SWITZERLAND GLOBAL ENTERPRISE

KEY FIGURES

11.85 per cent minimum corporate tax rate

7.7 per cent value-added tax (#2 in Europe)

14.87 per cent average corporate tax rate

Source: PwC 2022

CORPORATE TAXATION

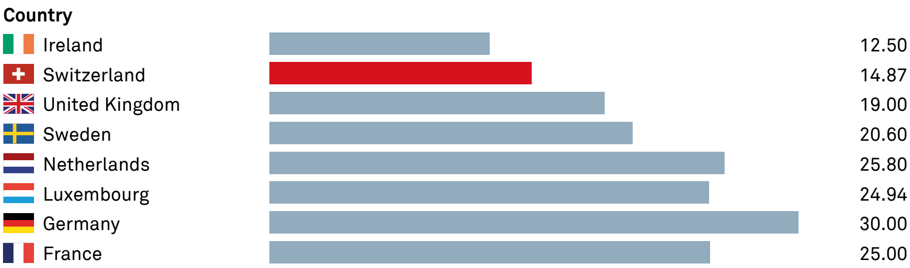
A BRIEF SUMMARY OF THE KEY POINTS

Switzerland is known for its lean government, low taxes and duties. The low tax rates for companies and private individuals are one of the essential reasons international companies choose to set up offices in Switzerland. In addition to the low tax rates, there are further advantages that contribute to Switzerland being a popular location, including smooth cooperation between authorities and companies, an extensive network of double tax treaties and a low value-added tax.

On January 1, 2020, the Federal Law on Tax Reform and AHV Financing (TRAF) entered into legal force. With this reform the Swiss tax system has been modernized and now offers companies an attractive tax environment in line with internationally established tax practices.

Corporate tax on earnings in Europe

Percentage according to Worldwide Tax Summaries 2022



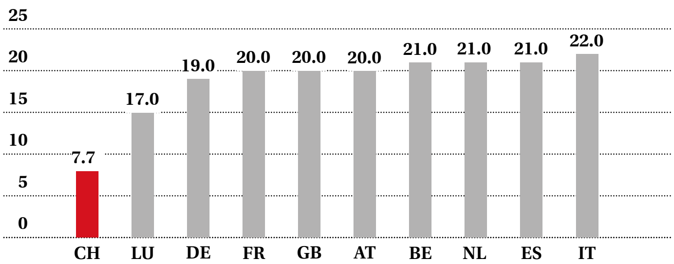
Source: PwC, 2022

THE SWISS TAX SYSTEM

- The Swiss tax system boasts a **federal structure**, meaning taxes are raised at federal (national), cantonal and municipal level.
- Effective tax rates for Swiss companies vary from canton to canton, starting at **11.85%**, with an **average rate of 14.87%**. Switzerland is therefore highly competitive by international standards.
- At federal level, a statutory tax rate of 8.5% applies to corporations and co-operatives, while associations, foundations and other legal entities, as well as investment funds, are taxed at 4.25%.
- A number of **double taxation agreements (DTA)** ensure that individuals and legal entities who earn income in two countries are not taxed twice. At present, over 100 such DTAs are in force.
- At just 7.7%, Switzerland has the **second lowest value-added tax rate** in Europe.

Value-added tax in Europe

VAT rates according to Worldwide Tax Summaries 2022 in European comparison (in %)

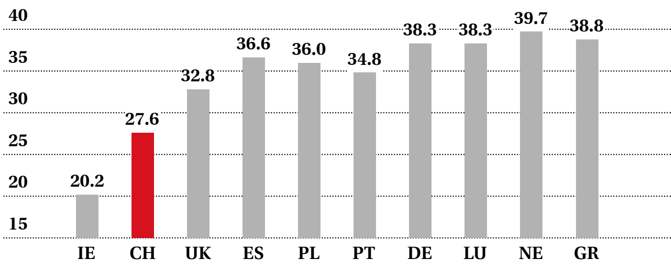


Source: PwC, 2022

- **The stable political environment supports the stability of the tax system**, helping companies carry out long-term planning.
- Thanks to the **trusting exchange between the tax authorities and the companies**, it is also ensured that appropriate solutions for appropriate taxation are found even in complex cases.
- Switzerland applies the practice of **advance tax rulings**. These are advance confirmations regarding the (fiscal) legal eligibility of specific circumstances on the part of the authorities. The standard practice for advance tax rulings means that companies enjoy a greater degree of legal certainty.
- **Withholding tax** is a federal tax levied directly at source on income from movable capital assets, on Swiss lottery winnings of one million Swiss francs or more and on certain insurance benefits. Interest income up to 200 Swiss francs per calendar year is exempt from withholding tax on all customer balances.
- Switzerland raises so-called **stamp duty**, a form of legal tax, on the issue and trading of securities. Firstly, the **stamp duty on newly issued securities** is charged when issuing securities and shares (1 million Swiss francs or more). Secondly, **turnover tax** is charged when trading in securities such as stocks and bonds, in so far as a securities trader is involved as either a contract party or an intermediary. There are exceptions to this rule for qualifying group-internal restructurings
- At 27.6%, Switzerland enjoys the **lowest fiscal quota** in continental Europe (tax revenues incl. social security contributions as a percentage of GDP).

