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## Doing Business in Switzerland

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**MSI's guide on Doing Business in Switzerland provides current information about the financial, regulatory and legal considerations that could affect business dealings within Switzerland. For further assistance please contact our MSI member firms in Switzerland.**

## Country overview

### Population

Switzerland has a total population of 8.5 million inhabitants.

### Government

Despite its official name, the Helvetic Confederation is a federation of sovereign states named cantons. There are 26 cantons, and each of them is composed of many municipalities.

Switzerland is governed at three levels: federal, cantonal and municipal. The federal capital is Bern. The economic capital of the country, also the core of the financial system, is Zurich. Geneva, the second largest city in the country with 202,527 inhabitants (September 2017), is home to numerous international organisations, NGO, private banks and horology manufacture. Geneva and Zürich are world-class cities.

Federal law rules most of private law. In public and tax law, cantons have a wide freedom of organization, within the frame of federal law. The competence of the municipalities is governed by cantonal law. Thus, applicable law in Switzerland may vary from a canton to another, and, in a less important measure, from a municipality to another.

### Languages

The national languages are French, German, Italian and Romansh depending on each canton. However, most people speak English, especially in the big cities like Zurich, Geneva, Basel, Lausanne,

Bern, Luzern, St Gallen and Lugano.

### Currency

The national currency is the Swiss Franc (CHF).

### Economic summary

GDP: CHF 659 billion

Income per capita: CHF 78,700

Inflation: 0.84%

### Main sectors of the economy

The Swiss economy is amongst the most prosperous and developed in the world, despite the lack of raw material and access to sea. The unemployment rate is structurally low (3.2% in 2017). Switzerland is a leading exporter and is mostly focused on products and services with high added value.

The political economy of Switzerland is characterised by a non-interventionist liberalism, which leads to a defence of the free trade system and the absence of government-subsidized sectors, with the important exception of agriculture and transports.

Today, the main sectors of Swiss economy are in the tertiary sector (tourism, banks, raw material trade, retail trade, media, engineering), even if the secondary sector remains strong (chemical and pharmaceutical industries, precision mechanics and office machines, horology).

### Non-EU and its impact on businesses and investors

Switzerland is located in the middle of the European Union without being a member. It is a member of the European Free Trade Association (EFTA).

Switzerland uses its central position to set up a large number of bilateral

agreements with the European Union, allowing to bridge the differences and to protect its businesses. Switzerland is a destination of choice for entrepreneurs and companies, due to its tax attractiveness and the high flexibility of its legal system.

## Setting up a business

Switzerland represents a highly competitive and innovative business environment. Swiss corporate law provides a flexible and a wide range of options in designing business entities. If several individuals join together to establish a company, they are obliged to adopt one of the legal forms as outlined by Swiss company law. The establishment or transfer of a company to Switzerland in a foreign legal form is therefore not permitted. Within the permitted legal form, the founder/s have substantial freedom to structure the company's internal setup.

### Legal types of business entities

*Personal companies:* the focus is on the personal commitment of the partners:

1. Simple Partnership
2. General Partnership
3. Limited Partnership

*Capital companies:* the focus is on the capital investment of the shareholders:

4. Company Limited by Shares (AG)
5. Limited Liability Company (GmbH)

Other legal forms:

6. Association
7. Foundation
8. Cooperation

The main characteristic of a capital company is that it is an association of persons with its own separate legal personality and independent of the change of members. In contrast, the personal company is characterized as an association of certain mutually obligated persons without an own separate legal personality. If a business entity has legal personality, the entrepreneur cannot be held liable for more than the sum it contributed to the company's capital.

For internationally active business entities, the company limited by shares (AG) and the limited liability company (GmbH) are most commonly used. Both legal types of business entities may be established by one or more natural person(s) or legal entity or another commercial enterprise. In addition, at least one person with residence in Switzerland must have legal capacity to act on the company's behalf without any restrictions. The nominal capital must amount to at least CHF 100,000 for the company limited by shares and to at least CHF 20,000 for the limited liability company.

Furthermore, foreign companies may establish subsidiaries or branch offices in Switzerland. The establishment of a subsidiary is chosen more frequently. However, the subsidiary must be established in accordance with Swiss company law and therefore in the form of one of the legal types of business entities (see above). On the contrary, legally, the branch remains part of the parent company as a whole. This legal dependence and the lack of legal personality distinguish the branch from the subsidiary in particular. Setting up a subsidiary or branch is generally more time-consuming and requires more documentation than when founding a new Swiss company.

