3

Understand the Swiss Tax System

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Switzerland's federalist tax structure comprises three levels: federal, cantonal, and municipal. This decentralized approach fosters healthy tax competition, resulting in attractive effective tax rates for corporations and individuals. Despite regional variations, the tax compliance process is streamlined, with standardized procedures across cantons. Taxes are filed at a canton level with the cantonal tax authorities.

Notably, Switzerland offers binding advance tax rulings, providing legal certainty on the tax treatment of specific transactions or structures. The Swiss tax authorities are recognized for their constructive and pragmatic approach, fostering a cooperative relationship with taxpayers, viewing companies as partners or clients, and are open to dialogue, working collaboratively to find balanced, compliant, and forward-looking tax solutions.

A corporate income tax rate of 8.5% at the federal level (flat rate), combined with cantonal and municipal taxes, leads to a total effective corporate tax burden of approximately 12–21%, depending on the location. Special incentives, including partial or full tax exemptions, are available for companies creating jobs through investment projects in certain regions.

In line with international tax reforms, Switzerland implemented the OECD/G20 minimum tax rate of 15% for large multinational enterprises with annual revenues exceeding EUR 750 million, effective from January 1, 2024.

For individuals, moderate taxes, coupled with the pragmatic relationship between taxpayers and authorities, enhance Switzerland's appeal. High-skilled workers benefit from attractive tax structures, and international agreements prevent double taxation with key trading partners, including the U.S., UK, Germany, and China.

The Swiss tax system offers:

- Competitive corporate income tax rates
- Low personal income taxes
- Efficient tax administration with standardized procedures
- Low administrative burden for tax compliance
- A cooperative tax authority culture, emphasizing transparency and partnership
- Binding advance tax rulings for legal certainty
- Tax regimes like Patent Box and R&D Super Deduction
- Tax holidays in certain cantons
- No CFC rules
- Alignment with global standards, including OECD BEPS 2.0 and 15% minimum tax under Pillar 2 for companies meeting the threshold

Sources and more information

Corporate Tax in Switzerland
taxsummaries.pwc.com/switzerland

3.1 Taxes at a Glance

Corporate Income Tax	Personal Income Tax	Withholding Tax	IP Box and R&D Super Deduction
8.5% Federal Rate (effective ≈ 7.83% on profit after tax) ~11% FROM ~21% TO Combined cantonal, communal and federal rates. Vary by canton/ municipality.	11.5% progressive, maximum on income exceeding CHF 755,200 ~22% FROM 45% TO Cantonal and Communal Rate depending on place of residence	35%	No CFC Rule
		VAT	Tax Holiday Available
		8.1% Standard Rate	Advance Tax Ruling Available

3.2 Corporate Tax

Corporate Income Tax – Federal Level

At the federal level, corporate income tax is levied at a flat rate of 8.5% on profit after tax for corporations and cooperatives. Associations, foundations, and investment trusts face a lower flat rate of 4.25%. No capital tax is imposed at the federal level.

- Taxable Entities: Entities with a registered office or place of effective management in Switzerland, such as stock corporations, limited liability companies, and cooperatives, are considered residents for tax purposes. Partnerships are transparent for tax purposes, with taxation at the partner level.
- Taxable Profit: Resident companies are taxed on their worldwide income, excluding income from foreign permanent establishments or real estate. Non-resident companies are taxed only on Swiss-sourced income. Losses can be carried forward for up to seven years.
- Thin Capitalization Rules: Safe harbor guidelines dictate maximum allowable related-party debt, with excess amounts reclassified as equity for tax purposes. Excessive interest paid on such debt is added back to taxable profit and treated as a hidden dividend, subject to withholding tax.
- Group Taxation and Reorganizations: Switzerland applies separate entity taxation for income tax, with no plans to adopt group taxation. Tax-neutral reorganizations are possible if assets and liabilities are transferred at tax book values, and tax obligations in Switzerland are maintained.

Corporate Income Tax – Cantonal and Municipal Levels

Cantonal and municipal tax rules align broadly with federal regulations but vary by region. Combined effective tax rates, including federal, cantonal, and municipal levels, range between 11% and 21% depending on the location.

