantages in regard to the founding process. This is due to the reason that there are only two to three requirements:

1. The Corporation Name must include the Surname of the Founder.
2. Application as a sole proprietorship to the Cantonal social security institution.
3. If your expected annual turnover is more than CHF 100'000.00, then you also have to be registered in the commercial register.



Conference room Office Altendorf, Schwyz



Comparison of the most common corporations⁹

Company criteria	Limited liability company (Art. 772 - 827 OR)	Joint-stock company (Art. 620 - 763 OR)	General partnership (Art. 552 - 593 OR)	Sole proprietorship (Art. 946 OR)
Number of founders	at least 1	at least 1	at least 2	1 natural person
Start-up costs (CHF) / Time	CHF 2'000 - 4'000 / 2 - 3 weeks	CHF 3'000 - 5'000 / 2 - 3 weeks	CHF 2'000 - 5'000 / 1 week	None / 1 week
Founder	natural and/or legal persons	natural and/or legal persons	natural person	natural person
Statutes composition	Yes, as public certification is always necessary The statutes must contain provisions on: 1. the name and registered office of the company; 2. the purpose of the company; 3. the amount of the share capital and the number and nominal value of the shares; 4. the form of announcements made by the company.	Yes, as public certification is always necessary The statutes must contain provisions on: 1. the name and registered office of the company; 2. the purpose of the company; 3. the amount of the share capital and the amount of contributions made thereto; 4. Number, par value and type of shares; 5. the convening of the General Assembly and the right to vote the Board of Directors; 6. the administrative and auditing bodies; 7. the form of announcements made by the company.	No, but it is advisable to prepare a partners' agreement to outline legal capacity and representative function of each shareholder, otherwise the stipulations of the federal law will take place	No
Necessity Notary	Yes, because always public certification	Yes, always public certification	No	No (but HR entry, if annual turnover is more than 100'000.00)
Liability	Company assets, but statutory obligation to make additional contributions possible	<i>Primary:</i> Company assets, no personal liability of shareholders <i>Liability of governing bodies:</i> board of directors, managing director or liquidator according to Art. 754 OR, furthermore liability for the formation of the company and liability for the issue prospectus.	<i>Primary:</i> Company assets <i>Subsidiary:</i> joint and several liability of partner with personal assets	Owner has unlimited liability with personal assets
Capital contribution	Share capital at least CHF 20'000, Contribution in kind possible	Share capital at least CHF 100,000, Contribution in kind possible	No provision	No provision
Minimum	complete liberation necessary (Art. 777c CO)	20% of the nominal value per share, but total of at least CHF 50'000	No provision	No provision
Liberty Protective provision Creditors	Yes	Yes, with regulations according to OR	Yes	No
Prescribed organs	General Meeting, Auditors, BoD	BoD, GA, Auditors	No	No
Nationality requirement	at least 1 representative resident in CH	at least 1 representative resident in CH	No	Representative with residence in CH
Ability to act, process and operate	Yes	Yes	Yes, if not mentioned otherwise in commercial registry	No; no legal personality
Prohibition of competition	Yes	No, optional in the employment contract	Yes	No
Obligation to audit	- <i>Ordinary:</i> if 2 out of 3 criteria are fulfilled during 2 following years, balance sheet total 20Mio, sales revenue 40Mio, full-time employees on an annual average 250 - <i>Limited:</i> if conditions for ordinary audit are not met and shareholders do not waive them due to less than 10 full-time employees on an annual average	- <i>Ordinary:</i> if 2 of 3 criteria are fulfilled for 2 consecutive years, balance sheet total 20Mio, sales revenue 40Mio, full-time employees on average 250, or if shareholders representing 10% of the share capital demand it. - <i>Limited:</i> if conditions for ordinary audit are not met and shareholders do not waive them due to less than 10 full-time employees on an annual average	No	No
Commercial register entry	mandatory	mandatory	constitutive	constitutive



Opening an account

First of is to mention due to the varying stipulations in the agreements with foreign countries, the process and obstacles faced while opening of a bank account will vary. It is also to be noted, most of the times it is more straightforward to open an account with a Swiss International Bank as a foreigner rather than to open an account with a Swiss local bank.

