This report provides helpful information on the current business environment in Switzerland. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

# Report on Switzerland

## Contents



RBC Royal Bank®

## Important to Know

### Official language

- German
- French
- Italian

### Currency

- Franc (CHF)

### Bank holidays

| 2010 | |
|---|---|
| January | 1,2 |
| April | 2, 5 |
| May | 1, 13, 24 |
| August | 1 |
| December | 25, 26 |

Source: www.goodbusinessday.com.

# Types of Business Structure

Under Swiss law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

### Public limited liability company

AG (*Aktiengesellschaft*) / SA (*Societé Anonyme*) / SA (*Società anonima*). This is a company whose shares are not registered to their owners and are tradable on a public stock market. This requires a minimum share capital of CHF 100,000, of which the minimum of 20% or CHF 50,000 must be paid up.

### Private limited liability company

GmbH (*Gesellschaft mit beschränkter Haftung*) / SaRL (*Société à Responsabilité Limitée*) */ SaGL* (*Società a garanzia limitata*). This is a company whose shares are registered to their owners and therefore are not publicly tradable. This requires a minimum paid up share capital of CHF 20,000.

### General partnership

*Kollektivgesellschaft / Société en Nom Collectif / Società in nome collettivo*. In a general partnership, all partners have full and joint liability. This requires no minimum share capital.

### Limited partnership

*Kommanditgesellschaft / Société en Commandite / Società in accomandita semplice*. In a limited partnership, some partners enjoy limited liability (silent partners), although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

### Branches

Non-Swiss companies are entitled to establish a branch in Switzerland. A branch's activities are subject to Swiss company law, although it is considered part of the company's head office and therefore not a separate legal entity. Branches require no minimum share capital. To open a branch a company must register with the commercial registry in the canton in which it is located.

# Opening and Operating Bank Accounts

### Residency

To be considered resident, a company must have a legally registered branch or its centre of effective management in Switzerland. However, the Swiss National Bank does not distinguish between resident and non-resident bank accounts.

### Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (CHF) accounts outside Switzerland and foreign currency accounts both within and outside Switzerland.

Non-residents are permitted to hold local currency and foreign currency accounts in Switzerland.

All local currency accounts are fully convertible into foreign currency.

### Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification of the account holder and, in some cases, the economic beneficiary.
- Banks have to identify clients for transactions above CHF 25,000. In the case of other businesses, it is up to self-regulatory bodies to set thresholds for client identification.
- All cross-border wire transfers must contain identifying details about the funds' remitters, although banks and other covered entities may omit such information for "legitimate reasons".
- In the case of high-risk business relationships and transactions involving more than CHF 100,000 in cash, enhanced due diligence is required – e.g., identification of the origin of the assets.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at March 2009.

### Special purpose accounts required by local regulation

None.

### Value-added tax (VAT) on banking services

Under Swiss law, most banking and financial services are exempt from VAT.

## Payment and Collection Instruments

Electronic credit transfers are the most common payment instrument for both domestic and cross-border payments. They can be initiated using Internet and electronic banking facilities. Paper-based credit transfers are still used for retail payments, although cheque use is rare. Card payments are commonly used for retail transactions, with debit cards more popular than credit cards.

Pre-authorized direct debits are used primarily by utility and insurance companies to collect domestic payments. Most direct debit agreements incorporate a standard right of refusal, although business direct debits do not.

Companies seeking to collect payments from individuals often choose to hold bank accounts for collection purposes with PostFinance, the banking division of the Swiss Post Office.

### Payment Instrument Use (domestic)

| Payment instrument | Transactions (million) | | % change 2008/2007 | Traffic (value) (CHF billion) | | % change 2008/2007 |
|---|---|---|---|---|---|---|
| | 2007 | 2008 | | 2007 | 2008 | |
| **Cheques*** | 1.3 | 1.0 | – 23.1 | 2.7 | 2.5 | – 7.4 |
| **Credit transfers** | 648.1 | 677.5 | 4.5 | 3,957.4 | 4,177.2 | 5.6 |
| **Direct debits** | 43.3 | 43.6 | 0.7 | 61.2 | 64.5 | 5.4 |
| **Debit cards** | 309.1 | 343.3 | 11.1 | 50.0 | 53.3 | 6.6 |
| **Credit cards** | 129.8 | 140.6 | 8.3 | 25.9 | 27.2 | 5.0 |
| **Card-based electronic money** | 17.7 | 17.3 | – 2.3 | 0.08 | 0.07 | – 12.5 |
| **Total** | **1,149.2** | **1,223.2** | **6.4** | **4,097.3** | **4,324.7** | **5.5** |

* Bank cheques, travellers' cheques and postcheques.

Source: Bank for International Settlements, CPSS Red Book, September 2009.