- Special Tax Regimes: While federal laws do not offer special tax regimes, cantons provide options such as relief for R&D activities and reduced rates for qualifying patents.
- Patent Box: Up to 90% exemption on income from qualifying IP
- R&D Super Deductions: Up to 50% additional deduction on qualifying Swiss-based R&D expenses
- Notional Interest Deduction (NID): Available in Zurich for excess equity

Capital Tax

Capital tax is levied only at the cantonal and municipal levels, based on a company's net equity, including reserves and reclassified debt. Rates range from 0.001% to 0.5%, with some cantons offering credits against corporate income tax or reductions for qualifying shareholdings, patents, and intercompany loans.

Tax Relief

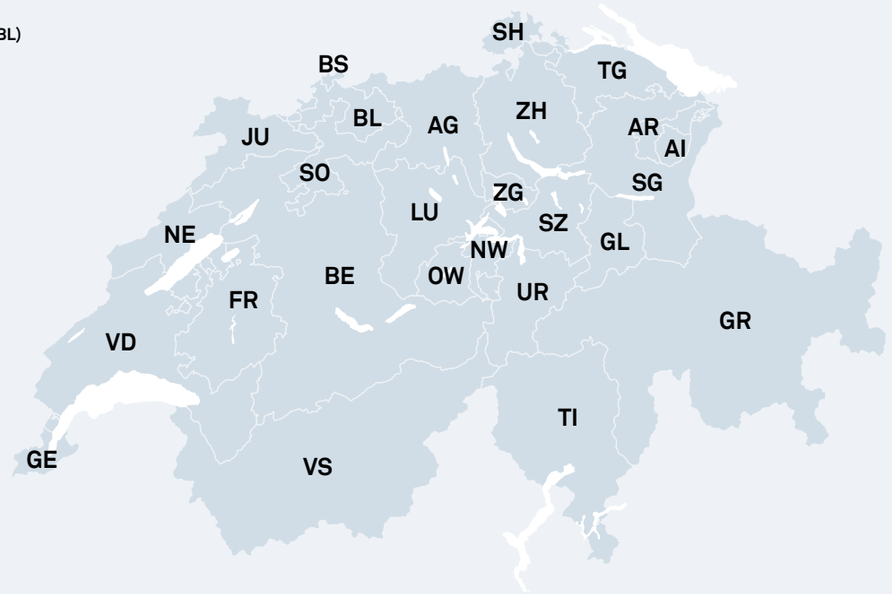
Federal Level: Tax reliefs are available for up to ten years in economically weaker regions if an industrial or production-related service company creates new jobs or substantially restructures existing ones and under the condition that the respective canton grants a tax relief as well. Furthermore, the project must be consistent with regional economic objectives and the canton must ensure any repayment in the event of misuse. The tax relief is limited to a maximum fixed amount per newly created job (CHF 95,000; approx. USD 116,000) or restructured job (CHF 47,500; approx. USD 57,900) per year. The tax relief on federal level must not exceed the relief on cantonal level.

Cantonal and Municipal Levels: Tax holidays, including partial or full exemptions for up to ten years, may be granted for creating new jobs or significant expansions. Conditions and practices vary by canton, with a general requirement to generate at least 20-30 new jobs.

Corporate tax rates in the cantons

Ordinary corporate tax rates (combined cantonal, communal and federal rate) applicable in each Swiss canton, based on standard rates without factoring in any additional deductions or special regimes.

15.03%	Aargau (AG)
12.66 %	Appenzell-Innerrhoden (AI)
13.04 %	Appenzell-Ausserrhoden (AR)
20.54%	Bern (BE)
13.45 %	Basel-Landschaft (BL)
13.04 %	Basel-Stadt (BS)
14.12%	Fribourg (FR)
14.70%	Geneva (GE)
12.32%	Glarus (GL)
14.77%	Grisons (GR)
16.00%	Jura (JU)
11.91%	Lucerne (LU)
14.89%	Neuchâtel (NE)
11.97%	Nidwalden (NW)
12.74%	Obwalden (OW)
14.29%	St. Gallen (SG)
15.08%	Schaffhausen (SH)
15.29%	Solothurn (SO)
13.45%	Schwyz (SZ)
13.21%	Thurgau (TG)
16.05%	Ticino (TI)
12.64%	Uri (UR)
14.72%	Waadt (VD)
17.12%	Wallis (VS)
11.85%	Zug (ZG)
19.61%	Zurich (ZH)



