

1979

# Taxation in Switzerland

Deloitte, Haskins & Sells

Follow this and additional works at: [https://egrove.olemiss.edu/dl\\_dhs](https://egrove.olemiss.edu/dl_dhs)



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

---

## Recommended Citation

Deloitte, Haskins & Sells, "Taxation in Switzerland" (1979). *Deloitte, Haskins and Sells Publications*. 21.  
[https://egrove.olemiss.edu/dl\\_dhs/21](https://egrove.olemiss.edu/dl_dhs/21)

This Book is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Deloitte, Haskins and Sells Publications by an authorized administrator of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

**Deloitte**  
**Haskins+Sells**

# Taxation in Switzerland

International  
Tax and Business  
Service

# Taxation in Switzerland

International  
Tax and Business  
Service

JULY 1978

---

This book is based on the latest information available to Deloitte Haskins & Sells as of the above date. The offices of Deloitte Haskins & Sells in Switzerland are located at the following addresses:

ZURICH  
Zollikerstrasse 228  
8008 Zurich  
Mailing Address:  
P.O. Box 939  
8034 Zurich  
Telephone: (01) 55 42 40

GENEVA  
7, Avenue Pictet-de-Rochemont  
1207 Geneva  
Telephone: (022) 35 72 17

---

Copyright © 1979  
DELOITTE HASKINS & SELLS  
New York, N.Y.  
All rights reserved  
Printed in the U.S.A.

This book is part of a series that presents information on taxation in various countries of the world. The book is intended to supply information of a general character regarding taxation in Switzerland for use as background when considering the conduct of business in that country. Specific questions should be answered by reference to the laws and regulations of the country and by consultation with professional advisors in the light of the particular circumstances.

The book is published in two forms: a loose-leaf edition and a bound book. With respect to the loose-leaf edition, pages may be supplemented or revised. These additions or revisions will appear on blue-colored sheets inserted after the basic material. Reference should always be made to the supplementary colored pages, which will be keyed to the basic material by chapter and section number. In addition, new or revised information may be presented on pages inserted in place in the basic text. Revisions of this type are indicated by a date that appears at the bottom of the particular revised page.

Rules governing taxation are subject to change and reinterpretation, in many cases with little or no advance notice. The information in this book is based on material available to Deloitte Haskins & Sells as of July 1978.

## Taxation in Switzerland

### Part 1 The Tax System

• Chapter 1: Tax Legislation and Administration	3
1.01 Enactment of Tax Legislation	3
1.02 Tax Administration	3
1.03 Judicial Review	4
1.04 Taxes Imposed by Local Authorities	5
• Chapter 2: Distinctive Features of the Swiss Tax System	6
2.01 Summary	6
2.02 Classification of Taxpayers—Forms of Business Organization	6
2.03 Inclusive Concept of Taxation	8
2.04 Taxation Year and Fiscal Period	8
2.05 Industrial Tax Incentives	10
2.06 Exporting and Other Tax Incentives	10
2.07 Revaluation of Assets	10

### Part 2 Income Taxes

• Chapter 3: Tax Rates	13
3.01 Individuals	13
3.02 Corporations	14
• Chapter 4: Returns, Assessments, and Payment of Tax	16
4.01 Returns and Assessments	16
4.02 Payment of Tax	16
4.03 Examination of Returns	17
4.04 Interest and Other Penalties for Late Filing and Late Payment	17
• Chapter 5: Withholding Taxes	18
5.01 Withholding of Income Tax on Wages	18
5.02 Withholding on Interest, Dividends, and Other Payments	18
• Chapter 6: Income Subject to Tax	21
6.01 The Nature of Income—Nontaxables	21
6.02 Business Income	21
6.03 Interest	21
6.04 Dividends	22
6.05 Capital Gains and Losses	22
6.06 Income from Rentals, Royalties, Patents, Copyrights, Etc.	23
6.07 Insurance Proceeds and Annuities	24

• Chapter 7: Deduction Items	25
7.01 Business Expenses	25
7.02 Depreciation and Amortization	25
7.03 Depletion and Other Items Attributable to Mineral Extraction	26
7.04 Bad Debts	26
7.05 Payment of Rents, Royalties, and Technical Assistance Fees	27
7.06 Taxes	27
7.07 Interest	27
7.08 Operating Losses	27
7.09 Worthless Stock, Securities, and Other Assets	28
7.10 Casualty Losses	28
7.11 Charitable Contributions	28
7.12 Advertising and Entertainment Expenses	28
7.13 Legal Expenses	29
7.14 Insurance	29
7.15 Reserves	29
7.16 Nondeductibles	30
• Chapter 8: Accounting for Income and Expenses	31
8.01 Tax Accounting Generally	31
8.02 Accrual of Business Income and Expenses	32
8.03 Long-Term Contracts and Instalment Sales	33
8.04 Inventories	33
• Chapter 9: Provisions Peculiar to Corporations	34
9.01 Resident and Nonresident Corporations Compared	34
9.02 Tax on Unreasonable Accumulation of Profits	34
9.03 Affiliated Companies	35
9.04 Holding Companies	35
9.05 Special Type Entities	37
9.06 Liquidations, Mergers, and Other Corporate Changes	38

• Chapter 10: Provisions Peculiar to Individuals	40
10.01 General	40
10.02 Itemized Deductions	40
10.03 Personal Exemptions	41
10.04 Resident and Nonresident Individuals Compared	41
• Chapter 11: Relief from Double Taxation of Foreign Income	45
11.01 Tax Treaties	45
11.02 Credit for Foreign Income Taxes	48
• Chapter 12: Pensions, Pension Funds, and Other Retirement Benefits	49
12.01 Taxation of Retirement Benefits	49
12.02 Deduction of Contributions to Pension Funds	49

### **Part 3 Other Taxes**

• Chapter 13: Taxes on Sales, Transactions, Commodities, and Property	53
13.01 Taxes on Sales and Other Transactions	53
13.02 Taxes on Commodities	53
13.03 Property Taxes	53
13.04 Business Taxes	53
13.05 Net Worth Taxes	53
13.06 Federal Stamp Taxes	54
• Chapter 14: Employment Taxes	59
14.01 Old Age and Survivors Insurance	59
14.02 Federal Unemployment Insurance	59
14.03 Cantonal Family Allowance Plan for Employees	59
• Chapter 15: Estate and Gift Taxes	60
15.01 Estate Tax	60
15.02 Gift Taxes	60



**Part 4 Rate Tables and Appendices**

• Rate Tables	63
Federal Direct Tax—Individuals	63
Zurich Cantonal and Municipal Income Taxes—Individuals	64
Geneva Cantonal and Municipal Income Taxes—Individuals	65
Federal Direct Tax—Corporations	66
Geneva Cantonal and Municipal Income Tax Rates— Corporations	66
Zurich Cantonal and Municipal Income Tax Rates— Corporations	66
Geneva Cantonal and Municipal Net Wealth Taxes— Individuals	67
Zurich Cantonal and Municipal Net Wealth Taxes— Individuals	67
Net Worth Taxes—Corporations	68
• Appendices	69
A—Countries with Which Switzerland Has Entered into Tax Treaties	69
B—Depreciation Rates for Some Assets in Common Use	70

# Part 1: The Tax System

## Tax Legislation and Administration

### 1.01 Enactment of Tax Legislation

Switzerland is a confederation of cantons (states) that have their own constitutions, broad legislative and administrative powers in tax and fiscal affairs, and autonomy and sovereignty in their own territory in all matters not reserved for the federal government by the federal constitution.

Federal laws (Bundesgesetz, loi fédérale) and federal decrees (Bundesbeschluss, arrêté fédéral) are enacted by the Federal Assembly, the legislative body of the Swiss Confederation. The Federal Council, which is the executive power of the Confederation, enacts decrees (Bundesratsbeschluss, arrêté du Conseil Fédéral) and ordinances (Verordnung, ordonnance) and these executive decrees and ordinances are accorded the full force and effect of law. Also, the federal constitution contains certain tax provisions that are considered by the executive and judicial branches of the government as being directly applicable and enforceable. Generally, the federal government may not introduce new taxes, nor increase existing federal taxes, without a constitutional amendment. International tax treaties are a basic part of federal tax law.

Each canton enacts its own legislation and uses similar legal forms as the Confederation; namely, laws and ordinances, and some cantons have even concluded international tax treaties. Inter-cantonal double taxation is forbidden by the federal constitution.

### 1.02 Tax Administration

**Federal.** Most federal taxes are administered by the Federal Tax Administration (eidgenössische Steuerverwaltung, Administration fédérale des contributions), which is a part of the Federal Department for Finance and Customs and has its headquarters in Berne.

The Federal Tax Administration has these main divisions and sections:

*Divisions:*

Federal Stamp Duties and the Withholding (Anticipatory) Tax

Federal Direct Tax (also called the Federal or National Defense Tax, and sometimes referred to as the Federal Income Tax)

Federal Turnover Tax

*Sections:*

Military Service Exemption Tax

International Tax Law and Tax Treaties

Statistics

Special Services

Stamp duties, the withholding tax, and the turnover tax are within the exclusive competence of their respective federal divisions. On the other hand, the federal direct tax is assessed and collected by the cantons for the federal government. Thus, the Federal Direct Tax Division supervises the cantonal authorities in their administration of this tax.

**Cantonal and Municipal.** The cantonal authorities administer their own taxes, and they have immediate responsibility for the administration of federal and municipal taxes on income and net wealth or net worth. The cantons may be consulted for guidance on matters relating to these taxes. Contacts with cantonal tax authorities are advisable especially with regard to the following:

Taxation of Swiss service companies that are subsidiaries of foreign corporations (9.05)

(It is essential to agree in advance on the appropriate service fees that are to be received by these service companies in order to minimize the possibility of the tax authorities taking the position later on that the corporation has received inadequate remuneration for its services.)

Taxation of the non-incorporated Swiss branches of foreign corporations (9.01)

Taxation of investment holding and domiciliary companies (9.04)

Establishment of nonprofit organizations for which a tax-free status is claimed (9.05)

Status of foreigners residing in Switzerland who are not gainfully employed or self-employed in Switzerland (10.04)

### 1.03 Judicial Review

The procedure is similar in all cantons for appealing an assessment made by a canton in respect of federal, cantonal, or municipal taxes. Generally, cantonal appeal is a prerequisite to judicial review.

Within 30 days after receipt of a tax bill, the taxpayer may file a request for review with the cantonal authority that made the assessment. The cantonal authority either affirms or amends its first assessment. The taxpayer or the Federal Tax Administration then has 30 days within which to file an appeal with a Cantonal Board of Complaints. The Board's decision may then be contested within 30 days by filing an appeal with the Swiss Federal Court, the supreme judicial authority.

Although there are separate provisions for the review of taxes administered by the federal authorities, the procedure resembles the one outlined above for cantonal appeals. If the taxpayer does not

agree with the first assessment or determination by the Federal Tax Administration, a request for review may be filed with the Administration; and, if the decision of the Administration is unsatisfactory, an appeal may then be filed with the Swiss Federal Court.

In principle, the Swiss Federal Court has no authority to review the constitutionality of Federal Assembly enactments; however, decrees and ordinances enacted by the Federal Council are subject to review by the Court. In practice, the difference is without significance in the field of taxation, since the Court usually refuses to hear an appeal relating to Federal Council tax decrees and ordinances.

#### **1.04 Taxes Imposed by Local Authorities**

Cantons also levy miscellaneous taxes, such as stamp duties, registration duties, tax on entertainment or admissions, tax on advertising posters, and a holiday tax on tourists. Also, municipalities sometimes levy ad valorem and specific taxes, often a survival of the past, such as land tax, tax on rents, per capita tax, entertainment or admissions tax, dog tax, and fire service exemption tax.

In some cantons, tax revenues for the education system and for social charges, hospital maintenance, water purification, and various local services are obtained by including these as factors in the cantonal or municipal taxes on income and net wealth or net worth.

## Distinctive Features of the Swiss Tax System

### 2.01 Summary

The Swiss tax system in some ways resembles that in the United States. Federalism influences the tax structure in both countries, but in Switzerland the income taxes of the separate cantons (states) are more significant than are the federal taxes. This booklet does not describe the tax system of each canton, but many examples are given.

In general, the total tax burden on income is not as great in Switzerland as it is in the United States, but this is partially offset by the Swiss federal tax on the net worth of corporations, and by cantonal and municipal taxes on the net wealth of individuals and net worth of corporations. Due to their major significance in Switzerland, these taxes have been discussed along with the taxation of income in this booklet.

One should always bear in mind that both the direct tax system and the tax rates vary from canton to canton and, within these, from municipality to municipality, but much less significantly. Nevertheless, there are many similarities, and the general rules are often the same. Moreover, there is a trend to narrow the diversity in respect to the elements of taxable income.

Only the cantons have a withholding tax on wages, salaries, and similar remuneration (5.01), and only the federal withholding (anticipatory) tax is applicable on interest, dividends, and certain other payments (5.02). Similarly, employees must contribute to a Federal Pension Plan and a Cantonal Family Allowance Plan. Employees must also contribute to a federal compulsory unemployment insurance scheme. The maximum premium of SF374.40\* per annum is borne equally by employers and employees (Chapter 14).