### Single Euro Payment Area (SEPA)

SEPA payment instruments allow enterprises to make and receive EUR-denominated credit transfers, direct debits and debit card payments from a single bank account to and from other parties located anywhere within the European Economic Area (EEA)* and Switzerland. The use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) is compulsory for transfers denominated in EUR between bank accounts in the European Union (EU).**

* EEA countries include those of the EU and three of the four European Free Trade Association (EFTA) member countries (Iceland, Liechtenstein and Norway).

** The EU is an economic and political union of 27 countries (including all members of its forerunner, the European Community, as well as other countries in Central and Eastern Europe), 16 of which use the euro as a common currency.

### International Payments

International payments, including foreign currency payments and payments to and from parties located outside the EEA, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

### Payment Processing Times

| Transactions processed | Value dating rules | Cut-off time(s) in local Central European Time (CET) |
|---|---|---|
| Domestic and intra-EEA payments denominated in both CHF and EUR | Real-time settlement, immediate finality | 15:00 CET or<br>01:00 CET for overnight settlement |

## Central Bank Reporting

The Swiss National Bank (SNB) does not apply any central bank reporting requirements.

## Exchange Arrangements and Controls

Switzerland applies a small number of exchange controls. These primarily affect the ability of resident private pension funds to purchase equities and debt securities from non-residents.

## Cash and Liquidity Management

A number of multinational companies consider Switzerland to be an attractive location from which to manage their group cash and liquidity on a cross-border basis. Some companies have established business coordination centres from which to manage their European or international cash management activities.

### Physical Cash Concentration

Physical cash concentration is available from all large Swiss and international banks. Residents and non-residents can participate in the same domestic cash concentration structure, as can bank accounts held in the name of different legal entities.

A number of banks offer cross-border physical cash concentration. Pools can be denominated in local currency (CHF) and some foreign currencies.

### Notional Cash Pooling

Notional cash pooling is available from most large Swiss and international banks. However, because Swiss banks are not permitted to offset credit and debit balances, few companies choose to manage domestic cash in Switzerland through the use of notional cash pools.

Some banks offer cross-border, including cross-currency, notional cash pooling.

### Short-term Investment

#### Bank instruments

Interest-bearing current and call deposit accounts are available. Banks offer time deposits in CHF for terms from overnight to over a year, although these are often subject to minimum investment requirements. Banks also issue fixed-rate certificates of deposit (CDs), but not usually for terms under a year.

#### Non-bank instruments

Some Swiss companies issue CHF-denominated commercial paper into the euro commercial paper (ECP) market for terms of one to six months.

The Swiss National Bank issues money market debt register claims in US dollars (SNB USD bills) on a fortnightly basis, for terms of one, three, six and 12 months.

A number of banks offer access to Swiss-based money market funds. These are usually domiciled in Luxembourg for tax reasons. Swiss companies also have access to other European-based money market funds.

### Short-term Borrowing

#### Bank

Overdrafts, bank lines of credit and bank loans are all available in Switzerland to both resident and non-resident companies. Banks will usually charge a margin over CHF Libor (the London Interbank Offered Rate) for CHF-denominated facilities. Other commitment and arrangement fees will also be charged.

#### Non-bank

Larger companies issue commercial paper into the ECP market. Issues into the ECP market require a rating. Paper can be issued for periods from one week to one year, depending on borrowing requirements and investor appetite, with terms under six months the most common.

Trade bills are commonly discounted, usually for terms of between three and six months.

## Taxation

### Corporate Taxation

- The flat rate of corporation tax is 7.83% on profit before taxes for companies at the federal level and, depending on the place of the legal seat, in the range of approximately 5–18% at the cantonal/communal level. For a corporate taxpayer resident in the city of Zurich, the effective maximum combined marginal rate amounts to 21.2%, which allows for the fact that taxes constitute tax-deductible expenses.
- Residents are subject to taxation on their worldwide income, after the deduction of business expenses. However, the tax obligation does not extend to business operations, permanent establishments and real estate situated abroad.
- Non-residents are subject to taxation on income derived from permanent establishments or from immovable property located in Switzerland.
- Income tax can be deducted from capital tax in a few cantons.

### Advance Tax Ruling Availability

- In Switzerland it is common practice to ask for advance rulings from the competent Swiss federal or cantonal tax authorities regarding the tax consequences of specific transactions that are not explicitly regulated in tax law. These rulings are binding and valid as long as neither the tax laws nor the underlying facts change.

### Withholding Tax (subject to tax treaties and other exemptions)

- A federal withholding tax of 35% is levied on dividends paid to resident and non-resident companies. Resident companies can apply for refund of the 35% withholding tax based on Swiss law. Non-resident companies may qualify for a reduction of, or exemption from, withholding tax on dividends from their Swiss subsidiaries if they are located in a country with which Switzerland has a double tax treaty or similar agreement. For major holdings (at least 0–25% of share capital, depending on the country) a 0% rate applies (i.e., under the treaties/agreements with Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, the United Kingdom and Venezuela).
- Generally, no withholding tax is levied on interest. Exceptions apply in the case of collective fund borrowing, and in cases where loans are secured by immovable property located in Switzerland.
- Interest derived from bonds (where the total amount of credits exceeds CHF 500,000 and the Swiss debtor borrows from more than 10 creditors at identical conditions or from more than 20 creditors at variable conditions) and from bank deposits is subject to 35% withholding tax. Non-resident companies may qualify for a reduction of, or exemption from, withholding tax on interest from Swiss sources if they are located in a country with which Switzerland has a double tax treaty.
- A withholding tax of 3% at the federal level plus an additional withholding tax of 10–30% (depending on the canton) is imposed on the gross amount of interest on loans secured by immovable property located in Switzerland if the creditor resides abroad.