Value Added Tax (VAT)

Switzerland's Value Added Tax (VAT) system aligns with the EU's VAT Directive, making it a multi-stage, non-cumulative tax applied at the federal level on most goods and services. The system ensures deduction of input VAT, meaning only the value added is taxed at each stage of production and distribution. VAT liability arises from the supplier of goods or services, with payment made by the recipient.

Entities liable for VAT include individuals, companies, partnerships, and institutions engaged in independent, ongoing commercial activities generating revenue.

VAT Registration and Obligations

- VAT registration is mandatory if global taxable turnover exceeds CHF 100,000 (approx. USD 122,000) annually.
- Businesses below the threshold may voluntarily register to recover input VAT.
- Small businesses with turnover below CHF 5.024 million (approx. USD 6.1 million) and VAT liability below CHF 108,000 (approx. USD 131,600), using the reduced VAT rate assigned for their activity may opt for simplified VAT reporting with reduced rates and biannual filings.
- Domestic establishments of foreign corporations and their foreign headquarters (and vice versa) are treated as separate taxable entities. Service provisions between them may trigger an obligation to VAT register.
- Foreign businesses generating at least CHF 100,000 (approx. USD 122,000) annually in taxable turnover globally and taxable turnover in Switzerland (no threshold) must register for VAT. Exemptions apply for certain services and goods such as energy supplies.
- In particular, foreign suppliers of telecommunications or electronic services (with global revenues exceeding CHF 100,000 (approx. USD 122,000)) provided to non-VAT registered clients in Switzerland are required to register for and charge Swiss VAT.
- Foreign mail-order sellers shipping into Switzerland exceeding CHF 100,000 (approx. USD 122,000) in annual sales for low value consignments are deemed domestic suppliers and must register for VAT.
- Non-taxable entities and individuals in Switzerland that receive taxable services from abroad exceeding CHF 10,000 (approx. USD 12,200) per year are required to pay acquisition tax.
- Registered entities are assigned a VAT number (e.g., CHE123.456.789 MWST) which is based on their UID number plus the suffix MWST, TVA or IVA (depending on the language region they are based in).

Scope of Taxable Supplies

- Domestic supplies of goods and services
- Imports of goods
- Services received from non-resident providers

Exclusions and Exemptions

Swiss VAT law differentiates between VAT-exempt revenue with and without credit:

- VAT-exempt revenue without credit: Activities such as healthcare, education, culture, and financial services are not subject to VAT but do not allow input VAT deductions, though voluntary taxation is possible in most cases (except for financial and residential real estate services).
- VAT-exempt revenue with credit: Exports and some services are zero-rated and allow input VAT deductions
- Turnover abroad allows for input VAT deduction, except VAT-exempt revenue without credit for which no voluntary taxation is possible.

If no VAT is charged, documentation such as invoices and customs certificates are required to substantiate VAT exemptions or foreign place of supply.

VAT Rates

- Standard rate: 8.1% (most goods and services)
- Reduced rate: 2.6% (e.g., foodstuffs, books, medicines)
- Special rate: 3.8% (hotel accommodation)

VAT is calculated on the gross remuneration for taxable supplies. Registered entities can deduct VAT input on business expenses from their output VAT liability.

Foreign Businesses and VAT Recovery

- Non-resident companies with taxable activities must register for VAT in order to recover input VAT.
- VAT refunds are available to non-resident businesses without taxable Swiss activities. They can claim a refund for Swiss VAT, provided their home country offers reciprocal treatment.

Input VAT Deductions

Businesses can deduct input VAT on purchases from their VAT liability unless they engage in VAT-exempt without credit activities. For export-oriented businesses, input VAT on goods and services used in international transactions is deductible.