### Financial year of taxes and financial accounts

Generally, the financial year is equal to the calendar year. However, legal entities may determine a different financial year for direct tax purposes. Corporate entities as well as Swiss branches of foreign entities are subject to corporation income and capital taxes.

### Accounting and auditing

Every business is obliged to maintain accounting records and to prepare a balance sheet and income statement in every calendar year (except in the year of formation).

There are different accounting standards applicable to small, medium and large entities. Those accounting standards generally apply to all entities with the exception of the rules of small entities which apply to sole proprietorships and partnerships only, and as well to associations and foundations not registered nor subject to audits.

Small entities with a turnover of less than CHF 500k must prepare an income and expense statement without the need of preparing a balance sheet. However, they also must accrue for income and expense allocation to the respective accounting period. Micro-entities with a turnover of less than CHF 100k may prepare their income statement based on a pure cash basis.

Medium and larger entities are required to prepare financial statements according to the standards as set out by the Swiss Code of Obligations (Swiss GAAP). The financial statements include also notes to the financial statements. However, the accounting standards can also be based on any internationally accepted standard (Swiss GAAP/FER, IFRS or US-GAAP) and in any currency. For tax purposes the financial statements have to be prepared according to Swiss GAAP, in CHF. The financial statements of non-listed companies are only submitted to the tax authorities and not open for disclosure.

When is a statutory audit required? An ordinary audit is required when two of the following thresholds in two consecutive fiscal years are exceeded:

1. Annual turnover > CHF 40 million;
2. Total assets > CHF 20 million;
3. Number of employees > 250 fulltime equivalent

If the above requirements are not met, the company is subject to a limited audit. With less than 10 fulltime equivalents a

company does not require an audit (opting-out).

### Economic and fiscal incentives

As part of the regional policy, the Swiss Confederation supports efforts to strengthen the competitiveness of individual regions and increase their added value. Based on the Federal Act on Regional Policy, tax relief may be granted to industrial companies and service providers with close production links. The Confederation is thus able to support the creation and realignment of jobs in structurally weak regional centres.

## Taxation

The Swiss tax system is characterized by various levels of direct taxation: direct federal tax, cantonal tax and municipal tax. Furthermore, the tax legislations in the individual cantons are often very different from one another. Important areas, such as the powers to set tax rates and tax scales, continue to be exercised by the cantons.

In order to avoid a duplication of taxes, Switzerland has signed double taxation treaties with most industrialized nations (more than 100). These DTTs cover, in particular, the following aspects of tax:

- exemption of profits from branches in the partner nation;
- reclaiming of source taxes;
- taxation of royalties and license fee

Foreign business and property income is generally exempt from tax in Switzerland under progression proviso.

### VAT

A VAT rate of 7.7% applies to most goods and services. A reduced rate of 2.5% applies to certain everyday consumer goods such as foods, non-alcoholic beverages, books, newspapers, magazines and medicines. Overnight stays in hotels (incl. breakfast) are taxed at a special rate of 3.7%.

**Income tax**

Individuals are liable for direct federal tax levied on their income and for cantonal and municipal taxes levied both on their income and their net wealth. As a matter of principle, partners in companies such as limited partnerships and general partnerships are subject to taxation as individuals with respect to the share held in such partnerships.

Income tax for individuals is assessed on the gross income after deduction of business expenses (professional expenses, outlay for business purposes, etc.), further deductions such as interest payments, etc. as well as social deductions (for children or for maintenance payments). The tax on net wealth is assessed on net assets after deduction of liabilities. Tax rate depends on the level of income and wealth as well as on the canton and municipality the individual is resident.

**Corporate income tax**

Direct federal tax, cantonal tax and municipal tax are levied on the income (profit) of a corporation. The capital is only subject to cantonal and municipal taxes. The corporate tax rate depends on the canton and municipality the company is located in.

**Registration procedures**

Private persons and companies are registered with the tax authorities and are given a fiscal registration number. Communication with the tax authorities by way of tax returns and tax assessments is done on printed solution however this is changing more and more towards digitalisation.

**Participation exemption**

Participation exemption or substantial holding exemption is one of the main pillars of corporate income tax. The scheme was introduced to prevent double taxation.

Dividends qualifying for the participation exemption are those from participations representing at least 10% of the share capital of another company or those having a market value of at least CHF 1 million. Net participation income consists of the gross participation income from

qualifying dividends less related administration and financing costs and any depreciation of the participation that is linked to the dividend distribution. In most cases, the participation exemption results in a full exemption of participation income or one close thereto.

