Corporate taxation in Switzerland

Switzerland is internationally known for its favorable tax environment. Businesses benefit from the special tax regime offered by most cantons, which reduces the already moderate tax burden to even more attractive levels. Due to its federal structure, Switzerland does not have a uniform tax system. Taxes are levied at federal, cantonal and communal level. Every canton has full control of its taxation, excluding only those taxes that are reserved for the federal government, such as value added taxes (VAT). As a consequence, Switzerland has 27 different tax jurisdictions – one for the federal level and one for each of the 26 cantons. To simplify the procedure, direct taxes at all three levels are usually levied by the cantons, so only one tax return has to be filed.

Although Switzerland has been undergoing a reform of its tax system with the aim of formal harmonization of cantonal tax systems, cantonal taxes still vary from one canton to another, especially in respect of tax rates. Based on the individual situation, a comparison of cantons helps to find the best location from a taxation perspective. To encourage investment in Switzerland, cantons and the federal government can grant tax holidays as part of a regional policy to strengthen economically weaker regions, but generally these incentives are only granted for the creation of a significant number of new jobs.

Tax residency and taxable income

Except for certain tax-exempt organizations, all resident corporations (registered office or effective place of management) are subject to corporate income tax in Switzerland. Non-resident corporations with a permanent establishment or real estate in Switzerland are considered resident by economic affiliation. Resident companies are subject to corporate income taxes on their worldwide income except for income attributable to foreign permanent establishments or foreign immovable property. These foreign elements are only considered for the tax rate progression. Every company is taxed as an individual entity, so tax groups or tax consolidations are not possible in Switzerland.

Corporate taxation – federal level

At federal level, businesses pay a flat rate corporate income tax of 8.5% on profits after tax, corresponding to a 7.8% effective tax on pre-tax profits. For associations, foundations and other legal entities (such as investment trusts), a flat-rate tax of 4.25% is applicable on profits after tax. There is no taxation on capital at federal level.

Corporate taxation – cantonal level

Income taxes vary considerably between cantons; some apply a rate based on return of equity, while others apply a proportional rate. Capital or equity tax is usually a proportional rate of the net equity (nominal share capital, share premium and retained earnings) and some cantons credit the income tax to the capital tax. Tax on equity is also applied on so-called 'hidden equity' for certain thinly capitalized corporations. Overall effective corporate taxation on cantonal and communal levels currently varies between 12 and 14% before taxes.

Dividends are considered as gain for the corporation and as income for the beneficiary. To reduce double taxation, dividends are tax-privileged for the beneficiary, if the investment exceeds 10% of the share capital. In that case only 50 to 60% of the dividends are considered as taxable income.

Special tax regimes

Special tax regimes are similar in all cantons, but detailed regulations can vary. When applying for a special tax regime, it is advisable to clarify every case with the responsible tax authority.

Companies with participation deduction: Dividend income and capital gain on participations are generally subject to taxation in Switzerland. For the tax exemption of dividends, the investment must be at least 10% of the share capital of a particular company or the book value of the investment must be at least 1 million francs (for participations mentioned below, we assume that the criteria for tax exemption are met). For capital gains, a minimum 1-year holding period is also required. Corporate income tax on profit is then reduced at the ratio of the net income from the participation in relation to the total profit. The participation deduction is applicable at the federal level as well as the cantonal and communal levels. Effective tax on such income is usually around 1%.

Holding companies: Holding companies are entities whose main purpose is the holding and managing of long-term investments in affiliated corporations. If certain requirements are met, holding companies are exempt from cantonal and communal income taxes, while at federal level the participation deduction effectively reduces the tax rate. In addition, there is a reduced capital tax at cantonal and communal levels.

Pure domiciliary companies: Domiciliary companies are entities that have commercial and financing activities abroad, but not in Switzerland. The registered office in Switzerland does not have its own premises or staff in Switzerland. The supervision is done from abroad and transactions have no relation to the Swiss market. At the federal level there is no favorable treatment, but at the cantonal level income from participations is free from any taxation. Swiss-sourced income, if any, is normally taxed, whereas foreign source income is exempt. Capital tax is also levied at a reduced rate. Profits from real estate are taxed normally.

Domiciliary companies with auxiliary functions: Contrary to pure domiciliary companies, auxiliary functions (management and financing services, research and promotional activities) for group coordination for Swiss and foreign entities are possible. For Swiss entities, these auxiliary functions are limited to 20% of the gross remuneration. The only difference in taxation compared with purely domiciliary companies is that 10% of foreign source income is normally taxed.

Mixed trading companies: For mixed trading companies, limited commercial activity in Switzerland is allowed. At least 80% of the income from commercial activity must, however, be from foreign sources. Additionally, some cantons require at least 80% of the costs to occur for foreign activities. Costs are allocated to Swiss and foreign sources, based proportionally on the relation of income. Swiss profit is fully taxed; 15% of the foreign profit is considered for taxation; income from participations is tax free.

Corporate losses

At federal and cantonal level, losses can be carried forward for up to 7 years.

Stamp duties

Specific legal transactions such as issuance of shares, transfer of securities or payment of insurance premiums are subject to stamp duty.

Tax rulings

Switzerland has an established and widely used tradition of tax rulings, where tax issues can be discussed and negotiated with the responsible tax authorities in advance to obtain a tax ruling. These rulings are binding for the signing tax authority, as long as the relevant tax issues have been disclosed completely and accurately and there is no change in law. Tax rulings are generally processed rapidly; most are signed within 2 months.

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Topics include

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