No Controlled Foreign Corporation (CFC) Rules in Switzerland

Unlike many jurisdictions, Switzerland does not impose immediate taxation on undistributed profits of foreign subsidiaries controlled by Swiss parent companies making it an attractive jurisdiction for holding companies and regional headquarters. Swiss tax law focuses on the source principle and territorial taxation, meaning that:

- Profits earned by foreign subsidiaries are only taxed when repatriated (e.g., through dividends).
- Swiss resident companies can benefit from the participation exemption on qualifying dividends and capital gains, significantly reducing Swiss tax exposure on foreign profits.

However, multinational groups must plan carefully to ensure compliance with CFC regimes in their home or operating countries:

- Other jurisdictions' CFC rules (e.g., in the U.S., Germany, or the UK) may apply to their Swiss entities' foreign subsidiaries.
- Effective substance requirements and transfer pricing compliance in foreign structures are essential to avoid foreign CFC exposure.

Transfer Pricing Rules

Switzerland follows the arm's-length principle, requiring that transactions between related entities reflect terms equivalent to those agreed between independent third parties. Although Switzerland does not have dedicated transfer pricing legislation, it applies the OECD Transfer Pricing Guidelines as the authoritative standard for assessing intercompany pricing. While there are generally no formal documentation requirements, Swiss tax authorities expect companies to maintain sufficient supporting records to substantiate the commercial rationale and pricing of related-party transactions. Maintaining clear documentation is strongly recommended to mitigate audit risk and support the arm's-length nature of intra-group dealings.

Multinational enterprise groups with a parent company resident in Switzerland and a turnover of more than CHF 900 million (approx. USD 1,100 million) are required to file a country-by-country report with the Federal Tax Administration (FTA). The FTA automatically forwards the country-by-country reports to the tax authorities of the partner countries and makes them available to the tax authorities of the cantons in which entities belonging to the same multinational enterprise group are resident.

Base Erosion and Profit Shifting – BEPS 2.0

Switzerland has adopted international standards related to Base Erosion and Profit Shifting (BEPS), including Country-by-Country Reporting (CbCR) and the Pillar Two global minimum tax for MNEs.

- Pillar 1: This pillar focuses on reallocating taxation rights to market jurisdictions for multinational enterprises (MNEs) with annual revenues exceeding €20 billion and profit margins over 10%.
- Pillar 2: This pillar introduces a global minimum tax rate of 15% for MNEs with consolidated revenues of at least €750 million.

Implementation in Switzerland

- Qualified Domestic Minimum Top-up Tax (QDMTT): Effective from January 1, 2024, Switzerland has enacted the QDMTT to ensure that profits generated domestically by in-scope MNEs are taxed at a minimum effective rate of 15%. This measure aims to prevent profit shifting and base erosion.
- Income Inclusion Rule (IIR): Initially postponed, the Swiss Federal Council has decided to implement the IIR starting January 1, 2025. This rule allows Switzerland to tax the undertaxed profits of foreign subsidiaries of Swiss-headquartered MNEs, ensuring that such profits are subject to the minimum tax rate.
- Undertaxed Profits Rule (UTPR): The application of the UTPR has been delayed indefinitely. The Federal Council will continue to monitor international developments before determining its implementation timeline.

Sources and more information

Federal Tax Administration: Transfer pricing

State Secretariat for International Finance: Company Taxation /BEPS

3.3 Individual Taxation

Switzerland offers a transparent and efficient individual tax system that combines federal, cantonal, and municipal taxation, resulting in varying effective tax rates depending on the place of residence. Non-residents are taxed only on income derived from Swiss sources.

For companies expanding into Switzerland, understanding the personal tax landscape is essential to structuring competitive compensation packages, managing expatriate assignments, and ensuring compliance with local reporting and withholding obligations.

Tax Residency

An individual becomes tax resident if he/she works in Switzerland for 30 days or more or resides for 90 days or longer without gainful activity.

Partnerships are fiscally transparent: income is taxed at the partner level. Family taxation rules apply, combining spousal income; this also includes registered partnerships.

Non-residents are only taxed on Swiss-sourced income, such as from local real estate or business activity.

Tax assessments are carried out by cantonal authorities, with some municipalities also involved for cantonal and communal taxes.