**Tax Ruling System**

Taxpayers may file an advanced tax ruling request with the competent tax authority to clarify the tax consequences of a planned structure or transaction.

**Wage tax**

Tax is deducted directly from your salary. Your employer will do this automatically if:

- you are a foreign worker,
- you are resident in Switzerland for tax purposes but do not yet have a residence permit (permit C), and
- you are not resident in Switzerland for tax purposes (cross-border commuter, weekly resident, conference speaker, sportsperson, artist etc.) but earn an income here (cross-border commuter, weekly resident, conference speaker, sportsperson, artist etc.).

If you are a foreign worker resident in Switzerland for tax purposes and your income exceeds a certain limit, a statutory assessment of your whole income and assets will be carried out. This limit is CHF 120,000 for the Confederation and in almost all cantons. The tax at source rate differs from canton to canton.

**Withholding taxes**

The distribution of a corporation's profits, e.g. in the form of dividends or other kinds of distribution, is subject to the withholding tax of the Swiss Confederation. The tax is levied at source and currently stands at 35%. A refund or under certain circumstances a notification procedure of this tax depends on whether the double taxation treaty between Switzerland and the recipient's country of residence provides.

**HR/ Labour Law****Employment law**

An employment agreement may be agreed for an indefinite or fixed period of time. If a fixed-term employment agreement is extended several times in order to circumvent provisions on protection against dismissal, there is usually an inadmissible chain employment agreement, as long as there is no objective reason for the extensions. In principle, it is irrelevant whether the extension of the employment agreement was intended as a circumvention or not. Illegal chain agreements of employment are treated by the courts as permanent agreement of employment to which protection against dismissal provisions apply. If an employment agreement for a fixed period of time has been extended, it might be assumed that the employment agreement becomes indefinite, with the same conditions as the former employment agreement.

**Social security**

Switzerland has a close-knit network of different types of social insurance, which offer the persons living and working in Switzerland a broad protection against risks whose financial consequences could not be covered without an insurance. The social security system for old age is based on a three-pillar principle:

The first pillar is the compulsory state pension provision: every person resident in Switzerland must pay contributions in the old-age and survivors' insurance (AHV).

Disability insurance (IV) and unemployment insurance (ALV) are also compulsory. The AHV is a basic insurance which is intended to cover the most basic life needs.

The second pillar is the occupational pension scheme (BV): Occupational pension schemes fall under the State governed insurance system as a supplement to the old-age, survivors and disability pension schemes but are offered by a large number of private institutions and State funds. It is a private insurance to which employees

and employers pay contributions which are later paid out in form of a pension or as capital.

The third pillar is a private, voluntary scheme on an individual basis. The benefits paid out by the different types of social security are in principle financed by contributions levied on income.

Individuals have to insure themselves (obligatory) for the costs of health care. Insurance policies can be taken out from a number of national operating insurance companies.

### ***Pension (BVG)***

The occupational pension scheme (BV) supplements the old-age and survivors' insurance (AHV) and the disability insurance (IV). All employees whose annual salary is subject to the old-age and survivors' insurance (AHV) and who earn at least CHF 21,330 per year and are at least 18 years and older must pay contributions to the pension fund. From the age of 25, additional savings are made for the retirement pension. As a rule, contributions are generally paid in equal parts by the employer and the employee, usually amount between 7% and 18 % of an individual's gross salary.

In Switzerland, the statutory retirement age is 65 for men and 64 for women.

### ***Payroll***

When starting a business and employing staff, the company must register with the tax authorities. In addition, the company must register its employees with the old-age and survivors' insurance (AHV), the compensation fund, the accident insurance (UV) and the occupational pension scheme (BV). Social security contributions up to an annual wage total of CHF 200,000 must be paid quarterly and above on a monthly basis. The process of registration takes several weeks. However, staff can be employed even if registration is not complete.

### ***Visa and work permits***

All EU/EFTA citizens are granted the same treatment and access as Swiss nationals with regard to the Swiss labour market. The right to enter and stay in

Switzerland is granted to EU/EFTA citizens, provided that a work and residence permit is obtained (which is a formality in the presence of an employment agreement). For all other foreign nationals (so called Third Countries citizens) willing to live and work in Switzerland the entry process is much more complex. Visas are limited and must be obtained before entering Switzerland.

## Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Switzerland should seek professional advice from our member firms before making any business or investment decision.

### Contact our member firms in Switzerland to discuss your requirements:

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