All but a few cantons levy a tax on property in or passing from a decedent's estate (15.01), and a tax on gifts in excess of certain amounts made by one individual to another (15.02). Here, there are marked variations from canton to canton. The federal government is not authorized by the constitution to levy similar taxes.

### 2.02 Classification of Taxpayers—Forms of Business Organization

**Individuals.** Individuals, whether of Swiss or foreign nationality, are subject to personal taxation in Switzerland if they are in any one of the following categories:

*Resident*—Domiciled in Switzerland or permanently resident there; temporarily resident and gainfully employed or self-employed in

\* SF stands for Swiss francs.

Switzerland; not gainfully employed or self-employed in Switzerland, but resident there for more than six months or for more than three months if they occupy their own apartment or house (several stays during one calendar year are accumulated).

*Nonresident*—Neither domiciled nor resident in Switzerland who: have a permanent establishment in Switzerland; solely own, or are partners in, a Swiss enterprise; own Swiss real estate or are entitled to receive income from Swiss real estate; own Swiss mortgage loans or are entitled to receive interest from Swiss mortgage loans; work in Switzerland; receive fees or other remuneration as directors and managers of a Swiss corporation; receive as directors and managers a part of the profit of a Swiss corporation; receive from Swiss public funds a retirement, old age, or disability pension.

Nonresident individuals with neither physical presence in nor economic ties to Switzerland as outlined above, nor income from the sources indicated above, may be taxpayers through the federal withholding tax system as it applies to interest, dividends, and similar payments (5.02 and 10.04).

**Partnerships.** The two forms of partnership listed below are usually not taxable entities. The partners include in taxable income their share of partnership profits, whether distributed or not.

*General partnership*—Société en nom collectif/offene Handelgesellschaften

*Limited partnership*—Société en commandite simple/Kommanditgesellschaften

Exceptionally, however, a few cantons tax these partnerships as corporate entities.

**Corporations.** Corporations and companies that are subject to corporate taxation are:

*Corporation, including joint stock company*—Société Anonyme (SA)/Aktiengesellschaften (AG)

*Limited liability company*—Société à responsabilité limitée (Sàrl) Gesellschaften mit beschränkter Haftung (GmbH)

Limited partnerships with share capital and cooperative societies are also classified as corporations.

A nonresident corporation may carry on operations in Switzerland through a branch or other permanent establishment, which is taxable as a corporation, or through a subsidiary SA/AG corporation (9.01).

The SA/AG is often a preferable form of business organization, and especially so if a business is to have its own legal personality and is

to be an investment holding company, or a domiciliary company based in Switzerland (9.04), or is to be a service company, or an international sales company (9.05).

### **2.03 Inclusive Concept of Taxation**

Resident individuals and resident corporations are subject to federal direct tax on total income wherever derived, and resident corporations are also subject to federal direct tax on net worth wherever situated. Income from and the value of any permanent establishment or real estate outside Switzerland is reportable but nontaxable, as explained at 9.01 and 10.04. Under a special rule, resident aliens not gainfully employed or self-employed in Switzerland may apply for lump-sum taxation on imputed income, rather than on total worldwide income (10.04).

Nonresident individuals and foreign corporations are taxable basically the same as resident taxpayers on Swiss source income and net wealth or net worth. This includes:

- (a) Worldwide income from and value of a permanent establishment in Switzerland
- (b) Income from and value of Swiss real estate
- (c) Interest from and value of mortgage loans on Swiss real estate (unless relieved from Swiss taxation in accordance with a bilateral tax treaty)
- (d) Income from personal services performed in or from Switzerland (unless relieved from Swiss taxation in accordance with a bilateral tax treaty)

In most respects, these federal source rules are applied by the cantons. Thus, income from all sources is taxed in the canton where the individual maintains his residence or, in the case of a legal entity, where it has its registered office, except in the following cases:

- (a) When a business has permanent establishments in several cantons, the income from and value of each permanent establishment is taxed by the canton in which the permanent establishment is situated; similarly, a partner's distributive share of partnership income is allocated to each canton in which the partnership has a permanent establishment.
- (b) Real estate is taxed in the canton where the real estate is located.

### **2.04 Taxation Year and Fiscal Period**

Income taxes are paid annually, and the concept of the tax years and computation periods in the tax assessment system may be summarized as follows:



*(a) Tax year*

The period for which tax is due; it is always one year. Thus, for example, income tax is due for the tax year 1977, as determined on the basis of income derived in a preceding computation period.

*(b) Assessment periods and computation periods*

The tax assessment period is either annual or bi-annual, depending on the taxing jurisdiction; and, correspondingly, the income computation period is either one or two years, depending on the length of the assessment period and preceding it immediately. Generally, a year of the computation period means the calendar year. However, for a business that keeps books (8.01), it is the accounting year ended with or within the calendar year.

*(c) Annual assessment*

If the assessment period is one year, the income of the preceding year (the computation period) is the basis for assessment of tax due for the succeeding year (the tax year). Thus, for example, the tax for 1976 is determined by reference to income for the year 1975.

*(d) Bi-annual assessment*

If the assessment period is two years, the income is averaged for the two preceding years (the computation period) and this average amount serves as the basis for determination of tax due for each of the two succeeding years (the tax years). Thus, for example, the tax due for the year 1975 and for the year 1976 is determined by reference to the average income for the years 1973 and 1974. For the two years following the formation of a business, the assessment is based on the results of the first accounting year, as illustrated below in respect to a corporation formed during 1974, with an accounting year ending December 31.

<b>Date of Tax Liability</b>	<b>Payable March 31</b>	<b>Basis Used to Determine Taxable Income</b>
1974	1975	1974 results
1975	1976	1974 results
1976	1977	1974 results
1977	1978	average of 1975 and 1976 results
1978	1979	average of 1975 and 1976 results

The federal direct tax and many cantonal income taxes are assessed bi-annually. Some cantons, however, have adopted an annual basis for corporations, and a few cantons use the annual basis for both individuals and corporations. The cantons of Basel (City), Geneva, Neuchatel, and Solothurn assess individuals annually. The cantons

that assess their corporate taxes on the basis of the preceding year's income include: Basel (Rural), Geneva, Neuchatel, Solothurn, Thurgau, Valais, and Zurich.

### **2.05 Industrial Tax Incentives**

Generally, the federal government does not grant industrial incentives. On the other hand, most cantons grant incentives either by exempting from cantonal income tax new manufacturing companies or by allowing substantial tax benefits for foreign source income, or both. Loans may also be available, with certain restrictions, from banks at an interest rate lower than the prevailing commercial rate.

### **2.06 Exporting and Other Tax Incentives**

As a general rule, there are no incentive programs directly related to exporting of products and services or the reinvesting of profits in business assets.

### **2.07 Revaluation of Assets**

Revaluation of assets by indexation or monetary correction is generally not allowable. Fixed assets may not be valued in the balance sheet higher than cost, and appropriate depreciation must be written off (7.02 and 8.01).

# Part 2: Income Taxes

## Tax Rates

**General.** Widely varying income and net wealth or net worth tax rates are levied by the federal, cantonal, and municipal governments on individual and corporate taxpayers.

Income from real estate outside Switzerland or from a permanent establishment abroad, although not taxable, is aggregated with taxable income for the purpose of determining the income tax bracket and applicable income tax rate.

Generally speaking, the federal direct taxes on income of individuals and corporations, and the federal net worth tax on corporations, are set for a considerable period of time. However, an income tax surcharge occasionally may be imposed, revised, or suspended. In most cantons, the tax rate consists of:

- (a) the fixed basic tax rate for the canton
- (b) the cantonal periodic multiple to be applied to the cantonal basic tax rate to provide the effective cantonal tax rate for the year
- (c) the municipal periodic multiple to be applied to the cantonal basic tax rate to provide the effective municipal tax rate for the year

A very few cantons do not use the multiplier system of setting their effective tax rates for the year. In these cantons, the cantonal tax rate schedule is revised annually or less frequently, and the municipal tax is expressed as a multiple of the cantonal tax.

As used here, the term "effective tax rate" means the applicable tax rate, rather than an average or net tax rate.

### 3.01 Individuals

**Federal.** The federal direct tax is a progressive tax on net income between SF9,700 and SF392,800 (Rate Tables). For higher incomes the tax is a flat 11.5%.

All Swiss citizens between the ages of 20 and 50 who do not complete their military service are subject to the military service exemption tax. The basic tax is SF15 yearly plus 2.4% of the person's income. The rate is reduced by 10% for each period of 100 days' service performed.

There is no federal tax on the net wealth of individuals.

**Cantonal and Municipal.** The cantons and municipalities impose a progressive tax on the net income of individuals.

The tax rates differ from canton to canton and from municipality to municipality within a canton. As a general rule, the combined effective cantonal and municipal income tax rate does not exceed 30% in any canton. The combined rate is between 20% and 25% in

some cantons, and it is less than 20% in others. Details of the individual income tax rates for the canton and city of Geneva, and for the canton and city of Zurich, are listed in the Rate Tables.

Cantonal and municipal taxes are also levied on the net wealth of individuals. The rates for Geneva and Zurich are shown in the Rate Tables.

### 3.02 Corporations

**Federal.** The federal direct tax on the profit of corporations is levied at rates that are progressive on a yield-intensity basis. The yield is the percentage that the profit bears to the corporation's reference capital (capital and retained earnings plus reserves). The basic corporation tax rates are:

- (a) normal tax of 3.63% on the profit
- (b) surtax of 3.63% on the portion of the profit in excess of 4% of the reference capital
- (c) additional surtax of 4.84% on the portion of the profit in excess of 8% of the reference capital

The maximum tax is 9.8% of the entire profit, and this maximum is reached when the corporation's profit equals or exceeds 23.15% of its reference capital.

The application of the federal corporation income tax rates is illustrated in the two examples which follow.

#### First example:

The taxable profit for the year 1978 is the average of the 1975 and 1976 profits. The reference capital for the year 1978 is the average of January 1, 1975 and 1976. Assuming an average profit of SF100,000 and an average reference capital of SF1,000,000, the tax is computed for the year 1978 as follows:

	<b>Taxable Profit</b>	<b>Rate %</b>	<b>Income Tax</b>
Total taxable profit	SF100,000	3.63	SF3,630
Less 4% of the reference capital	40,000		
Excess of taxable profit over 4% yield	60,000	3.63	2,178
Less 4% of the reference capital	40,000		
Excess of taxable profit over 8% yield	SF20,000	4.84	968
Tax for the year			<u>SF6,776</u>

**Second example:**

Assuming the average profit remains at SF100,000 and is realized with a reference capital of SF200,000 instead of SF1,000,000, the tax due for the year is:

	<b>Taxable Profit</b>	<b>Rate %</b>	<b>Income Tax</b>
Total taxable profit	SF100,000	3.63	SF3,630
Less 4% of the reference capital	<u>8,000</u>		
Excess of taxable profit over 4% yield	92,000	3.63	3,340
Less 4% of the reference capital	<u>8,000</u>		
	<u>SF84,000</u>	4.84	4,066
Tax for the year			<u>SF11,036</u>
Maximum tax for the year (9.8% of SF100,000)			<u>SF9,800</u>

A federal net worth tax is also payable by corporations at a rate which is less than 0.1% of the net worth (Rate Tables).

**Cantonal and Municipal.** As a general rule, the maximum corporate income tax rate in any canton does not exceed 30%, including the cantonal and municipal multiple of the basic tax rate. In many cantons, the maximum rate is less than 25%; and, in a few cantons, the maximum rate is near 35%. Corporate income tax rates for the canton and city of Geneva, and for the canton and city of Zurich, are listed in the Rate Tables.

Cantonal and municipal taxes are also levied on the net worth of corporations. The rates for Geneva and Zurich are shown in the Rate Tables.

## Returns, Assessments, and Payment of Tax

### 4.01 Returns and Assessments

As explained at 2.04, the federal direct tax is due each year of a two-year period (the assessment period) based on the average annual income of the taxpayer during the two-year period (the computation period) prior to the assessment period. A return is completed every two years covering the income earned during, and, in the case of corporations, the net worth at the end of the two years which constitute the computation period.

The administration of the federal direct tax is carried out by the tax authorities in each of the cantons. In many cantons, the assessment period for cantonal and municipal taxes is also bi-annual, thereby allowing the cantons to send out one tax form which covers federal, cantonal, and municipal taxes.

The returns must generally be completed within 30 days of receipt (usually in February or March of the first year of the assessment period). Extensions of time for filing are normally granted upon application to the cantonal authorities. Some cantons grant extensions of time for filing provided instalments are paid.

An intermediate tax on the income of individuals is ordinarily imposed if a significant change in the income of the taxpayer occurs during the assessment period. (This also applies to most cantons.) For example, when an individual commences or ceases employment, changes his profession, or experiences an increase in personal capital due to inheritance, legal separation, or divorce, the intermediate assessment is imposed for the duration of the assessment period on the part of the income that is affected by any of the above. All income not so affected is taxed in the usual manner, based on the two-year computation period.