Taxable Income

Swiss residents are taxed on worldwide income, excluding income from foreign businesses (e.g. partnerships etc., provided these places have a certain degree of substance qualifying for a permanent establishment), permanent establishments, and real estate, which are exempt but considered for determining the tax rate (exemption with progression). Taxable income includes:

- Employment and self-employment income,
- Income from movable assets (interest, dividends, etc.),
- Income from immovable assets (rental income and imputed rental value of owner-occupied property),
- Income from public and private pension plans and annuities,
- Other income such as lottery wins (if more than CHF 1 million; approx. USD 1.2 million), compensation payments, etc.

Exempt income includes inheritance, gifts, subsidies, and matrimonial property rights, although such income may be subject to other taxes, like gift or inheritance tax.

Tax Rates and Progressivity

Tax rates are typically progressive:

- Federal level: Maximum rate of 11.5%.
- Cantonal/communal headline tax rates: Vary widely, ranging from 8% to 34%.
- Special tax rates apply to married couples and families.
- Privileged tax rates apply for Lump sum pay-out of pensions and pillar 3a plans.
- Dividends in case of a qualified participation (at least 10%) benefit from a deduction of 30% on the federal level; similar deductions on cantonal level.

Deductions

Taxpayers can deduct:

- Work-related expenses such as commuting and meals,
- Social insurance and occupational pension contributions,
- Voluntary contributions to restricted pensions (e.g. Pillar 3a)
- Additional deductions for dependents, married couples, and asset management costs.
- Debt interest is fully deductible for business activities but limited for private debts to investment income plus CHF 50,000 (approx. USD 61,000) for individuals.
- Property maintenance costs are deductible either on an effective or flat-rate basis.

Capital Gains and Losses

Private capital gains, such as those derived from the sale of shares held as personal assets, are generally exempt from income taxation in Switzerland.

Capital gains realized in the course of a business activity, or by legal entities, are treated as ordinary taxable income and subject to corporate or personal income tax accordingly.

Business losses may be deducted from taxable income and carried forward for up to seven years, allowing companies or self-employed individuals to offset future profits.

Repayment of Capital Contributions

Repayments of qualifying capital contributions are tax-free and not subject to withholding tax.

Withholding Tax

A federal withholding tax is levied on:

- Dividends from Swiss companies,
- Income from Swiss bonds,
- Certain distributions from investment funds, and
- Insurance benefits or gambling profits.

The standard withholding tax rate is 35% for dividends, bond income, and interest. Interest from ordinary company loans and qualifying royalties, licenses, and services is generally exempt.

Swiss-resident individuals can reclaim this tax through their annual return. Non-residents may claim full or partial refunds under double taxation agreements (DTAs).

Switzerland has over 100 double taxation agreements (DTAs), typically reducing withholding tax rates to:

- 0–10% on dividends for corporate shareholders
- 15% for portfolio investors
- 0–10% on interest income

EU Agreements and the AIA (Automatic Exchange of Information) enable cross-border exemptions and ensure transparency in income reporting.

3.4 Additional Taxes in Switzerland

Beyond income and corporate taxation, Switzerland imposes several supplementary taxes that may affect businesses, private wealth holders, expatriates, and cross-border employees. These levies vary by canton and are particularly relevant when structuring real estate transactions, onboarding foreign talent, or establishing holding and investment structures.

Stamp Taxes

Switzerland levies stamp taxes on following legal transactions:

Issuance Stamp Tax (Capital Duty): A 1% tax is levied on the issuance or increase of equity in Swiss companies. The first CHF 1 million (approx. USD 1.2 million) of paid-in capital is exempt. Contributions that do not lead to a share capital increase are also taxed, unless a reorganization exemption applies.

Securities Transfer Stamp Tax: This applies to Swiss and foreign securities transactions involving a Swiss securities dealer (banks, similar institutions, or companies holding taxable securities exceeding CHF 10 million (approx. USD 12.2 million). The tax rate is 0.15% for Swiss-issued securities and 0.3% for foreign-issued securities.