Public revenues quota in Europe

Tax revenues and social security contributions in 2020 as a proportion of GDP (%)



Source: OECD, Revenue Statistics, 2022

TRAF

With the modernization of Swiss corporate tax law, Switzerland offers an attractive and internationally recognized tax environment with the following core elements:

- **Attractive tax rates:** In around two-thirds of the cantons, corporate income is subject to taxation of 14% or less.
- **Patent box**: A patent box that is consistent with the OECD regulations will result in preferential tax treatment of revenue from patents and similar rights (e.g. license revenues from patents).
- **Increased tax breaks for research and development expenditure:** Various cantons provide for an input-oriented special deduction for research and development costs.
- **Maximal relief:** Tax relief for income through the patent box and deductions for R&D expenses may not exceed 70%.

OECD standards for patent boxes

In its final report of October 2015, the OECD announced an agreement on the parameters of future standards for patent boxes. This is based on the so-called modified Nexus approach. It provides that a significant proportion of income generated from intellectual property should only be subject to tax breaks in cases where the taxpayer has carried out a significant part of the underlying research and development themselves. Such tax breaks must be directly linked to research expenditure and the country or the canton granting them must have economic substance. Switzerland has designed the patent box to be as business-friendly as possible under these guidelines.

OECD BEPS 2.0

To address the challenges arising from the digitalization ofth-eeconomy, the OECD has developed a set of rules. Those rules cover the introduction of new mechanisms for the distribution of profits (Pillar 1) and the minimum taxation of profits of large multinational companies (Pillar 2).

The minimum tax rate of 15% will apply to groups with revenues exceeding a threshold of 750 million euros. These measures are rooted in the OECD's Base Erosion and Profit Shifting 2.0 initiative (BEPS 2.0) and will come into force in stages beginning in 2023.

Accordingly, Switzerland intends to introduce the minimum taxation for companies belonging to groups exceeding the 750 million euro threshold as of 2024.

Companies that are not affected by the BEPS 2.0 rules can continue to benefit from the attractive Swiss tax rates

TESTIMONIAL

"Companies settling in Switzerland are often impressed by the efficiency and reliability of the authorities here. The cooperation between tax authorities and companies is exceptional, with everyone being on an equal footing. The advance tax ruling system, that is, the legal preliminary review of tax issues, is something that companies really value. This, along with our stable political conditions, is a decisive factor in ensuring planning security, which is of high importance to companies."

STEFAN SCHMID
Partner Tax and Legal Services, PwC Switzerland
www.pwc.ch

CURRENT DEVELOPMENTS

- The OECD developed a 15-point plan for BEPS (Base Erosion and Profit Shifting) aiming to define new international regulations for corporate taxation, making it impossible for multinational groups to unjustly diminish profits or shift them to low-tax countries. The group is required to pay tax on profits where appropriately qualified personnel actually earn them. For instance, the company is required to present both a "master file" and a "local file" to the tax authorities in each country. The master file contains information concerning the group-wide structure of cross-border value chains, the distribution of functions and risks and also transfer pricing methods. For groups with revenue of at least 900 million Swiss francs, the Swiss parent company must submit country-by-country reporting (CBCR) for key data such as revenue, profit, number of employees, tax performance etc. to the tax authority in the country in which it is registered. This is then relayed to the foreign tax authorities by means of international information exchange. These developments underline the importance of local economic substance in Switzerland.

- As part of OECD's BEPS project, the model rules for BEPS 2.0 Pillar 2 (so-called GloBE rules) were released in December 2021. Further clarifications on the functioning of the new rules are expected during 2022.

CONTACTS AND FURTHER INFORMATION

Authorities and regulators
Swiss Federal Tax Administration
estv.admin.ch

State Secretariat for International Financial Matters SIF
sif.admin.ch

Federal Department of Finance
efd.admin.ch

Associations and Networks
Swiss Tax Conference (Schweizerische Steuerkonferenz)
steuerkonferenz.ch

Conference of the Swiss Financial Directors (Konferenz der Finanzdirektorinnen)
fdk-cdf.ch

PwC: Corporate Tax & Tax structures
pwc.ch

OECD: Inclusive Framework on Erosion and Profit Shifting
oecd.org/tax/beps

Innovation and start-up funding
agire.ch
swissparks.ch
technopark-allianz.ch

Publications
PwC: World Tax Summaries Online
taxsummaries.pwc.com

SIF: Company taxation / BEPS
sif.admin.ch

S-GE resources
Handbook for Investors
s-ge.com/handbookforinvestors

This factsheet was created with the friendly support of PwC Switzerland (www.pwc.ch).

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