But of course there always are situations, which require a Swiss local bank account. For these cases the list down below will give you an overview on what you will need.

The exact amount of documents that you'll need to open an account may vary from bank to bank, depending on the type of account. These are some of the documents you can expect to be asked to present:

- Proof of identity:
You will need an official document issued by the government (e.g. a national ID or passport)
- Proof of address:
In this case, you will need to bring utility bills (e.g. gas, electricity, internet, etc.), bank statements, or other official communications. These Documents should not be older than 3 months.
- Proof of employment, or legitimacy of funds:
It is normal for Swiss banks to request documents proving the origin of the funds you are looking to deposit and/or a letter from your employer as proof of solvency.

What's the typical process for opening a bank account in Switzerland?¹⁰

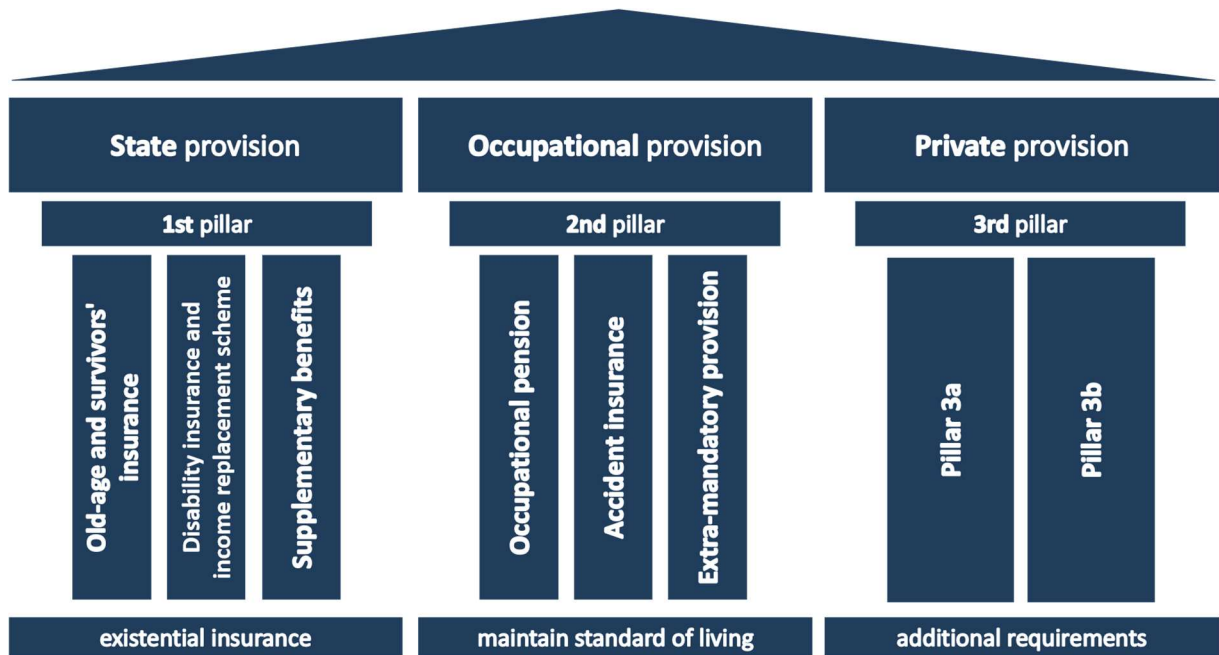
The easiest way to open a bank account at a traditional Swiss bank is to go in person to a branch office. With this approach, you are assigned to a person that will be your point of contact. If you wish to be assisted by someone in a specific language, you should make this request before you're assigned a specific bank employee.

Even if you choose to handle this process in person, chances are, you will still have to wait a period of time before your account has been successfully created and is fully operational. The average time during this period usually ranges between one week and one month, plus the time needed to deliver your bank cards.



