

SETTING UP BUSINESS IN SWITZERLAND



General Aspect

Geographically and economically Switzerland with its approx. 8 million people and 40'000 square kilometres territory is located in the center of Europe. Although not part of the European Union (EU), Switzerland cultivates close relationships with the EU and all of its member states in line with so called bilateral treaties. Switzerland offers a wide cultural diversity and not less than four national languages, such as German, French, Italian and Romansh language. Switzerland has a well known democracy and a traditional political stability despite its strong federalism with 26 cantons.

Legal Structures: Types and Legal Forms

Legal form	Associated Legal Forms ¹	Common Ground
Sole enterprise	<ul style="list-style-type: none"> • Sole enterprise 	Sole property of the firm's owner
Partnerships	<ul style="list-style-type: none"> • Simple partnership • General partnership • Limited partnership 	Several individuals (in case of simple partnership as well legal entities) hold rights and duties commonly without forming a legal entity. Based on unanimity rule.
Statutory corporations as legal entities	<ul style="list-style-type: none"> • Joint stock company • Private limited liability company • Association limited by shares • Association (union) • Cooperative 	Members merge to a legal entity that acts through its own bodies. Based on majority decision.

¹The foundation is left away intentionally, as this legal form isn't build for business purposes, but consists of earmarked assets only



Legal Forms and their Characteristics²

Legal form	Main Use	Requirements for Formation	Comercial Register	Minimal Partner or Members	Capital Needed	Executive Organs	Liability/ further Contributions
Sole enterprise (Einzelfirma)	Small firms, activities carried out by sole persons (e.g. sole architect)	Self-employment economic as a means of permanent gainful employment	Obligatory when exceeding a turnover of CHF 100'000.--/year.	Only one natural person possible	No restrictions	No executive organ (auditor may be appointed)	Unlimited liability of the owner with personal assets
Simple partnership (einfache Ges.)	Often temporary alliance to reach a common goal with common contributions	Consensus to pursue a common goal with common strenghts (no written agreement needed)	No registration possible	At least two partners (natural persons and/or legal entities)	No restrictions	Partners (auditor may be appointed)	Unlimited liability of each partner with personal assets for all debts concerning the partnership
General partnership (Kollektivges.)	Small, permanent businesses centering on specific individuals	Consensus to pursue a common goal with common strenghts (written declaration to commercial register required if no commercial-activity)	Obligatory for businesses pursuing commercial aims	At least two natural persons	No restrictions	Partners (auditor may be appointed)	Primary liability to the level of company capital; subsidiary joint and several unlimited liability of each partner with personal assets
Limited partnership (Kommanditges.)	Similar scope like general partnership but figured for external investor as well	Likewise general partnership	Obligatory for businesses pursuing commercial aims	At least one natural person with unlimited liability (general partner) and another partner (person or legal entity) with limited liability	Partner stake must be registered in the Commercial Reg.	Partners (auditor may be appointed)	Likewise general partnership with the exception that the liability of the limited partner is limited to level of partnership capital (stake)
Private limited liability Comp. (GmbH)	Small and mid-sized businesses centering on individuals	Public act of signing when the company is founded, adoption of articles of incorporation /association, appointment of organs	Becomes a legal entity only when registered	At least one shareholder	Equity of CHF 20'000.--, divided into equity shares, which must be fully paid up.	General meeting of members; Management (min. one member), possibly auditor	Liability limited exclusively to the company's assets (further contribution can be stipulated in the articles of association)
Joint Stock Comp. (AG)	Suitable for all types of commercial companies	Public act of signing when the company is founded, adoption of articles of incorporation/association, appointment of organs	Becomes a legal entity only when registered	At least one shareholder	Equity of CHF 100'000.--, divided into equity shares, at least paid up for CHF 50'000.--	Annual general meeting of members; Board of directors (min. one member); possibly auditor	Liability limited exclusively to the company's assets Each stock-holder can only be obliged to pay in his quota of the share capital)

² Without union, cooperative and association limited by shares. The first two are non profit-oriented while the last one isn't common.