Cantons assessing and collecting their taxes on an annual basis (2.04) require a return every year.

### 4.02 Payment of Tax

Federal direct tax is due on March 31 following each year of an assessment period. If taxpayers wish, they may pay in advance the amount due for the second assessment year and, by doing so, are allowed a discount on these taxes not yet due.

Cantonal and municipal taxes are due at different dates varying from canton to canton. Some cantons allow a discount for cash payment, some others send the bill at the end of the year, but request an advance in the middle of the year (usually 50% of the previous year's assessment).

#### **4.03 Examination of Returns**

All administrative work relating to the assessment of both the federal and cantonal taxes, including the examination of tax returns and the determination of tax deficiencies, is carried out by the tax authorities of the various cantons. Generally, the decision of the tax authorities in the canton is final. The interpretation of the federal direct tax law may vary slightly from one canton to another. Differences in interpretation, however, are usually resolved by contacting the Federal Tax Administration, which supervises the assessment and collection of the federal tax. Unresolved questions may be appealed to the Swiss Federal Court as the supreme authority (1.03).

Collection of federal direct tax is ordinarily barred by statute after five years.

#### **4.04 Interest and Other Penalties for Late Filing and Late Payment**

Failure to file a return, or produce vouchers, or answer inquiries may subject the taxpayer to fines ranging from SF5 to SF10,000. A taxpayer submitting a return with false or misleading statements becomes liable for a fine ranging from SF20 to SF30,000.

If a taxpayer commits a fraud, he subjects himself to a fine up to several times the amount of tax eluded. Members of the management of a taxpaying legal entity may be subjected individually to penalties if the fault for any of the above can be directed at them.

If the amount of tax is not paid within 30 days from the due date, interest is charged and the taxpayer is summoned to settle the amount due. Should the tax remain unpaid, proceedings may be commenced against the taxpayer.



## Withholding Taxes

### 5.01 Withholding of Income Tax on Wages

**Wages and Salaries.** Withholding of income tax on wages and salaries applies only to foreigners and only in some cantons. The rates of tax are generally progressive, and vary from canton to canton. The tax withheld is intended to fully meet the foreigner's federal, cantonal, and municipal tax liabilities on his employment income. In principle, such taxation at the source should not be more advantageous or disadvantageous than general taxation. In some of these cantons (for example, in Geneva), foreign employees with a high salary are usually not subject to deduction of tax at the source, their salary being included in income subject to general taxation.

**Directors' Remuneration.** Unless an income tax treaty provides for the contrary, directors' remuneration either in the form of fees or profit sharing is subject to tax at the source if the director is not resident in Switzerland. Rates of tax vary from canton to canton and include federal and, with few exceptions, the cantonal and municipal taxes.

### 5.02 Withholding on Interest, Dividends, and Other Payments

**General.** Federal withholding (anticipatory) tax applies to certain interest, dividends, and other payments discussed below. The tax is withheld regardless of whether the recipient is an individual or corporation and regardless of whether the recipient is foreign or domestic. Moreover, the tax is withheld at the standard tax rate for the particular type of income. Reporting and payment of the tax deducted at the source must be made periodically to the Federal Direct Tax Administration by the withholder of the tax.

Resident individuals, resident corporations, and domestic branches of foreign corporations may obtain credit or refund of the tax withheld, provided they report in their tax returns the income and the value of investments on which the tax has been withheld. In any event, the tax withholding does not relieve taxpayers from reporting this information. In fact, if not reported, the taxpayer can be fined.

Individuals resident in Switzerland are given credit against their federal, cantonal, and municipal taxes for the amount of tax withheld at the source. If the tax withheld exceeds the income and net wealth taxes due, a refund is made.

Resident corporations or domestic branches of foreign corporations do not get a credit against their federal, cantonal, and municipal taxes. Instead, a tax refund must be requested. Similarly, a partnership must request a refund of the tax withheld.

For individuals not resident in Switzerland and corporations abroad, the withholding tax is generally the sole and final tax. If, however, the

income is subject to tax treaty exemption or rate reduction, the non-resident recipient can normally obtain the benefit of the tax treaty provisions only by initiating a request for refund of the amount withheld in excess of the tax treaty rates. Nevertheless, under the United States tax treaty such relief is granted at the source on dividends if the shareholder is a corporation controlling at least 95 percent of the entire voting power in the Swiss corporation and if not more than 25 percent of the gross income of the Swiss corporation is derived from interest and dividends, other than interest and dividends received from its own subsidiary corporations.

Refund requests are made by filing an appropriate form with the Federal Tax Administration in Berne.

**Interest.** Federal tax is withheld on interest from deposits with Swiss banks and savings associations, government bonds, mortgage bonds, serial certificates of indebtedness, and corporate bonds including convertible and profit sharing bonds. Tax is not withheld, however, on interest up to a nominal amount a year on a savings account, or on any Swiss inter-bank interest or, as an administrative practice, on interest paid by a bank in Switzerland to a bank abroad if the deposit does not exceed three months. Interest on unregistered government debt is exempt from withholding, and certain issues of registered debt may be specifically exempted. There is no withholding on mortgage loans, unless the indebtedness is in the form of bonds or their equivalent. Moreover, there is no requirement that tax be withheld on ordinary commercial and noncommercial loans.

The standard withholding tax rate is 35%.

**Dividends.** The federal withholding tax applies to dividends and distributions on Swiss corporate stocks, on society certificates and dividend right certificates of limited liability companies and cooperative societies, and on units of mutual investment funds. The dividends and distributions are subject to withholding tax whether paid in cash, in kind, or in shares of stock. Capital gain dividends paid by an investment fund are not subject to withholding, however, if they are paid out by means of a separate coupon. The concept of dividends and distributions includes any distribution made by a corporation to its shareholders, or to persons closely related to them, such as payment of liquidation surplus and the distribution of hidden profit. The most common hidden profit distributions are:

- (a) Advances and loans to shareholders either free of interest or at an excessively low interest rate, or advances and loans by shareholders to a corporation at an excessively high interest rate.
- (b) Transfer of shareholders' assets to a corporation or vice versa for consideration differing from arm's length transaction.

(c) Excessive rent paid on premises leased to the corporation by shareholders or property lent by the corporation to a shareholder at insignificant rent.

(d) Exceptionally high salaries paid by a corporation to its majority shareholders working in the company or services rendered by a company to its shareholders without billing.

The standard withholding tax rate on dividends and distributions is 35%.

**Rents, Royalties, Annuities, and Other Payments.** Rents, royalties, and technical assistance fees are not subject to federal withholding tax.

If capital payments from life insurance exceed SF5,000, tax is withheld at the rate of 8% ; and if annuities or pensions are over SF500 a year, tax is withheld at 15%.

On every winning in excess of SF50 from lotteries and similar sources, such as football pools, a 35% tax is withheld.

**Foreign Corporations with Permanent Establishments in Switzerland.** Profits realized in Switzerland by a foreign corporation through a branch or other permanent establishment in Switzerland are not subject to withholding tax, although the profits are assumed to be distributed to shareholders who are not resident in Switzerland.

The branches or other permanent establishments in Switzerland are entitled to the refund of the Swiss withholding tax deducted at source on their income provided that such establishments are taxpayers in Switzerland.

## Income Subject to Tax

### 6.01 The Nature of Income—Nontaxables

The meaning of income and profits is quite extensive, and relatively few types and classes of income are specifically exempted or excluded from taxation. Favorable tax treatment is accorded to holding companies and certain other corporations that may result in income or profits being nontaxable or subject to a lesser net tax rate (9.01).

Income from real estate outside Switzerland and profit from a permanent establishment abroad, although not taxable, is aggregated with taxable income and profits for the purpose of determining the income tax bracket and applicable income tax rate.

As a general rule, the determination of whether income and profits arising abroad are taxable in Switzerland does not depend on whether the income and profits are remitted to Switzerland.

Nonresident individuals and corporations may be exempt from payment of Swiss tax on certain items of income under the provisions of an income tax treaty.

As a result of a trend over the years for cantons to use a definition of income similar to that of the federal direct tax law, the concept of income is somewhat the same on both the federal and cantonal levels. This is especially true with respect to income of a corporation. On the other hand, significant variations still exist from canton to canton for deductible items. There are also variations among the cantons in the tax treatment of capital gains.

### 6.02 Business Income

Generally, all of a corporation's revenues, including gains from the sale of investments and fixed assets, are treated as ordinary business income. The profits as shown by the accounts, with appropriate adjustments, comprise taxable profits. Similarly, a noncorporate taxpayer who is obliged to keep books (8.01) generally derives ordinary income, subject to personal taxation, from all the activities connected with his business, including gains from the sale of assets used in the business such as investments, property, machinery, and equipment.

### 6.03 Interest

Interest from both domestic and foreign sources received by resident individuals and corporations is generally included in income and subject to federal, cantonal, and municipal taxes. If federal tax has been withheld on domestic source interest, a resident individual includes in income the gross amount of the interest and receives a tax credit against cantonal and municipal taxes for the amount of tax withheld. Any excess is refundable. Similarly, a resident corporation

is taxable on the gross amount of the interest but, instead of a tax credit, is entitled to a refund of the tax withheld (5.02).

Foreign source interest received by resident individuals and corporations is generally includible in income net of foreign taxes. No credit is allowed for foreign taxes unless specifically provided for by treaty.

Interest income received from Swiss sources by nonresidents is not included in income or subject to general taxation unless received through the nonresident's Swiss permanent establishment or, if not exempt by tax treaty, derived from mortgage loans on Swiss real estate. If Swiss tax has been withheld at a rate in excess of a tax-treaty rate or exemption, the nonresident may apply for a refund of such excess, as discussed at 5.02.

#### 6.04 Dividends

**Generally.** The federal government and cantons follow the policy of taxing the corporation on its profits in addition to taxing the stockholders on dividends received. Special relief is granted to holding companies and other corporate stockholders, to avoid multiple taxation in chains of corporate ownership.

**Paid by Resident Corporations to Resident Shareholders.** Dividends received by Swiss residents from Swiss corporations must be included in the income of the recipient with no relief for income taxes paid by the corporation. The amount included in income is the gross dividend before deduction of the withholding tax paid by the corporation on the total distribution. For credit or refund of the amount of tax withheld, see 5.02.

**Paid by Resident Corporations to Nonresident Shareholders.** Unless a tax convention between Switzerland and the country of the nonresident shareholder provides otherwise, the withholding tax is the sole and final tax on the recipient.

**Paid by Nonresident Corporations to Resident Shareholders.** Dividends paid by nonresident corporations to resident shareholders must be included in income like all other forms of investment income.

#### 6.05 Capital Gains and Losses

Capital gains on the sale or exchange of property may be subject to both federal and cantonal taxes. The tax rates applied vary between corporations and individuals and, further, between gains on real property and other property.

The federal direct tax applies the same rules as for other income to capital gains arising from the sale of real or personal property, or the liquidation of a business. The federal tax on such gain, however,

applies only to persons legally obliged to keep adequate records of their business. Since this obligation is imposed only on those engaged in commerce, trading, or manufacturing, other individuals who are not obliged to keep books are not subject to the federal tax on their capital gains (realized either on real estate or on securities).

The taxation of capital gains varies widely from canton to canton. Capital gains derived from the disposition of real estate are taxed either by aggregating such gains with other income or by a special tax. In the case of a special tax, the rate depends often on the length of time the property has been owned.

Capital gains on the sale of investments are taxed differently from gains on the sale of real estate. In certain cantons, these profits are subject to income tax. Some cantons apply a special capital gains tax at a rate varying with the amount of the capital gain (not related to the amount of other income). In most cantons, private capital gains on securities are not taxed.

## **6.06 Income from Rentals, Royalties, Patents, Copyrights, Etc.**

**Royalties for Patents and Copyrights Generally.** When patent rights have been acquired for business purposes, royalties are treated as business income, and expenses incurred in earning the royalties are treated as business expenses.

**Royalties Received by a Swiss Corporation.** When received from Swiss sources, royalties received by a Swiss corporation are taxed as all other income. When received from abroad, they are included in normal taxable income for federal direct tax purposes. However, they are not subject to cantonal income tax when received by domiciliary companies that are located in cantons granting an income tax exemption to such base companies. Moreover, certain cantons may have special privileges as illustrated by the Geneva cantonal tax law on the basis of which companies domiciled in Geneva, which have their head office or parent company abroad, may qualify to be taxed on their passive income derived from abroad at the reduced rate of 9%, which includes cantonal and municipal multiples. The rate had been 8.5% per tax rulings granted before 1977. The definition of passive income for this purpose is similar to foreign personal holding company income of controlled foreign corporations as defined in the United States Internal Revenue Code. The rate of 9% corresponds approximately to one-third of the average cantonal and municipal rate applied to corporations. Other cantons have comparable incentives in similar circumstances, possibly in another form.

Royalties received from a country with which Switzerland has signed a double taxation agreement are taxed at normal rates when the

treaty states that to take advantage of the treaty such income must be taxed.