Social Security in Switzerland

The three pillar System



Graphic three pillar system

The Swiss old-age provision consists of three pillars¹¹

1. the old-age and survivors' insurance (AHV), which is compulsory for all swiss residents
2. occupational pension scheme (BV), which is compulsory for most working people
3. voluntary, tax-privileged self-provisioning for working people

If the income at retirement age or in the event of disability is not sufficient to secure a livelihood, the reported income gap is covered by supplementary benefits.



Salary Deductibles

Depending on what the employment percentage is, needs to be insured and the sector of work and calendar year the deductibles vary.

Fixed Deductibles of 2021¹²

Fixed Deductibles	Percentage Employee	Percentage Employer
old-age and survivors' provisions, disability insurance and income replacement scheme	5.30%	5.30%
unemployment insurance for income up to CHF 148'200.00	1.10%	1.10%
unemployment insurance for income difference over CHF 148'200.00	0.50%	0.50%
Family compensation fund		0.7 - 3.5%
Administrative Expenses of the 5.3% for old-age and survivors' provisions, disability insurance and income replacement scheme		max. 3.0%

Occupational Pension Fund¹³

Occupational Pension Fund Insurance Savings percentage:		
Age	Percentage Employee	Percentage Employer
25 - 34	7%	7%
35 - 44	10%	10%
45 - 54	15%	15%
55 - 65	18%	18%

The occupational pension scheme has the task of enabling the insured to continue their current standard of living in an appropriate manner. It is striving for the goal of achieving a pension income of around 60 percent of the last wage together with the first pillar.

The pension fund percentage with an additional risk premium will be deducted of the insured salary monthly. The risk premium depends on the insurance and the insured occupation.

To insure your occupational pension there are some key factors to note. First off, the annual salary and the insured salary are not the same. Also there is a minimum and a maximal salary thresholds for the insured salary.



Thresholds:	
Minimum of potential annual salary threshold	CHF 21'510.00
Minimum of potential annual salary threshold	CHF 86'040.00
Minimum of insured annual salary	CHF 43'020.00
Maximum insured annual salary	CHF 60'945.00
Coordinated Deductible	CHF 25'095.00

Accident Insurance

Accident insurance is also obligatory to insure. Key factor to calculate the deductible premium of the monthly salary is the occupational industry. For an example a service company will have a significantly lower rate than a manufacture enterprise, due to the lower risk of injuries.

The Thresholds for accident insurance is measured in working hours:	
Occupational accident	> 0 h per week
Non occupational accident	> 8 h per week

Sickness Insurance

Different to the accident insurance, the sickness insurance is not obligatory to insure by the employer. Due to the Federal law an employer has to go through a waiting period before giving notice, if one or more employees are absentee due to illness. It is usual in Switzerland, due to the financial relief the employer has during the waiting period. Here the Premium does also depend on the industry or occupation in which the company is operation in.

In conclusion the average Percentage of deductibles for social security contributions vary between 10 – 20 % of the gross salary.

Tax at source¹⁴

In addition to the social security contributions the tax at source is also to be considered.

Tax at source tax is deducted directly from the income of foreign employees in Switzerland, whom are subject to the following factors

- if they do not have a tax domicile in Switzerland (cross-border commuters)
- or live in Switzerland without a permanent residence permit (Permit C).

Employers transfer the tax at source to the cantonal tax authorities with the monthly payroll.

The tax at source percentage differs from employee to employee due to personal differences such as marital status, number of children and beliefs and canton of the company or residence of the employee. Accurate Percentages is given by the respective Canton.



Sources

- 1 <https://www.efd.admin.ch/efd/de/home/steuern/steuern-national/das-schweizer-steuersystem.html>
- 2 <https://www.ch.ch/de/steuern-und-finanzen/steuerarten/mehrwertsteuer/#was-ist-die-mehrwertsteuer-mwst>
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- 6 https://steuerbuch.lu.ch/index/band_3_weisungen_estg_erbschaftssteuer_ehegattennachkommen.html
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