Real Estate-Related Taxes

Capital Gains Tax on Real Estate: Cantonal-level taxes apply to capital gains from real estate when the gains relate to personal assets. Gains related to business assets or legal entity assets are subject to corporate income tax or a special cantonal real estate gains tax. On federal level, capital gains from personal real estate assets are not taxable, while gains from business assets are taxed as ordinary income.

Property transfer tax: Some cantons levy a property transfer tax (1%-3%) on real estate transfers, assessed on the purchase price or taxable value. This is typically paid by the buyer. No federal property transfer tax exists.

Property tax: Approximately half the cantons levy this tax on the market or taxable value of real estate, assessed at 0.01%-0.3% without allowing debt deductions.

Payroll and Expatriate Tax Considerations

Tax at Source

For Residents without a Residence Permit: Foreign employees residing in Switzerland without a residence permit are taxed on their income at source. Employers deduct and pay these taxes to the authorities.

Income thresholds: If annual income exceeds CHF 120,000 (approx. USD 146,000), a tax declaration must be filed; otherwise, the tax deducted at source is final. Since 2021, individuals earning less than CHF 120,000 can request a tax declaration for additional deductions. This must be done by March 31 of the following year.

Non-Resident Employees: Employees living abroad but earning income in Switzerland are taxed at source. Exceptions allow some non-residents earning primarily Swiss income to file tax declarations.

Expats
Eligible Individuals: Foreign managers and specialists seconded to Switzerland for up to five years can claim tax relief on certain work-related expenses, including:

- Relocation costs.
- Accommodation costs if the primary residence abroad is retained.
- Private school fees for children if local schools are inadequate.

These expenses may be deducted, either as actual costs or as a monthly lump sum. Tax benefits cease once temporary employment becomes permanent.

Cross-Border Commuters
Cross-Border Commuters: Taxation is governed by bilateral agreements (e.g., with Germany, a 4.5% withholding applies, creditable in Germany). To retain commuter status, the employee must return home at least 260 days/year; business-related overnight stays are limited to 60 per year. The exact conditions vary depending on the corresponding agreements.

Lump-Sum Taxation
Lump-Sum Taxation: Available to foreign nationals who do not work in Switzerland and are relocating for the first time (or after 10+ years abroad). Tax is assessed based on annual global living expenses (minimum CHF 434,700 on federal level). Not available in all cantons, and both spouses must meet eligibility criteria.

Wealth Tax
Levied only at the cantonal/communal level, this tax applies to net assets (real estate, securities, bank deposits). Exemptions may apply to foreign real estate and certain foreign participation. Most of the rates are progressive, ranging from 0.1% to about 0.8% depending on the canton.

Inheritance and Gift Tax
No federal tax applies; cantonal rules govern these levies. Spouses are universally exempt, and most cantons also exempt direct descendants. The rates are typically progressive and depend on the beneficiary's relationship to the deceased/donor and the value of assets.

3.5 Double Taxation Treaties

Switzerland has concluded over 100 double taxation agreements (DTAs) with partner countries to ensure that individuals and companies are not taxed twice on the same income or assets. These treaties promote legal certainty and tax neutrality for cross-border investments and mobile professionals.

DTAs are mainly based on the OECD Model Tax Convention, offering a standardized framework for resolving issues related to residency, permanent establishment, withholding tax, and dispute resolution.

Methods of Relief

Switzerland typically applies one of two methods to avoid double taxation:

- Exemption method: Foreign-source income is excluded from Swiss taxation but considered for rate progression, impacting the effective Swiss tax rate.
- Credit method: For passive income streams such as dividends, interest, and royalties, taxes paid abroad can be credited against Swiss tax liabilities on the same income.

Specialized Treaties

In addition to income tax treaties, Switzerland has entered into:

- Inheritance and estate tax agreements with select jurisdictions
- Cross-border commuter treaties that regulate taxation for frontier workers
- Sector-specific agreements on air and transport services
- Special provisions for international organizations and their staff
- Free trade agreements

Treaty Precedence

Swiss DTAs take precedence over domestic law at both the federal and cantonal levels. This ensures uniform application and legal protection for foreign investors and multinational entities operating under treaty benefits.