**Royalties Received by Nonresidents.** Tax conventions between Switzerland and other countries for the avoidance of double taxation provide that royalties are normally taxed only in the country where the recipient is resident. Nonresidents are not taxed by the Swiss government for royalties received from Swiss sources, provided that such royalties are substantiated and in accordance with the commercial practice, i.e., made on an arm's length basis. However, nonresidents are taxable on such royalties if they maintain a permanent establishment in Switzerland.

**Payments for the Use of Designs, Secret Processes, Formulas and Trademarks.** This category of income and expenses is treated no differently than that of royalties. Both are included in gross income, unless a tax convention provides otherwise.

### **6.07 Insurance Proceeds and Annuities**

Annuities, pensions, and retirement benefits paid by public and private pension and retirement plans to former employees and their beneficiaries are subject to the federal direct tax. If the employee paid a portion of the premiums, only 60% or 80% of the gross amount received is taxable; and, if the employee made no contributions, the entire amount received is taxable.

Lump-sum instead of periodical payments are taxed at the rate which would be applicable to the periodical payments.

Pensions and capital payments from foreign insurance are subject to tax as well, unless they are clearly exempt. Payments received by U.S. citizens in Switzerland from the United States Social Security Administration are not exempt under the treaty between Switzerland and the United States.

## Deduction Items

### 7.01 Business Expenses

Ordinary and necessary expenses incurred in connection with carrying on a business activity are allowable deductions for federal income tax purposes, unless a specific rule prohibits the deduction of a particular type of expense or places a limitation on the amount deductible.

Similarly, all the cantons permit deductions for ordinary and necessary business expenses, but the treatment of a specific item may vary from canton to canton. The deductibility of taxes paid (7.06) and losses carried forward (7.08) present the greatest variance among the cantons. Usually, the deduction of an item for municipal tax purposes is determined under rules applied by the canton.

A deduction is allowable for additions to a bad debt reserve (7.04), an inventory valuation reserve (8.04), and certain other reserves (7.15).

Generally, a deduction is allowed only if it is recorded in the accounts of the business (8.01).

### 7.02 Depreciation and Amortization

**Depreciable and Non-Depreciable Assets.** Property, machinery, and equipment used for business purposes, and subject to a reduction in value over the passage of time, can be depreciated. If an asset is used partly for business purposes, depreciation can be taken only on a proportionate share of the asset's cost. Land and building combined cost is the basis on which depreciation is computed with the effect that land is depreciable. Depreciation on construction in progress is not allowable.

**Depreciation Methods and Rates.** The straight-line and declining-balance methods are both acceptable depreciation methods. The depreciation rate must be consistent with reasonable business practice and may normally not exceed the maximums set by the federal tax authorities (unless the taxpayer can justify application of a higher rate). Representative rates are listed in Appendix B. These rates apply to the declining-balance method, and are reduced by one-half when the straight-line method is used.

Intangible assets are depreciable at the rates discussed below.

**Amortization of Intangible Assets.** The cost of intangible assets of a productive nature, such as patents, trade names, copyrights, goodwill, licenses, and similar rights, may be amortized at the rate of 25% (declining-balance method) or 12½% (straight-line method). Nevertheless, a patent may be amortized over its useful life if estimable.



Goodwill developed in the course of an enterprise may not be capitalized.

Formation expenses of a corporation may be written off over five years or expensed in the first year of business.

**Cantonal Rules of Depreciation and Amortization.** The various rates laid down by the Federal Tax Administration are accepted by cantonal fiscal authorities. Some cantons even tolerate slightly higher rates and, in this case, the federal authorities will usually not make any adjustment. Certain cantons do not recognize amortization of intangible assets as a deduction for income tax purposes.

**Profit or Loss on Sale of Depreciable Assets.** When a depreciable asset is sold, the profit and loss account is charged if the written down value of the asset exceeds the selling price. On the other hand, where the amount realized exceeds the written down value, the profit on the sale is taken into income.

Some of the cantons may accord particular treatment to gains on sales of real property. In one of the cantons, a gain realized on depreciable real property is ordinary income to the extent of accumulated depreciation, and any gain in excess of the depreciation is subject to a special capital gains tax (6.05).

### **7.03 Depletion and Other Items Attributable to Mineral Extraction**

Ordinary and necessary expenses incurred with respect to natural resource income and properties are deductible. There are no rules specifically directed to a deduction for the depletion and exhaustion of a natural resource property. Thus, if depletion is to be allowable it must satisfy the rules relating to depreciation of property and the deduction of business expenses in general.

### **7.04 Bad Debts**

A bad debt may be deducted in full when it is determined that the debt is uncollectible. Deduction is also allowed for business bad debts to the extent they become partially worthless during the accounting year.

For federal tax purposes, companies are also permitted a reserve for probable bad debt losses in an amount up to a specified percentage of its receivables. If within such limit, an addition to the reserve is an allowable deduction. Correspondingly, a reduction in the reserve is taxable profit for the year in which reduced. The maximum reserve is an amount equal to 5% of Swiss receivables and 10% of foreign receivables. Some cantons do not recognize these federal percentages, and some refuse to allow deductions for bad debts before

the loss is realized. In such cases, a part or the whole amount transferred to the reserve for federal tax purposes must be added back to taxable profit for cantonal tax purposes.

### **7.05 Payment of Rents, Royalties, and Technical Assistance Fees**

Payment of rents, royalties, and technical assistance fees is normally deductible for both federal and cantonal tax purposes.

### **7.06 Taxes**

For individuals, income and net wealth taxes are not deductible from income, either for federal or cantonal tax purposes.

The federal government and about one-half of the cantons allow companies to deduct federal, cantonal, and municipal income and net worth taxes in determining taxable profit. It is important to note that the taxes paid or due for the year are deductible and not the amount accrued. Under cantonal rules, income and net worth taxes are allowable deductions in the following cantons: Aargau, Appenzell (I.-Rh.), Basel (Rural), Basey (City), Fribourg, Geneva, Glarus, Lucerne, Neuchatel, St. Gallen, Shaffhausen, Schwyz, Thurgau, and Vaud; in other cantons they ordinarily are not deductible.

### **7.07 Interest**

Interest on business indebtedness is generally deductible if it is at reasonable rates and it does not represent a return on an equity capital investment. Interest is not deductible on loans which are in excess of an acceptable ratio of debt to equity capital.

### **7.08 Operating Losses**

Federal direct tax periods cover two years; thus, losses sustained in one year can be set off against profits realized in the other year of the same tax period. If the balance at the end of the two-year period shows a loss, this loss can be carried forward to be set off against profit realized in the next two-year period, but no further carry-forward is allowed.

Cantonal treatment of losses varies considerably, as may be seen by the following examples:

(a) *Vaud*: Two-year assessment period.

An aggregate loss for the two accounting years of the assessment period may be carried forward and set against a profit of the following assessment.

(b) *Berne*: Two-year assessment period.

No carryforward of an aggregate loss for the two accounting years of an assessment period.

(c) *Neuchatel*: One-year assessment period.  
No carryforward of losses.

(d) *Geneva*: One-year assessment period.  
A loss arising in respect of one assessment period may be set against profits arising in the following assessment period.

(e) *Zurich*: One-year assessment period.  
A loss arising in respect of one assessment period may be set against profits arising in the two following assessment periods.

A loss can never be carried back to the prior assessment period, nor may losses of one corporation be set off against profits of another (9.03).

## 7.09 Worthless Stock, Securities, and Other Assets

Worthless stock, securities, and other assets may be written off. Such write-off is normally deductible for tax purposes. The excess of the book value of stocks, securities, and other assets over their market value may be written off under federal and most cantonal tax regulations.

## 7.10 Casualty Losses

There is no specific provision concerning casualty losses. Losses of business inventories and fixed assets due to fire, flood, storm, earthquake, or similar events are deductible up to the amount recorded in the books less any part recovered by insurance.

## 7.11 Charitable Contributions

Charitable contributions are permitted as a deduction only if made to charitable institutions recognized as such by the tax authorities. Gifts and donations to individuals are normally not tax deductible.

## 7.12 Advertising and Entertainment Expenses

**Advertising Expenses.** Advertising expenses related to the conduct of the business are allowable deductions. The expense of an intensive advertising campaign is also an allowable deduction, but could be capitalized and amortized over several years, especially for a new business enterprise. Gifts to customers or to others for business purposes are treated as advertising expenses providing the identity of the beneficiary is disclosed to the tax authorities. Advertising and promotional expenses incurred abroad in respect of exports and overseas markets are deductible.

**Entertainment Expenses.** Entertainment expenses are normally allowable deductions, unless they are not a necessary business expense or are not adequately supported. Allowances for entertain-

ment and economic benefits made available to officials and employees of the company at management's discretion are deductible, but may be treated as salaries or bonuses if considered to be excessive. In such cases, payments of this nature are taxable income to the officials or employees.

### 7.13 Legal Expenses

Legal expenses that are ordinary and necessary expenses incurred for the purposes of business are allowed even if related to the acquisition of a capital asset. Expenses in connection with the preparation of tax returns and the determination of tax liability are also allowed.

### 7.14 Insurance

Insurance premiums relating to business are allowable deductions. Policies for which premium payments are deductible include fire and automobile insurance; life, accident, disability, and health insurance; and unemployment insurance for the benefit of employees. Social insurance payments covering certain of these risks are also deductible.

Individual taxpayers are permitted personal deductions for life insurance premiums.

### 7.15 Reserves

**General (Legal) Reserve.** Each year, one-twentieth of the net profits realized by corporations must be allocated to a general reserve (legal reserve) until the reserve amounts to one-fifth of the paid-in capital.

The following amounts must be allocated to the reserve, even after it has reached the amount required:

- (a) Proceeds of the issuance of shares in excess of par value, after deduction of issue expenses, insofar as these proceeds are not used for the purpose of amortization or employees' benefits
- (b) The excess of the amount that was paid in on cancelled shares over any reduction on the issue price of replacement shares
- (c) One-tenth of the amounts distributed from net profits after deduction of ordinary allocations to reserves and the payment of a five percent dividend to stockholders and other persons sharing in net profits

As long as the general reserve fund does not exceed 50 percent of the capital, it can only be used to cover losses, to support the company through periods of depressed business, or to relieve unemployment or mitigate its consequences.

The provisions of (b) and (c), above, ordinarily do not apply to companies whose principal object is to hold equity interests in other

companies (holding companies). Generally, licensed transportation companies are not bound to create a reserve fund. Licensed insurance companies establish reserve funds in accordance with their regulations in the form approved by the Federal Council.

**Other Reserves.** Reserves for bad debt losses are discussed at 7.04 and 8.01, and inventory valuation reserves at 8.04.

### **7.16 Nondeductibles**

Listed below are some items that are not deductible for tax purposes, even though they might be appropriate deductions for accounting purposes:

- (a) Federal, cantonal, and municipal income taxes of individuals; and, in certain cantons, of companies for cantonal and municipal taxation purposes only
- (b) Entertainment expenses which are not necessary in the normal course of business
- (c) Payments to undisclosed persons
- (d) Excessive compensation paid to corporate officers
- (e) Any other hidden distributions of corporate profits
- (f) In certain cantons, interest payments to non-Swiss residents when paid by property companies
- (g) Additions to reserves for contingencies, anticipated losses, and future expenses in excess of allowed limits
- (h) Charitable contributions to nonrecognized organizations

## Accounting for Income and Expenses

### 8.01 Tax Accounting Generally

In assessing certain kinds of income or profit, a distinction is made between taxpayers who are required to keep books and those who are not required to do so. These requirements may be found in the Swiss Code of Obligations, the Swiss Civil Code, the Ordinance on the Commercial Register, and related ordinances and rules, some of the provisions of which are discussed below.

Anyone carrying on a trading, manufacturing, or other business for profit is required to apply for entry of the firm's name in the Commercial Register in the place where the firm has its main office and activity. Even though otherwise required, registration may be waived for very small businesses. Anyone conducting a business for which registration is not compulsory may, nevertheless, choose to apply for registration and to be treated as a registrant.

Independent professions (physicians, dentists, accountants, lawyers, et al) are ordinarily not subject to registration with the Commercial Register. However, any practice will have to register where its nature and its significance naturally compel it to keep books and to be run commercially.

Registrants are obligated to keep accurately such books of account as are necessary, according to the nature and extent of the business, to reflect the financial position of the business and to show the debits and credits in connection therewith, as well as the operating results for the business year. The books of account must be retained for a period of ten years. Letters received and copies of outgoing correspondence must also be retained for ten years.

An inventory, balance sheet, and profit and loss account must be determined at the end of every business year, and these must be completed within a reasonable period of time. For corporations, this period is six months from the end of the business year. The financial statements must be expressed in Swiss francs.

Independent individuals not subject to registration with the Commercial Register and, therefore, not required to keep books are, however, obligated to keep, for ten years, all documents related to their independent activity for federal income tax purposes. If the gross annual income from such independent activity equals or exceeds SF100,000, the taxpayer must, in addition, maintain a record of income and expenses as well as a statement of assets and liabilities. These rules apply to self-employed taxpayers as of January 1, 1978.