Overview of Taxation in Switzerland

The subject of taxation depends on the legal structure. The owner of a sole enterprise has to pay personal (individual) tax for all income he makes and assets he has. Associates in a partnership pay for their stake of the income and asset of the partnership as well as for their private income and assets. Statutory incorporations as legal entities have to pay tax on profit and capital, their shareholders have to pay asset tax (net wealth tax) for the shares and income tax for dividends. Three different fiscal jurisdiction have to be considered: federation, canton and community/church.

Legal form	Federation	Canton	Comunity/Church
Sole enterprise and partners (like individuals)	Direct federal tax on income of the individual ³	Tax on income and net wealth of individual	Percentual part of canton tax of the individual
Private limited liability Company and Joint Stock Company	Direct federal corporate income tax (tax on profit of the company) ⁴	Corporate income tax (tax on profit) and tax on capital of the company	Percentual part of canton tax of the company

Cantonal income and net wealth tax rates as well as cantonal tax rates on company profit and capital vary considerably. So do percentages of the Communities, whilst some communities form a canton themselves so they only have an adjusted tax of the canton.

Switzerland has implemented a classical corporate tax system that results in economic double taxation (e.g. Company pays tax on profit while shareholder pays income tax on dividends). However, in Switzerland all taxes due by corporate taxpayers are deductible and tax rates on dividends are marked down considerably under certain circumstance. As this system is different than in most countries, Swiss tax rates should not be compared one on one with foreign tax rates. Swiss tax rates can be considered relatively low.

Furthermore there are specific reliefs to holding companies in order to avoid triple taxation (participation exemption). An even stronger tax relief results for pure holding companies applying for the holding privilege that cantons and communities have stipulated.

³ In general, Swiss income tax rates are progressive. Usually different rates apply dependent on marital and family status. A taxable income (after deductions etc.) of CHF 100'000.-- is federally taxed at about 4% (singles) and 3% (married). The rates for an income of CHF 200'000.-- at about 8% and 7.5% respectively. The maximum of federal income tax rate is 11.5%.

⁴ The federal corporate income rate is 8.5% flat.

Special Taxes	Feature
Withholding Tax	Federal tax levied on certain passive income (dividends, interests on bank loans, lottery prizes, certain insurance payments), tax intention is also assurance of full tax declaration, as residents and under circumstances others can claim for the return after having paid their income tax, tax rate is 35%
Value Added Tax (VAT)	Federal tax, taxable entities are entrepreneurs with a worldwide turnover that exceeds CHF 100'000.-- per year, subject to VAT are turnovers on goods and services in Switzerland, under certain circumstances self supply in Switzerland, import of services, import of goods, standard rate is 7.7%

Deduction at source	Tax of canton, taxable entities are working people without permanent residence permission (replaces declaration), tax is deducted from salary
Tax due to change of ownership	Tax of canton or community, payable by the seller and buyer in the context of changement of ownership of real estate (or changement of economic beneficiary)
Tax on Profit from real estate	Tax of canton, payable by seller of real estate depending on profit (selling price minus purchase price and other costs)

Employment and Social Security

Special Taxes	Feature
Work permit	<p>Switzerland has a dual system of work permit:</p> <p>Nationals of the EU (with exeptions for Nationals of Bulgaria and Romania) are privileged by the treaty regarding freedom of movement and residence (no permit just declaration needed if working for 3 months or less, right of a resident/working permit for more than 3 months). For people of some countries of the EU the treaty still forsees transition rules.</p> <p>On the contrary non-EU nationals have to ask for a working permit, which is a hard task unless the submitter is a specialist (executives, qualified workers)</p>
Labour law	<p>In Switzerland there's no general minimal wage stipulated. However, many collective labour agreements do implement minimal wages. Labour law forsees a minimum of 20 days of paid holidays per year. Normal working hours are 42 hours per week (5 days). The notice period for termination of employment depends on the duration of work.</p>
Social security	<p>Liabilities and contribution vary between employees, self-employed people and expatriates. For a resident employee the following insurances have to be considered, each of them half paid by the employer and half by the employee (deducted from his salary) based on the gross salary: Oldage/ survivors' Ins./Disability Ins. and Military/pregnancy Ins. (10.1%), Unemployment Ins. (2%), Occupational benefit plan (depends on age, approx. 7%-18%), Accident Ins. (Approx. 1-2%), Family allowances. In case of self-employment the occupational benefit plan is beneficiary. Furthermore the unemployment insurance isn't applicable (no contributions but no benefits neither).</p>

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