### Capital Gains Tax

- Capital gains on business assets are treated as income for federal and cantonal/communal tax purposes.
- The capital gain is calculated as the difference between the sales price and the book value of the asset sold. There is no adjustment for inflation.
- Capital gains realized on fixed assets that are used in the company's business may be deferred if the gain is reinvested within a certain period of time in fixed assets performing the same function. The transfer of property outside Switzerland is precluded.
- Capital losses are treated as trading losses.

### Stamp Duty

- Swiss issuance stamp duty of 1% is levied on the issuance or increase of shares in Swiss corporations or limited liability companies exceeding the exemption level of CHF 1 million. However, Swiss issuance stamp duty is not levied on the issuance or increase of shares in connection with a reorganization. Capital contributions made by the shareholder without increase in the par value of the share capital (i.e., against paid-in reserves) are treated as an issuance of shares for stamp duty purposes. In an instance where the reason for the contribution is to recapitalize an over-indebted company, the Federal Tax Administration under certain conditions may waive the Swiss issuance stamp duty upon application.
- Issuance stamp duty is levied on the nominal value of debentures and money market papers issued by a Swiss debtor. The rate for each full or partial year of the maximum term is 0.12% for bonds and 0.06% for notes and for certificates of deposit.
- Transfer stamp duty is levied on the transfer of ownership in securities, provided one of the parties to the transaction or one of the intermediaries is a Swiss securities dealer. The transfer stamp duty is calculated on the consideration and amounts to 0.15% for securities issued by a Swiss resident and 0.3% for securities issued by a foreign resident.

### Thin Capitalization

- Swiss thin capitalization rules determine for every kind of asset its generally expected debt-to-equity ratio and how much debt, if any, may be deemed as hidden equity (and therefore would have to be reclassified as equity for tax purposes). The provisions only apply to debt from shareholders or related parties (which may be the parent company or group companies).

- Generally, if a company's debt exceeds the maximum percentage of underlying debt the surplus will be treated as hidden net equity unless the company can prove that the financing conditions between the associated borrower and lender do not differ from the conditions that would be agreed by independent parties. Where the interest paid does not meet arm's length principles, it will be (partly or fully) disallowed for tax purposes and in consequence be requalified as hidden profit distribution.

### Transfer Pricing

- Switzerland has no specific transfer pricing regulations but follows the general Organisation for Economic Co-Operation and Development (OECD) transfer pricing guidelines and therefore applies the arm's length principle to related-party transactions.
- The same principles are applied for federal and cantonal/communal purposes, irrespective of whether the transaction is domestic or international.
- There are no formal documentation requirements or a specific penalty regime for transfer pricing adjustments.

### Sales Taxes / VAT

- VAT is levied on resident and non-resident companies with a taxable domestic turnover exceeding CHF 75,000 or with a turnover exceeding CHF 250,000, if the annual tax amount (output tax less input tax) is above CHF 4,000. VAT is also levied on the importation of goods. Furthermore, the acquisition of services from abroad may be subject to Swiss VAT if the recipient is resident in Switzerland and the imports exceed CHF 10,000 per calendar year.
- Non-residents without taxable activities in Switzerland can reclaim VAT provided that their foreign activities would be taxable under Swiss law, and that their country of residence grants reciprocal treatment to Swiss companies.
- The standard rate is 7.6%. A reduced rate exists for certain services.

### Payroll and Social Security Taxes

- There are three classes of contribution:
  - Class 1 – compulsory state minimum insurance for unemployment, old age, death and permanent disability;
  - Class 2 – payment into a compulsory insurance and pension plan connected with employment; and
  - Class 3 – private voluntary retirement and insurance plan.
- Class 1 contributions are payable jointly by the employer and employee in equal proportions at a rate of 12.1%. A reduced rate of 10.1% applies to that portion of a salary that exceeds CHF 126,000 per year.
- Employers and employees are also liable to compulsory Class 2 contributions. The mandatory pension plan covers gross income of up to CHF 79,560 minus CHF 23,205 (i.e., a maximum of CHF 56,355) at rates from 7% to 18%. The portion payable by the employer must at least equal the employee's portion.
- Class 3 payments are voluntary and there is therefore no standard rate.

All tax information supplied by Deloitte LLP (www.deloitte.com). Data as at March 10, 2009.

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