The following rules apply more specifically to corporations. The costs incidental to formation, organization, and commencement of business are considered as current expenses. As an exception, costs

of organization specified in the statutes or in resolutions of a general meeting as initial expenses or expenses incidental to an extension of the business scope or a business reorganization may be amortized over a period of five years, provided the relative proportion is recorded as an expense each year. Such an expense is tax deductible (7.02).

Fixed assets may not be valued in the balance sheet higher than cost, and appropriate depreciation must be written off. The same rule applies to rights, concessions, letters patent, processes of manufacture, licenses, trademarks, and other intangibles that have a fixed or estimable life (7.02).

A reserve may be provided in respect of receivables. For federal tax purposes, a deduction is allowed, without justification, for possible bad debt losses in an amount up to a specified percentage of outstanding receivables. If a higher reserve can be justified, it may be allowed in certain circumstances. Not all cantons allow the tax deduction of a provision for bad debt losses, even though recorded in the books (7.04).

Quoted securities may not be valued higher than their average quotation during the month preceding the date of the balance sheet. If the securities are quoted on a foreign stock exchange, any difficulty in transferring the proceeds of sale must be taken into account. Unquoted securities may not be valued above cost. An unrealized loss due to the fall in value of securities may be accepted by the tax authorities in special circumstances (7.09).

Raw materials, manufactured and partly manufactured articles, and goods and other items intended for sale may not be valued higher than their cost price. If cost is higher than the general market price prevailing at the date of the balance sheet, no more than the market price may be used. A valuation reserve for these inventories is authorized by federal and cantonal tax authorities (8.04).

## **8.02 Accrual of Business Income and Expenses**

Business income and expenses are to be reported on the accrual method; and income and expenses must be accrued in the year in which all the facts establishing the taxpayer's right or liability thereto have occurred. Under this rule, taxes accrued for the current year, and assessed after the current year, are not acceptable as a tax deduction from the profit of the current year. On the other hand, the tax authorities recognize and, accordingly, tax any income booked before it is earned.

### 8.03 Long-Term Contracts and Instalment Sales

**Long-Term Contracts.** Income derived from long-term contracts for construction projects and similar activities must, under commercial law, be recognized on the completed contract method.

**Instalment Sales.** Corporations having instalment sales must defer the proportion of gross profit on the instalments that are due after the end of the business year. The deferred profit is taken into income in the period in which the instalments become due.

### 8.04 Inventories

Inventories must be valued at the lower of cost or market (8.01). Market value means replacement cost for raw materials and other items that could be purchased, and realizable value for finished goods and for unusable and obsolete materials.

Physical inventories must be taken annually, but need not be taken at the business year-end if proper accounting records are maintained.

Taxpayers keeping complete records of quantities of their inventories are allowed to create an "inventory reserve" of 33% of the above valuation. This reserve is accepted by tax authorities without question. The creation of a reserve higher than the one authorized may be allowed in certain special circumstances. The reserve is taxed when eventually written back, as it then increases the profit for the year.



## Provisions Peculiar to Corporations

### 9.01 Resident and Nonresident Corporations Compared

For Swiss tax purposes, a company incorporated or organized in Switzerland is regarded as resident, and a company incorporated or organized outside Switzerland is generally regarded as nonresident.

Resident companies are liable for federal direct tax and for the cantonal and municipal taxes on all income except that derived abroad from real estate or a permanent establishment. Dividends from subsidiaries may, however, receive special treatment (6.04 and 9.04). Swiss limited liability companies and limited partnerships with shares (2.02) are treated as resident companies.

For purposes of determining what tax rate is to be applied, Swiss companies include in their Swiss tax returns their total income, whether from domestic or foreign sources. The applicable rate thus selected is applied to the income taxable in Switzerland, which excludes income derived abroad from real estate or a permanent establishment.

As indicated at 2.03, the cantons, in most respects, follow the federal rules relating to geographical sources of income.

Nonresident companies are taxable the same as resident companies on income from a Swiss permanent establishment, income from Swiss real estate, and interest from mortgage loans on Swiss real estate. A nonresident company has a permanent establishment when it has a branch or place of business in Switzerland. If not received through a permanent establishment, a nonresident's interest, dividends, and other investment income may be taxable solely under the withholding tax system. However, Swiss tax is not withheld on all types of income. Moreover, investment income not received through a permanent establishment may be subject to a tax-treaty rate reduction or exemption. See 5.02 for withholding tax on interest, dividends, and other investment income, and for the credit or refund of income tax withheld.

Resident and nonresident companies are also subject to the federal and cantonal taxes on net worth. For the permanent establishment of a nonresident company, the portion of the overall net worth of the company which is taxable in Switzerland is generally determined by taking the proportion that the corporation's Swiss assets bear to its worldwide assets.

### 9.02 Tax on Unreasonable Accumulation of Profits

The retention of profits by a Swiss corporation is an effective way of deferring indefinitely Swiss shareholder taxes. There are no penalties imposed in Switzerland to counter such deferral, except under the

provisions against the abuse of international bilateral tax treaties (11.01), whereby a foreign-controlled corporation is bound to distribute a minimum dividend of 25% of its treaty income on which foreign taxes have been relieved or reduced.

### 9.03 Affiliated Companies

**Separate and Consolidated Income Tax Returns.** Each company must file a separate income tax return. There is no provision under Swiss or cantonal law permitting the filing of a consolidated income tax return by a parent company and its subsidiaries. Moreover, the losses of one company may not be set off against the profits of another (7.08).

**Use of Multiple Companies.** Since the federal and cantonal rates of income tax are modest and not steeply progressive by reference to the size of company income, and the rates of net worth tax are also not progressive, there is generally little advantage to be gained by operating with a greater number of companies than business needs dictate. Consequently, there are no tax provisions designed to inhibit the artificial proliferation of companies. For general tax planning purposes, however, multinational corporations frequently establish Swiss corporate holding companies, domiciliary companies, service companies, and international sales companies, which are explained at 9.04 and 9.05.

### 9.04 Holding Companies

A holding company is a company resident in Switzerland which has, as its exclusive or principal objective, the acquisition and holding of a significant portion of shares and equity participations in other companies. These holding companies are granted a privileged tax treatment under the federal direct tax law and under most cantonal laws. The idea behind the special treatment is that the subsidiaries which distribute the dividends have already paid taxes on their net profits, so it would not be fair to tax again the parent company and then the shareholders receiving dividends from the holding. Domiciliary (base) companies are usually considered in the same category as holding companies and are, accordingly, discussed in this section. See 9.05 for service and international sales companies which are also thought of in terms of holding and domiciliary (base) companies.

**Federal Tax.** The federal direct tax rules generally allow any corporation a reduction in the federal tax proportional to the income derived from qualifying investments in the stock of other corporations to the overall gross income. Therefore, if the entire income of a company is from qualifying investments, no federal tax need be paid. Thus, a pure holding company is in the best position of any company to benefit from its holdings in other companies. A pure holding

company may, however, be subject to federal tax on all of its income if none of its investments in other corporations qualifies as a substantial participation. As a general rule, a substantial participation represents at least 20% of the stock of another corporation or amounts to at least SF2,000,000. Loans and advances do not count.

The overall gross income includes:

- (a) Income derived from participations
- (b) Sales, less the cost of sales (including the depreciation of manufacturing buildings and equipment)
- (c) Interest received, rents received (less related expenses), commissions received, license fees, capital gains, and revaluation gains
- (d) Any other income, including the reversal of provisions

The overall gross income cannot be reduced by any deduction other than those mentioned above. The following items, in particular, are not deductible: administrative expenses such as administrative personnel costs, directors' fees, depreciation of fixed assets used for administration purposes, amortization of participations and securities, allowances for doubtful accounts, interest paid, lawyers' and accountants' fees, and income and net worth taxes.

The following generally qualify as income derived from participations:

- (a) Dividends received
- (b) Bonus shares, liquidation surplus, noncontributory increase in nominal value of shares, provided these are accounted for as income
- (c) Hidden distribution of profits

The income is taken into account net of any nonrecoverable withholding tax.

The following generally do not qualify as income derived from participations:

- (a) Amounts representing a reimbursement of share capital, interest, license fees, commissions, royalties, expense allowances, etc., which are not a hidden distribution of profits
- (b) Capital gains and increases in the book value of participations, including the sale of subscription rights

Most cantons have provisions similar to those for federal purposes regarding qualifying investments. Some also have related provisions as regards the net worth tax.

All the cantons grant concessions to pure holding companies, regardless of whether any of the holdings would qualify for the pro-

portionate tax reduction. In most cases, the concession takes the form of a waiver of the income tax and a reduction in net worth tax.

**Personal Holding Companies.** For tax purposes, Switzerland has no special category of holding company comparable to the "personal holding company" in the United States.

**Domiciliary Companies.** Domiciliary companies have their legal registration and are based in Switzerland, but normally do not engage in any business transactions there. Corporations in this category normally own real estate abroad, or patents licensed abroad, or engage in a business in which all the transactions can be consummated in another country.

For federal direct tax purposes, there is no distinction between domiciliary companies and ordinary Swiss corporations; therefore, they are taxed in the same manner. On the other hand, most cantons grant special treatment to domiciliary companies and all except a few cantons tax them as holding companies. This means either a total exemption of income tax, or taxation of a certain percentage of the income only (Berne, Vaud), or the application of a reduced rate (Geneva). Domiciliary treatment may be denied if the company has its own office or its own staff in the canton, but a few cantons permit an office and staff on a limited basis. Swiss service companies have more extensive operations, as discussed below.

### 9.05 Special Type Entities

**Service Companies.** Service companies have no commercial or industrial activity of their own, but perform functions for and render services to affiliated companies. Normally, they perform such services in the fields of financing, management, marketing, or technical assistance.

A service company usually carries out its activity in its own Swiss office and sometimes with a large staff.

According to the practice of the Swiss tax authorities, the income of service companies must be determined so that the remuneration for the services covers the general expenses and enables companies to realize a minimum taxable profit of 10% of these general expenses. In other words, the reimbursement must represent 11 / 10 of general expense, 1 / 10 representing the taxable profit. In most cases, maximum federal and cantonal income tax rates apply to profits determined on this basis.

**International Sales Companies.** International sales companies normally do not manufacture or sell goods in Switzerland, although their basic function is to sell products manufactured by their

parent company in foreign countries; Switzerland simply provides a base of operation and a place to accumulate profits at a low rate of tax.

The federal direct tax law does not tax international sales companies too differently from other corporations, but it affords an exemption to these companies for income derived from permanent establishments abroad.

Some cantons tax international sales companies at a reduced rate. For instance, Geneva taxes profit on sales abroad at the total rate of 9% (8.5% per tax agreements granted or renewed before 1977), including cantonal and municipal taxes. Other cantons (Fribourg, Zug) tax international sales companies in the same way as domiciliary companies (no cantonal income tax).

## 9.06 Liquidations, Mergers, and Other Corporate Changes

**Liquidations and Tax on Liquidation Profits.** For federal direct tax purposes, a corporation in the process of liquidation in the beginning of an assessment period is taxed on its profit as if it were an individual rather than a corporation. This tax, however, cannot exceed the maximum federal corporate tax. The tax is due over the period of the liquidation.

Moreover, at the end of the liquidation, the corporation is subject to a special tax called "tax on liquidation profits." This special federal tax is explained by the fact that during the last accounting year prior to the corporation's liquidation, hidden reserves may be realized or adjusted to their real values in the company's books and, accordingly, are not assessed in their usual way because of the company's liquidation. Thus, liquidation profits consist of realized capital gains and unrealized capital appreciation not previously taxed. The tax on these profits is determined at individual tax rates; and the exemption on the first bracket of taxable income is applicable as for individuals (3.01 and Rate Tables). The tax, however, cannot exceed the maximum federal corporate tax (3.02 and Rate Tables). This tax constitutes a final tax settlement between the tax authorities and the corporation in question.

Nonresident corporations as well may be subject to this special tax when their liability for Swiss income tax ends; for instance, when they sell their business in Switzerland or their permanent establishment in Switzerland is closed.

**Liquidation Dividends and Distributions out of Capital Appreciation.** For federal tax purposes, shareholders treat liquidating dividends, including distributions out of unrealized capital appreciation, as ordinary dividend income to the extent they exceed the

capital of the corporation (6.04). The payment of the excess is subject to the federal withholding (anticipatory) tax (5.02). Repayment of capital is nontaxable and is not subject to the withholding tax.

**Mergers.** Provided the conditions mentioned below are met, gains arising out of mergers are not subject to immediate federal tax in Switzerland. These conditions are:

- (a) The absorbing company must be subject to federal taxes on an unlimited basis.
- (b) The new company must continue operating the merged companies without changes.
- (c) The new company must include all the assets and liabilities of the former companies in its balance sheet at the fiscal book values of the former companies, and the new company must consent to be taxed on the basis of these book values for the future.
- (d) For the current computation period, the new company must agree to pay the taxes not yet paid by the former companies, and for the following period, untaxed items of the former company must retain their character in the hands of the new company.

Depending on circumstances, other conditions may have to be fulfilled.

Most of the cantons grant tax incentives in case of mergers, but an advance clearance from the cantonal tax authorities must be obtained.

