

NOTES ON THE SWISS TAX SYSTEM

HOLDING COMPANY

A Holding Company may be granted exemption from the payment of cantonal and municipal taxes if:

- it holds long-term participations
- its participations constitute 2/3 of its total balance-sheet assets or revenues.

Taxes levied

- direct federal tax (income tax) at 8.5%
- tax on equity capital at a rate of 0.15 per thousand, with a minimum of CHF 500.–

ADMINISTRATION COMPANY

An Administration (or Service) Company may be granted exemption from the payment of cantonal and municipal taxes if:

- it does not have its own offices
- it does not hire any employees
- it does not own real estate in the Canton concerned

Services

- administration and management of its own activities
- management of cash flows
- administration of assets, provided that such assets are invested abroad

Taxes levied

- direct federal tax (income tax) at 8.5%
- tax on equity capital at a rate of 0.15 per thousand, with a minimum of CHF 500.–

Revenues from participations are exempt from taxation. Revenues from Swiss and foreign sources are, instead, taxed at the ordinary rates.

AUXILIARY COMPANY

An Auxiliary Company has its registered office or an operating branch in the Canton, but is controlled and managed by foreign companies. It does not carry on any production activity in Switzerland, but it does handle:

- the purchase and sale abroad of goods produced or manufactured abroad
- representation for foreign companies
- professional and commercial mandates with retrocession agreements

Taxes levied:

- direct federal tax (income tax) at 8.5%
- tax on equity capital at 0.15 per thousand with a minimum of CHF 500.–

SWISS JOINT-STOCK COMPANY/CORPORATION SUBJECT TO ORDINARY TAXATION

The Canton of Ticino levies a tax on equity capital (share capital, reserves and reported profit) at the rate of 1.5 per thousand. For example, the following is a tax calculation for a company with a profit of CHF 100,000.– and an equity capital of CHF 100,000.–.

Switzerland has a three-tiered tax system:

1. federal

2. cantonal

3. comunal

Tax facilitations, available to certain kinds of corporate entities, make Switzerland a very attractive financial centre for foreign nationals.

Table A – Tax Simulation

Profit before taxes	100,000
Taxes (In Switzerland the deduction of taxes from income is allowed)	19,580
Taxable profit (after deducting taxes)	80,420
Subject to federal tax on profit at 8.5%	6,836
Subject to cantonal tax on profit at 9%	7,238
Subject to municipal tax on profit at 6.525%	5,247
Share capital	100,000
Cantonal tax on capital 0.15 ‰	150
Municipal tax on capital 0.1087 ‰	109
Grand total of taxes	19,580
Total percentage	19.58%

Tax calculation: 8.5% + 9% + 6.525% = 24.025% is the total for direct taxes. Applying the formula x: 1.24025 we have the total of direct taxes to be paid.

INDIVIDUAL TAXPAYERS AND EXPENDITURE-BASED TAXATION

All Swiss Cantons, with the exception of Zurich, offer wealthy foreign citizens a special form of taxation referred to as expenditure-based taxation. The taxes to be paid are calculated on the basis of the annual expenditure necessary to maintain the taxpayer's standard of living and that of the persons maintained by him/her. As a rule, this expenditure may not be less than:

- five times the amount of the rent paid (for leaseholders)
- the rental value of the house or apartment (for owners)
- two and a half times the daily cost of accommodation with full board

For entitlement to expenditure-based taxation the taxpayer must:

- submit to the Swiss tax authorities a declaration attesting that his/her annual expenditure is not less than CHF 170,000
- elect his/her domicile or establish his/her place of abode in the Canton
- not carry on any gainful or lucrative activity in Switzerland

In this case, the taxpayer does not pay any income tax, but only, for an indefinite duration, the tax calculated on expenditure.

Example

A foreign national who wishes to transfer his/her residence to Switzerland.

Taxable income of	
€ 300,000.-	(CHF 460,000.-)
Assumed income tax rate	40%
Monthly rent paid	
€ 1,950.-	(CHF 3,000.-)
Minimum expenditure	
€ 117,000.-	(CHF 180,000.-)

Table B: Simulation of expenditure based on the annual rental value rule

Calculation of minimum expenditure in CHF		Calculation of minimum expenditure in EUR	
Annual rent	CHF 36,000.-	Annual rent	€ 23,400.-
CHF 36,000 x 5 years =	CHF 180,000.-	CHF 23,400 x 5 years =	€ 117,000.-
The expenditure-based calculation total may not be less than five times the rental value. (CHF 180,000).		The expenditure-based calculation total may not be less than five times the rental value. (€ 117,000).	
The annual costs sustained by the taxpayer in Switzerland may not be less than:		The annual costs sustained by the taxpayer in Switzerland may not be less than:	
for annual rent	CHF 36,000.-	for annual rent	€ 23,400.-
for standard of living maintenance	CHF 144,000.-	for standard of living maintenance	€ 93,600.-
Total	CHF 180,000.-	Total	€ 117,000.-

Table C: Comparison in EURO

ITALY	SWITZERLAND
Income taxes: € 300,000 x 40% = 120,000	Income taxes: € 117,000 x 25.4% = 29,718
Tax savings € 120,000 - € 29,718 = 90,282	