## Provisions Peculiar to Individuals

### 10.01 General

Personal income taxes are levied by three different tax authorities: federal, cantonal, and municipal. In addition, cantons and municipalities levy a personal net wealth tax.

Individual taxes are based on a "family" concept and are assessed on the total income and net wealth of the taxpayer, his spouse, and his children for whom he is responsible.

The individual income tax is usually computed according to a progressive scale on each part of income. There is no provision for income-splitting as under the United States system of joint returns for married taxpayers, but a married couple is allowed a personal exemption not available to single taxpayers (10.03).

### 10.02 Itemized Deductions

Each canton has different rules for deduction items, but the differences are not material. The deductions authorized for federal direct tax purposes are given below and, as an example, those for the canton of Geneva. These are personal deductions and are in addition to expenses incurred by an individual carrying on a business activity (Chapter 7).

**Federal.** Allowable deductions comprehend the following:

- (a) Transportation expenses to and from work at the rate charged by public transportation facilities.
- (b) Excess of expenses for meals not taken at home, up to SF1,500 per year. A person living in one canton and working in another canton, who goes home every weekend, is allowed a deduction for excess meals expense up to SF3,000 a year, plus transportation expenses between the two places of residence, plus rent of the rooms, with a maximum for a bachelor of SF800 for rent in the canton in which he works.
- (c) Insurance premiums paid to the state and compulsory old age insurance in full, plus SF2,000 for all other insurance premiums (life, accident, illness, etc.).
- (d) Expenses related to additional professional, educational, and other expenses up to SF1,000 a year.
- (e) Maintenance expense for real estate.
- (f) Cost of securities administration including rent of safe, commissions on dividend collections, etc. Purchase or sales commissions, fees for advice, and similar expenses are not allowed as deductions.

**Cantonal and Municipal (Geneva).** In Geneva the following deductions are allowed:

- (a) Interest paid on loans (in case of a mortgage loan, only if the creditor is a taxpayer in Switzerland).
- (b) Accident, illness, and old age insurance premiums are fully deductible. Life insurance premiums and contributions to a retirement or pension plan are deductible up to SF2,000 for a single person and SF3,000 for a married taxpayer, plus SF500 for each dependent person. The limit is doubled when the taxpayer, himself, assumes payments to a pension fund or life insurance (i.e., employer does not pay anything); the limit is multiplied by one and a half when the taxpayer assumes at least 60% of such payments.
- (c) Legal compulsory payments for old age and survivor insurance.

### 10.03 Personal Exemptions

**Federal Tax.** For federal direct tax purposes, the following personal exemptions are allowed in arriving at taxable income:

- (a) SF2,500 for married couple (allowance granted because income of both husband and wife are added together).
- (b) SF1,200 for each dependent under 18 years of age or over if the child is still a student.
- (c) SF1,200 for each dependent person supported by the taxpayer with the exception of his wife.

**Cantonal and Municipal Taxes (Geneva).** In Geneva the personal exemptions allowed in arriving at taxable income are as follows:

- (a) SF2,750 in case of marriage during the computation year.
- (b) SF1,800 for each minor child whose income does not exceed SF3,400, plus SF900 for each minor child whose income does not exceed SF5,100.
- (c) SF1,800 for each person supported by the taxpayer, provided his income does not exceed SF3,400 a year and his net wealth does not exceed SF10,000.

### 10.04 Resident and Nonresident Individuals Compared

**General.** Under the federal and cantonal tax rules, resident individuals, no matter what their citizenship, must pay the full tax on their income. No tax need be paid, however, on any portion of the resident's income derived from real estate abroad or from a permanent establishment abroad.

Nonresidents are liable to tax only on certain categories of income: from direct or indirect ownership of land or property in Switzerland.



from debts secured by such land or property, and from business carried on through a permanent establishment in Switzerland. Furthermore, the federal tax is imposed on the income of a nonresident resulting from his practice of a profession in Switzerland or his being a director or a manager of a business incorporated or registered in Switzerland or from annuities and pensions paid to him from public funds in Switzerland.

The cantons usually follow the Confederation in its taxation of nonresidents, but occasional variations exist. Geneva and Vaud, for instance, apply a somewhat similar rate of tax and withhold it at source on the income of nonresidents working in Switzerland.

**Nonworking Foreign Residents.** The Confederation and several cantons grant substantial tax benefits to foreigners residing in Switzerland who are not carrying on a lucrative activity in the country and have never done so. The main tax privilege is to substitute for the customary taxes on income and capital a lump-sum tax based on the estimated living expenses for the taxpayer. The same privilege may be claimed by Swiss nationals who have resided abroad for the last ten years prior to their return to the country and who do not carry on any professional activity in Switzerland; but this privilege is granted only until the end of the year following the year of their return.

**Rate and Taxable Amount.** The rate applied to the estimated amount of expenditure is the same that would be applied to the corresponding income of a normal taxpayer. The amount of expenses is estimated by the tax authorities, but in general is lower than:

- five times the annual rent or the annual rental value of the apartment or house if the taxpayer lives in his own dwelling;
- one and a half times the annual cost of board and lodging.

Furthermore, the lump-sum tax cannot be less than the amount of tax that would be due on:

- income from immovable property in Switzerland,
- income from Swiss investments including mortgage deeds, whether the documents are deposited in Switzerland or abroad,
- income from movable property located in Switzerland,
- income from copyrights, patents, and similar rights used in Switzerland,
- retirement salaries, annuities, and pensions when the payer is in Switzerland,
- income for which the taxpayer, under the provision of a bilateral

tax treaty, claims total or partial relief or refund of foreign taxes withheld at source.

The minimum taxable expenses are used only in exceptional cases. In general, tax authorities estimate a fair amount of expenses (reflecting the reality as much as possible), taking into account the expenditures incurred by the taxpayer and his dependents, such as: lodging and food expenses, servants and other employees, sport, art, and entertainment expenses, holidays and travel expenses, maintenance expenses of houses, cars, yachts, planes, and all other visible types of expenses.

The taxpayer is not required to declare the income from foreign securities or foreign license fees when there is no double taxation treaty providing for the reduction or reimbursement of foreign withholding tax, or if he willingly abstains from claiming the benefits of a double taxation treaty.

**Deductions.** From the amount of expenses and from income, the taxpayer is allowed to deduct the following:

- Maintenance and administration expenses of immovable property in Switzerland.
- Administration expenses of investments.
- Married couple allowance of SF2,500 (but the allowance of SF1,200 per child is not granted).

All other expenses, in particular interest and annuities paid, cannot be deducted.

**Special Provisions.** A person trying to establish a fictitious domicile in Switzerland is not allowed to pay either the normal federal tax or the lump-sum tax, so that he is not entitled to take advantage of the double taxation treaties signed by Switzerland.

A foreigner who has paid a lump-sum tax is always allowed later on to give up this privilege, if he thinks it is more advantageous to him to be subject to the normal income tax. This is the case, in particular, if a person has little income and lives on his fortune.

**Cantonal Provisions.** Some cantons are known for their tax privileges granted to self-employed individuals such as public entertainers, movie stars, singers, athletes, and racing car drivers who carry on their activities outside Switzerland, but have taken up residence in Switzerland.

In Geneva, the lump sum on which tax is calculated must be at least SF60,000. Should the foreign resident decide not to waive his claim

for relief under an international double taxation treaty, however, his foreign investment income is not added to the lump sum as is the case under federal tax law, but is taxed at a special rate lower than the normal cantonal tax rate. Furthermore, full exemption from income and capital taxes is granted for the calendar year in which the foreigner first takes residence in Geneva.

The canton of Vaud generally does not include foreign investment income in the lump sum, whether or not a claim is made for relief under an international double taxation treaty. Vaud also grants a limited exemption from all income and capital taxes as long as the taxpayer stays in a hotel or boardinghouse.

## Relief from Double Taxation of Foreign Income

### 11.01 Tax Treaties

Switzerland has an extensive system of international tax treaties (Appendix A). All these treaties bind the Swiss federal, cantonal, and municipal tax authorities, but since the federal direct tax is administered almost entirely by the cantonal bodies, some variation in the interpretation of the treaties may occasionally arise. Many of the conflicts in application have already been worked out, however, due to the similarity between the international treaties and the intercantonal regulations to prevent double taxation within Switzerland.

The purpose of the discussion below is to present, using the Switzerland-United States tax treaty as a guide, the general approach utilized in the various Swiss tax treaties to avoid international double taxation.

#### **Industrial and Commercial Profits Derived from Switzerland.**

Industrial and commercial profits refer to income from such activities as finance, insurance, manufacturing, and mercantile, as opposed to dividends, interest, rents, or payments for personal services. Under the Swiss treaties, industrial and commercial income is not taxed in either state unless it is derived from the activities of a permanent establishment in the taxing state.

The term "permanent establishment" is defined in each tax treaty. In the United States treaty, permanent establishment means a branch, office, factory, workshop, warehouse, or other fixed place of business, but does not include the casual and temporary use of merely storage facilities, nor does it include an agency unless the agent has and habitually exercises a general authority to negotiate and conclude contracts on behalf of an enterprise or has a stock of merchandise from which he regularly fills orders on its behalf. Furthermore, any one of the following is generally not considered as a permanent establishment: business dealings through a commission agent, broker custodian, or other independent agent acting in the ordinary course of his business at a fixed place of business exclusively for the purchase of merchandise; existence of a subsidiary corporation in the other contracting state; or the existence of a warehouse for the purpose of delivery, as opposed to one that is used for show and display purposes.

In the application of the Switzerland-United States tax convention, the United States has followed the language of the treaty allowing taxation of all profits from any source in the United States realized by a Swiss corporation with a permanent establishment in the United States. The result is that profits from a United States source, even though not derived as a result of the permanent establishment, are

taxed. Switzerland, on the other hand, taxes only those industrial and commercial profits of an American company that are allocable to the activities of its permanent establishment in Switzerland.

In determining the taxable income of a permanent establishment, Switzerland allows the same deductions as those permitted to a Swiss corporation, but reserves the right to modify the industrial or commercial profits shown on the books of the permanent establishment in order to bring the profit picture more in line with that of an independent enterprise engaged in the same or similar conditions and dealing at arm's length with the enterprise of which it is a permanent establishment.

**Reduction of Withholding Tax on Dividends and Interest.** Income from movable capital is normally taxed under the Swiss tax treaties by the country in which the recipient resides. Frequently, however, both countries have withholding taxes on interest and dividends paid to nonresidents.

The tax treaty between the United States and Switzerland provides that both countries reduce their withholding tax rate to 15% in the case of dividends and to 5% in the case of interest. The tax rate on dividends is reduced to 5% if the recipient is a corporation owning at least 95% of the voting stock in the corporation paying the dividend and the subsidiary corporation receives not more than 25% of its gross income from interest and dividends, other than interest and dividends received from its own subsidiary corporations.

Switzerland may collect its tax without regard to the reduction granted by the treaty, but the tax so collected in excess of the tax computed at the reduced treaty rates is refundable (5.02).

**Royalties.** Under the Switzerland-United States tax treaty, royalties are taxed only by the country in which the recipient has his residence, unless he also has a permanent establishment in the other contracting state.

**Income from Real Property.** Income from real property, including gains derived from sale or exchange of such property and royalties in respect of the operation of mines or other natural resources, is taxed by the contracting state in which such property, mine, or other natural resource is situated. Income from bonds or notes secured by real estate is taxed as if it were income from movable property.

**Compensation for Personal Services.** Residents of one country are not taxed by the other country for personal services performed there, provided the stay in the other country does not exceed six months any year (183 days), and either the compensation does not exceed \$10,000 or the recipient is an employee of, or contracting with, an

enterprise of the country of his residence. A resident of one country who is present within the other to study or acquire technical experience is not taxed by that other country on income received to further these purposes.

**Private Pensions and Annuities.** Neither contracting state may tax life annuities and private pensions to its residents unless such annuities and pensions come from a source within that state.

**Provision Peculiar to the United States Treaty.** The United States in determining its taxes in the case of its citizens, residents, or corporations may, regardless of any other provision of the treaty, include in the basis upon which such taxes are imposed all items of income taxable under the revenue law of the United States as if the treaty had not come into effect. The United States, however, subject to the provisions of the Internal Revenue Code, deducts from its taxes the amount of Swiss taxes covered by the treaty.

**Provisions Against the Abuse of International Double Taxation Treaties.** The Federal Council has adopted measures to combat abusive claims for relief of foreign taxes under treaties signed by Switzerland. A claim is refused when it is contrary to the law or when it abuses the intended conditions.

A claim for relief of foreign taxes is contrary to the law when the conditions mentioned in the conventions are not met: domicile or registered office in Switzerland, and full ownership of the securities yielding the income concerned.

A claim is considered an abuse of the treaty when a reduction granted to an individual or a corporation resident or registered in Switzerland would be of benefit, directly or indirectly, to persons not entitled to the advantage given by the conventions. The decree of the Federal Council mentions four particular cases which are detailed below:

1. The first abuse is when a Swiss enterprise pays to foreign beneficiaries a substantial portion of its foreign income relieved from taxation at source. The corporation accumulates in Switzerland foreign income at the favorable tax rates set by Swiss treaties and then distributes the income to persons not otherwise qualified for Swiss treaty benefits in a manner avoiding the tax law of Switzerland itself; for instance, payment of interest on debts, or payments for royalties, or even the write-off of assets or intangibles purchased from foreigners not entitled to tax relief. A distribution made by means of dividend payments is not considered as an abuse since Switzerland taxes such dividends going to countries with which no treaty has been signed.

2. A claim is abusive not only when a corporation uses foreign treaty income to meet foreign liabilities, but when income is accumulated in

Switzerland in favor of foreign persons as well. Under this category falls equally the unusual financing of a corporation, i.e., when the creditors' interest bearing accounts amount to over six times the corporation's capital plus open reserves or when interest is paid on debts at an excessive rate.

In such cases, to avoid a claim being considered as abusive, at least 25% of the gross treaty income has to be distributed in the form of a dividend (but distributions need not be made where the treaty income is offset by losses in the normal course of business).

3. There is an improper use of the tax treaty when income is collected only in a fiduciary capacity on behalf of a person residing abroad.

4. Family foundations and partnerships with no business activity in Switzerland are not entitled to a reduction of foreign tax when individuals not qualifying for treaty benefits are substantially interested in such foundations or partnerships.

Furthermore, some tax treaties deny the benefits of the conventions to certain categories of individuals; for instance, in some cases, the citizens of Germany, the Netherlands, and Sweden may not obtain the benefits in Switzerland of a tax treaty provision in respect of certain non-Swiss income for a period of time after they have transferred their residence to Switzerland.

## 11.02 Credit for Foreign Income Taxes

The Swiss approach to solving the problem of double taxation is not primarily concerned with offsetting foreign tax credits but, in furtherance of the orderly administration of the tax revenues, to grant to one or the other of the two contracting countries the exclusive right to tax specific items of income.

In accordance with this principle, Switzerland generally does not allow taxes paid to a foreign country as a credit against the main tax liability of a Swiss taxpayer. On the other hand, deductions for foreign taxes paid are generally allowable as an offset against the foreign source income included in a Swiss taxpayer's tax return.

**Lump-Sum Tax Credit.** Although the Swiss tax laws as such do not contain any provision as to tax credits for nonrecoverable foreign taxes withheld at source, most new or renewed double taxation treaties of Switzerland have introduced a lump-sum tax credit against Swiss taxes for the nonrecoverable portion of foreign withholding taxes.

## **Pensions, Pension Funds, and Other Retirement Benefits**

### **12.01 Taxation of Retirement Benefits**

**Federal Tax.** Income from pensions or annuities is included in its entirety in taxable income unless the following exceptions apply:

If a taxpayer or his next of kin paid all the premiums for the pension or annuity, only 60% of the income from these policies is taxed; only 80% of such income is taxed if the taxpayer or his next of kin paid more than 20% of the premiums for such policies.

**Cantonal and Municipal Taxes.** The cantons vary considerably in their treatment of income from pensions and annuities but most of them grant an allowance similar to that of the federal direct tax.

### **12.02 Deduction of Contributions to Pension Funds**

Pensions paid are generally deductible as business expenses. Under the federal direct tax rules, businesses are allowed a deduction for contributions to welfare funds for their staff. Individuals paying contributions for their future pensions are restricted to a federal deduction of SF2,000 (covering life, accident, illness and pension).

Cantonal deductions vary widely, but most cantons give a maximum amount for all insurance premiums.



# Part 3: Other Taxes

## Taxes on Sales, Transactions, Commodities, and Property

### 13.01 Taxes on Sales and Other Transactions

The government proposal of introducing a value added tax to replace the turnover (sales) tax was rejected by both the cantons and the people on June 12, 1977. The government placed new proposals in early 1978, but it is highly uncertain if and when a value added tax will be enacted by the Parliament. At present, a federal turnover tax applies to imports and sales of various products, generally at rates of 1.8%, 5.6% and 8.4%.

Taxes on cars are levied each year, varying from canton to canton and depending on the cubic capacity of the engine. Tax on entertainment is included in the tickets delivered by cinemas, dances, etc. There are a few other minor taxes on personal possessions and purchases.

### 13.02 Taxes on Commodities

Excise taxes are applicable on certain commodities such as alcohol, alcoholic beverages, and tobacco.

### 13.03 Property Taxes

In many areas, taxes are imposed on the taxable value of real estate. These taxes are levied at the cantonal or local level of government. Taxes are also frequently collected on the conveyance of real estate from one owner to another.

### 13.04 Business Taxes

**Geneva.** The Geneva cantonal business tax is payable by all individuals carrying on an independent lucrative activity and by all types of companies having any industrial and commercial activity in the canton of Geneva, directly or through a branch or an agent.

Basically, enterprises are classified in various groups and the tax is determined by applying the group rate to the total of sales or to the commissions received by each individual or corporation (maximum rates of each group vary from 9.17% to 0.60%). To this basic rate are added 1% of the annual rent and SF10 per person working in the firm. The minimum tax is SF10 in the case of any one enterprise.

**Other.** In some cantons, other than Geneva, a so-called minimum tax is levied which is similar in its effect to the business tax in Geneva.

### 13.05 Net Worth Taxes

These taxes are levied at several levels of government and are a major consideration in Swiss tax matters. They are, therefore, discussed throughout this booklet along with the taxation of income (Chapter 2 and Part 2).

## 13.06 Federal Stamp Taxes

**Stamp Taxes on the Issue of Securities.** Effective July 1, 1974, stamp taxes are applicable on the issue of participation rights by companies incorporated in Switzerland and, in addition, on mutual fund units issued by a person resident in Switzerland or by a foreign person jointly with a person resident in Switzerland. The term "participation rights" generally means equity shares and certain bonds.

All companies entered in the Swiss Register of Commerce are considered as "Swiss" for this purpose and are, accordingly, subject to the issue tax. For stamp tax purposes, Liechtenstein is considered as Swiss territory. There is no stamp tax on the registration of a branch or other permanent establishment in Switzerland.

The issue tax is levied at the rate of 3% on the creation of participation rights, as well as on an increase of their par value, with or without consideration. The same tax is levied on free contributions made by stockholders to their corporation and on the transfer of a majority shareholding in a shell company. As discussed below, a lesser tax rate is levied on the issue of mutual fund units and on the registration in, or transfer to, Switzerland of a nonresident company.

**Issue by Swiss Companies.** The tax is calculated either on the par value of the issued securities or on the amount received by the issuer, whichever is the higher (rather than the amount paid by the subscriber, as was the case under the old rules). Thus, issue costs, registering fees, bank commissions, and the stamp tax itself are allowable deductions when the issue proceeds are in excess of the par value. If securities are paid by a contribution in kind such as movable or immovable property, the contribution received by the issuer is valued at market value on the day of contribution.

Nonvoting certificates are taxed under the same rules as shares; however, if they are without par value and are issued for no consideration, the tax is SF3 per share.

Convertible bonds are not subject to the stamp tax when they are issued; the 3% tax is levied at the moment of conversion. If convertible bonds have been issued under the old rules, and conversion takes place under the new rules within 10 years from the issue of the bonds, a prorated amount is credited against the stamp tax due on the conversion in accordance with the new rules.

**Free Contributions from Stockholders.** Free contributions to the company are only taxable if they are made by the stockholders themselves. Payments by another group company or a third party are not taxable unless this method of payment has been chosen exclusively in order to evade the payment of the tax.

If stockholders forgive their claims against the company in order to cover corporate losses, the tax administration may waive the stamp tax; this waiver may, in particular, be requested by the taxpayer in the case of liquidation of an insolvent company.

**Transfer of Shell Companies.** The transfer of a majority shareholding in a Swiss company which economically has been wound up or the assets of which have been liquidated is subject to the issue tax. The tax is due when the shares are transferred. The tax is calculated on the net equity of the company or on the par value of its issue capital, whichever is the higher. Both the seller of the stock and the company are liable for the payment of the tax.

**Mergers.** When participation rights are issued or their par value increased in connection with a merger (or a concentration economically equivalent to a merger), a transformation, or a split of a company, the stamp tax rate is reduced to 1% and is calculated on the consideration received by the issuer or on the par value of the issued stocks, whichever is higher.

**Stamp Taxes on the Issue of Mutual Fund Units.** A stamp tax of 0.9% is levied on the issue of units by mutual funds. The tax is calculated on the proceeds received by the mutual fund; and, therefore, issue costs, commissions of the management and the depositary bank, and the stamp tax itself are not included in the taxable amount.

The issue of mutual fund units is taxable if the units are issued by a Swiss person or by a foreign person jointly with a Swiss person. There is "joint issuance" where the Swiss party undertakes the functions of the management company under its signature.

**Transfer to Switzerland.** When a company organized under the laws of a foreign country transfers management and control to Switzerland, the stamp tax is reduced to 1.5%.

**Exemptions from the Stamp Tax on the Issue of Securities.** The following are generally exempt from the stamp tax:

- (a) Companies, the objects of undertaking of which are exclusively for a public benefit, with no profit-making aim and which cannot distribute dividends in excess of 6% of the company's capital stock
- (b) Cooperative companies with a capital of less than SF50,000
- (c) Some railway and road transport companies
- (d) The issue of stocks by appropriation of paid-in surplus on which the stamp tax was already paid
- (e) Mutual funds which invest solely in social security institutions

**Stamp Taxes Payable on Securities Transactions.** These new regulations apply to all transactions concluded on or after July 1, 1974, in Switzerland and Liechtenstein.

The following are generally considered to be taxable documents:

(a) Certificates issued by a person resident in Switzerland including:  
—bonds, debentures, and any certificates of a loan guaranteed by real property,

—stocks, contributions to capital in a limited liability partnership and in a cooperative society, profit-sharing certificates, mutual fund units, and

—bills of exchange or notes of any kind (e.g., promissory notes).

(b) Securities issued by a person resident outside Switzerland which have the same commercial function as those described in paragraph (a).

(c) Documents relating to sub-participations of securities mentioned in (a) and (b) and of loans.

**Swiss Dealer in Securities Must Participate.** A transaction is taxable only if one of the contracting parties or an intermediary is a Swiss dealer in securities. By definition "Swiss" or "resident in Switzerland" applies to whomever resides in Switzerland permanently, or has his statutory or legal office in Switzerland, or is entered in the Swiss Register of Commerce.

Dealers in securities are:

(a) Individuals and legal entities who are engaged professionally for themselves or for third parties in buying and selling securities (e.g., banks subject to the Swiss banking law, brokerage firms, finance companies),

(b) Companies managing investment funds and depositary banks, and

(c) Corporations, partnerships with limited liability, and cooperative societies which do not qualify under (a) but:

—the principal statutory object of which is the investment in other companies and the issued share capital is at least SF500,000, or

—the assets of which, as disclosed in its most recent balance sheet, are more than 50% represented by taxable documents as defined above and aggregate at least SF1,000,000 (excluding securities owned in a trustee capacity).

The Swiss dealer in securities is primarily liable for the tax. He is bound to keep a register of transactions and must, himself, be registered.

- (a) The dealer in securities is liable for half of the tax:
- if he qualifies as an intermediary for each contracting party who is not a registered dealer in securities, or
  - if he qualifies as a contracting party for himself and for the other contracting party if the latter does not qualify as a registered dealer in securities.
- (b) The dealer is considered an intermediary either:
- when he settles his accounts with the contracting parties the same day, or
  - when, although he has not established the final account, he indicates to the parties the opportunity to settle a transaction.
- (c) A dealer has to pay half the tax:
- for each contracting party who does not qualify as a registered dealer in securities, and for himself, if he is a contracting party.

**Calculation of the Tax on Securities Transactions.** The tax is calculated on the transaction and amounts to:

- (a) .15% (.075% for each contracting party) on securities issued by an individual or entity resident in Switzerland.
- (b) .3% (.15% for each contracting party) on securities issued by an individual or entity not resident in Switzerland. The amount of the transaction recorded in the register may be either the market value of the securities transacted (including any accrued interest or dividends) or the actual cost. The dealer may choose either method. However, he must be consistent in the same business year, but may change methods at the beginning of a new business year.
- (c) .1% instead of .15% [(a) above] and .2% instead of .3% [(b) above] on bonds, bills, assignments and promissory notes whose term does not exceed three months.

Bills of exchange or notes are considered to be Swiss documents if the issuer is Swiss.

**Exemptions from the Tax on Securities Transactions.** The law provides for several exemptions from the tax:

- (a) Bills of exchange, notes, and similar documents as well as sub-participations in loans if purchased by banks for their own account ("banks" are defined in the Swiss Banking Law of 1934).
- (b) The issue of all securities which have already been subject to the Swiss issue stamp tax.
- (c) If a registered dealer does not directly participate in an underwriting but receives a sub-participation which he places with his clients, he is tax exempt for his part of the transfer tax.

**Foreign Transactions.** Previously, transactions made through the intermediary of a Swiss registered dealer were tax free if they were concluded outside Switzerland and if the two parties concerned were domiciled outside Switzerland. Effective July 1, 1974, however, a transaction made through the intermediary of a Swiss registered dealer is subject to the full tax, even if both parties are foreign or if the transaction is concluded by correspondence between Switzerland and the foreign location and the accounting is performed abroad. Only half the tax is payable, however, if one of the foreign parties is a bank or a stockbroker; for example, a Swiss bank purchases foreign shares from a foreign stockbroker for one of its foreign clients.

## Employment Taxes

### 14.01 Old Age and Survivors Insurance

A tax is assessed for the Federal Pension Plan amounting at present to 10% (from July 1975) of wages, salaries, and other remuneration paid, including commissions, bonus payments, directors' fees, and compensation salaries, i.e., all amounts paid in respect of work performed. Generally, the tax is borne one-half by the employer and one-half by the employee. Persons engaged in an independent activity bear the whole tax but at a slightly different rate, which at present is 8.9% (from July 1975). Every worker under the age of 65 (62 for women), Swiss national or alien, is subject to this tax which provides benefits such as old age and survivors pension, disablement insurance, and compensation fund (partial refund of salary cost during compulsory military period).

United States citizens who have contributed to the Federal Pension Plan generally are not entitled to claim a refund when leaving Switzerland for the United States.

### 14.02 Federal Unemployment Insurance

A compulsory insurance plan was introduced in 1977 on the federal level. The contribution is 0.8% of the wages up to SF3,900 per calendar month (yearly maximum SF37,440) and is borne half by the employer and half by the employee.

### 14.03 Cantonal Family Allowance Plan for Employees

Employers are required to pay to a cantonal agency contributions of 1% to 3% of wages, salaries, and other remuneration to provide family allowance benefits. These cantonal agencies pay employee family allowances varying between SF40 and SF120 a month per child, depending upon the canton of residence and the child's age.



## Estate and Gift Taxes

### 15.01 Estate Tax

There is no federal tax on estates and inheritances, and two cantons do not tax estates or inheritances; namely, Obwalden and Schwyz. Other cantons levy an estate tax (Graubunden), or an estate and inheritance tax (Solothurn and Neuchatel), or an inheritance tax (all other cantons). Moreover, municipalities within certain cantons also tax inheritances.

The estate tax is levied on the whole of the deceased's estate. The rate is progressive in, for example, Graubunden and Neuchatel, depending on the value of the estate; it is proportional in Solothurn. The inheritance tax is levied on the various parts of inheritance. The rate is progressive, based on relationship between deceased and heir, amount inherited and, in the cantons of Basel (City) and Aargau as well as in numerous municipalities within the canton of Graubunden, on the net wealth of the heir.

**Treaties for the Avoidance of Double Taxation.** Switzerland has entered into tax treaties with a number of countries (Appendix A) for the purpose of relief from double taxation on estates and inheritances. Even though there is no federal estate or inheritance tax, these treaties are honored in the cantons. Whenever the treaty countries are involved with Switzerland in an estate or inheritance tax matter, reference should be made to the tax treaty provisions.

**Determination of Taxing Canton.** As a rule, the right to tax estates and inheritances belongs to the canton in which the deceased was domiciled at the time of his death, the domicile of the heirs being irrelevant. Therefore, an heir resident abroad may be subject to Swiss inheritance tax. On the other hand, a Swiss resident is not subject in Switzerland to tax on an inheritance received from abroad.

There is one exception to the general rule regarding immovable assets: the right to levy tax on immovable assets belongs to the canton in which the real estate is located, irrespective of where the deceased or legatee may be domiciled.

**Special Cantonal Provisions.** Some cantons allow a reduction of a certain percentage of estate or inheritance taxes for close heirs (children, grandchildren, surviving spouse) if the deceased and his surviving spouse were aliens not born in Switzerland and never had any lucrative activity in Switzerland.

### 15.02 Gift Taxes

Taxes on gifts are usually associated with the tax on inheritance to prevent avoidance of the latter tax by transfer between living persons. Nevertheless, the cantons of Lucerne, Obwalden, Schwyz, and Solothurn do not tax gifts.

# Part 4: Rate Tables and Appendices

**Federal Direct Tax—Individuals (3.01)**

Basic Tax:

<b>Net Income (SF)</b>	<b>Tax on Lower Amount (SF)</b>	<b>Rate on Excess over Lower Amount (%)</b>
0- 9,700	None	None
9,700- 22,000	22.0	1.1
22,000- 38,500	157.3	3.3
38,500- 55,000	701.8	6.6
55,000- 71,500	1,790.8	8.8
71,500- 93,500	3,242.8	11
93,500-392,800	5,662.8	13.2
392,800	45,170.4	—
392,900-upwards	Flat rate on entire net income	11.5

**Note:**

Fractions of net income between SF1 and SF99 are rounded downward. Thus, for example, if net income is between SF38,401 and SF38,499, the tax is computed on SF38,400.

SF stands for Swiss francs.

## Zurich Cantonal and Municipal Income Taxes—Individuals (3.01)

### Basic Tax:

#### Married couple or a divorced or widowed taxpayer with children at home

Net Income (SF)	Tax on Lower Amount (SF)	Rate on Excess over Lower Amount (%)
0- 4,000	None	2
4,000- 8,000	80	3
8,000- 13,000	200	4
13,000- 19,000	400	5
19,000- 25,000	700	6
25,000- 31,000	1,060	7
31,000- 40,000	1,480	8
40,000- 55,000	2,200	9
55,000- 75,000	3,550	10
75,000- 95,000	5,550	11
95,000-125,000	7,750	12
125,000-upwards	11,350	13

#### Other Taxpayers

0- 3,000	None	2
3,000- 6,000	60	3
6,000- 10,000	150	4
10,000- 15,000	310	5
15,000- 20,000	560	6
20,000- 25,000	860	7
25,000- 31,000	1,210	8
31,000- 43,000	1,690	9
43,000- 59,000	2,770	10
59,000- 75,000	4,370	11
75,000-125,000	6,130	12
125,000-upwards	12,130	13

### Effective Tax:

The effective tax rate is a multiple of the basic tax rate. For the year 1977, the multiple was 1.20 in the canton of Zurich; 1.47 and 1.48 in the city of Zurich; and generally between 1.11 and 1.77 in other municipalities in the canton.

## Geneva Cantonal and Municipal Income Taxes—Individuals (3.01)

### Basic Tax:

Net Income (SF)	Resident Unmarried		Resident Married Couple	
	Tax (SF)	Rate on Excess (%)	Tax (SF)	Rate on Excess (%)
0- 3,400	None	None	None	None
3,400- 4,000	None	3.75	None	None
4,000- 5,000	22	4.25	None	None
5,000- 6,000	65	4.75	None	2.25
6,000- 7,000	112	5.25	22	2.75
7,000- 8,000	165	5.75	50	3.25
8,000- 9,000	222	6.25	82	3.75
9,000-10,000	285	6.75	120	4.25
10,000-11,000	352	7.25	162	4.75
11,000-12,000	425	7.75	210	5.25
12,000-13,000	502	8.25	262	5.75
13,000-14,000	585	8.75	320	6.25
14,000-15,000	672	9.25	382	6.75
15,000-16,000	765	10.00	450	7.25
16,000-17,000	865	10.75	522	7.75
17,000-18,000	972	11.50	600	8.25
18,000-19,000	1,087	11.50	682	8.75
19,000-20,000	1,202	12.25	770	9.25
20,000-21,000	1,325	12.25	862	9.75
21,000-22,000	1,447	13.00	960	10.25
22,000-23,000	1,577	13.00	1,062	10.75
23,000-24,000	1,707	13.00	1,170	11.25
24,000-25,000	1,837	13.00	1,282	11.75
25,000-26,000	1,967	13.00	1,400	12.25
26,000-27,000	2,097	13.75	1,522	12.25
27,000-30,000	2,235	13.75	1,645	12.25
30,000-36,000	2,647	13.75	2,012	12.75
36,000-45,000	3,472	14.50	2,777	12.75
45,000-56,000	4,777	14.50	3,925	13.25
56,000-75,000	6,372	15.25	5,382	13.25
75,000-upwards	9,270	15.25	7,900	13.75

### Effective Tax:

The effective tax rate is a multiple of the basic tax rate. For the year 1977, the multiple was 1.475 in the canton of Geneva; 0.495 in the city of Geneva; and generally between 0.32 and 0.55 in other municipalities in the canton.

**Federal Direct Tax—Corporations (3.02)**

Normal tax on taxable profit	3.63%
Surtax on the portion of taxable profit in excess of 4% of the corporation's reference capital	3.63%
Additional surtax on the portion of taxable profit in excess of 8% of the corporation's reference capital	4.84%
<b>Maximum tax—Flat rate on entire taxable profit</b>	<b>9.8 %</b>

**Geneva Cantonal and Municipal Income Tax Rates—Corporations (3.02)**

## Basic Tax:

4% to 15%.

## Effective Tax:

The effective tax rate is a multiple of the basic tax rate. For the year 1977, the multiple was 1.885 in the canton of Geneva; .495 in the city of Geneva; and generally between .32 and .55 in other municipalities in the canton.

**Zurich Cantonal and Municipal Income Tax Rates—Corporations (3.02)**

## Basic Tax:

3.45% to 11.5%.

## Effective Tax:

The effective tax rate is a multiple of the basic tax rate. For the year 1977, the multiple was 1.20 in the canton of Zurich; 1.47 and 1.48 in the city of Zurich; and generally between 1.11 and 1.77 in other municipalities in the canton.

### Geneva Cantonal and Municipal Net Wealth Taxes—Individuals (3.01)

Basic Tax:

<b>Net Worth (SF)</b>	<b>Tax on Lower Amount (SF)</b>	<b>Rate on Excess over Lower Amount (%)</b>
0- 100,000	None	0.175
100,000- 200,000	175	0.225
200,000- 300,000	400	0.275
300,000- 400,000	675	0.3
400,000- 600,000	975	0.325
600,000- 800,000	1,625	0.35
800,000-1,000,000	2,325	0.375
1,000,000-1,200,000	3,075	0.4
1,200,000-1,500,000	3,875	0.425
1,500,000-upwards	5,150	0.45

Effective Tax:

The effective tax rate is a multiple of the basic tax rate. For the year 1977, the multiple was 1.475 in the canton of Geneva; .495 in the city of Geneva; and generally between .32 and .55 in other municipalities.

### Zurich Cantonal and Municipal Net Wealth Taxes—Individuals (3.01)

Basic Tax:

<b>Net Worth (SF)</b>	<b>Tax on Lower Amount (SF)</b>	<b>Rate on Excess over Lower Amount (%)</b>
0-250,000	None	0.1
250,000-850,000	250	0.2
850,000-upwards	1,450	0.3

Effective Tax:

The effective tax rate is a multiple of the basic tax rate. For the year 1977, the multiple was 1.20 in the canton of Zurich; 1.47 and 1.48 in the city of Zurich; and generally between 1.11 and 1.77 in other municipalities.

**Net Worth Taxes—Corporations (3.02)**

	<b>Rate (%)</b>
Federal	.0825
Geneva Cantonal and Municipal:	
Basic Tax	.2
Effective Tax:	
The effective tax rate is a multiple of the basic tax rate.	
For the year 1977, the multiple is:	
Canton of Geneva	1.775
City of Geneva	.495
Other municipalities—generally	.32 to .55
Zurich Cantonal and Municipal:	
Basic Tax	.15
Effective Tax:	
The effective tax rate is a multiple of the basic tax rate.	
For the year 1977, the multiple is:	
Canton of Zurich	1.20
City of Zurich	1.47-1.48
Other municipalities—generally	1.11 to 1.77



## **Countries with Which Switzerland Has Entered into Tax Treaties**

### **Income Tax Treaties**

Austria	Netherlands
Canada*	Norway
Denmark	Pakistan
Finland	Portugal
France	Singapore
Germany, Federal Republic of	South Africa
Hungary	Spain
Ireland	Sweden
Italy*	Trinidad & Tobago
Japan	United Kingdom
Malaysia	United States

### **Inheritance Tax Treaties**

Austria	Netherlands
Canada*	Norway
Denmark	Sweden
Finland	United Kingdom
France	United States
Italy*	

\*Not yet in force as of July 1978.

## Depreciation Rates for Some Assets in Common Use

	<b>Maximum Rate (%)</b>
Apartments owned by property companies and workers housing owned by the employer	1
Commercial and bank buildings, department stores, cinemas	2
Hotels and restaurants	3
Factories, industrial buildings, and workshops	5
Water mains for industrial use; railway sidings; fixed or movable storage tanks; and movable construction on property owned by third parties	15
Office furniture and equipment; workshop and storeroom furniture and equipment	20
Patents, trademarks, goodwill, copyrights, etc.	25
Manufacturing machinery and installations; vehicles of all types except motor vehicles	25
Manufacturing machinery used for multishift operations or subject to hard usage, such as stone working machinery and any machinery subject to abnormally damaging chemical erosion; larger types of tools and implements	30
Motor vehicles	30
Hand tools and portable minor equipment; hotel crockery and linen, etc.	35
Tools and supplies which normally last only one year may be written off immediately.	

### **Note:**

The above rates apply when the declining balance method is used. They must be decreased by 50% if the straight line method is used.