



Greater Zurich Area
Expanding business horizons



Tax Environment of the Greater Zurich Area – Combining the Advantages of the Swiss Tax System

When it comes to choosing a location for a business expansion, a favorable tax environment is a critical factor for any business location to be short-listed in the first place. ¹⁾ The Greater Zurich Area and Switzerland are among the lowest tax jurisdictions in Europe.

Low ordinary corporate taxes

Switzerland has more than 70 tax treaties and 33 social security treaties in effect. Switzerland has signed intergovernmental treaties (among them the highly important bilateral agreements with the EU) and double taxation conventions with over 60 states.

All things considered, the Greater Zurich Area and Switzerland are a prime location where to engage in international trade and business while offering one of the lowest on-shore tax rates in the world.

Swiss fiscal system: Taxation on three levels

The Swiss tax system mirrors the country's federal structure. Companies and individuals are taxed at three different levels in Switzerland. However, all taxes are collected by a single instance – the cantons – keeping the fiscal process simple and transparent.

Federal income tax is levied at a flat rate of 7.83%. Cantonal (State) and municipal tax rates vary by location. The largest component of taxes is charged and deter-

The Greater Zurich Area and Switzerland are among the lowest tax jurisdictions in Europe.

Corporate Income Tax

Switzerland ¹	12 - 26%
Switzerland ²	5 - 12%
Ireland ³	12.5 - 25%
Singapore	18%
Poland	19%
Netherlands	25.5%
Sweden / Norway	28%
United Kingdom	28%
Germany	29.4%
France	33.3%
Belgium	33.9%

Source: KPMG's Tax Rate Survey 2009

¹ Depending on location

² Trading companies

³ Depending on type of income

mined by the cantons and municipalities, which leads to fierce tax competition among them. In addition, special tax holidays and privileged tax regimes may apply to certain company structures.

¹⁾ As shown by a recent study commissioned by the Swiss-American Chamber of Commerce: Foreign Companies in Switzerland; Joint Study by the Swiss-American Chamber of Commerce and the Boston Consulting Group; Zurich January 2006

Ordinary tax rates before exemptions

The total ordinary tax burden for corporations in the Greater Zurich Area is in the range between 16% and 25.7%. Taxes are currently levied in the following ranges: ²⁾

- Federal taxes on profits: 7.83% (effective rate)
- Cantonal/communal tax on profits: 4.0 - 17.9% (effective rate)
- Cantonal/communal tax on capital: 0.04 - 0.3% (effective rate)

Swiss ordinary tax rates for companies and individuals are among the lowest in Europe.

Please note: These are tax rates before applying tax holidays and privileged tax regimes!

Record-low individual taxes and VAT

Switzerland and the Greater Zurich Area are committed to US-style fiscal conservatism and score superbly when it comes to the taxation of individuals. Effective taxes for individuals (including social security) are competitive with US tax levels. Especially higher income levels are subject to less progression than in most other countries in Europe, making the Greater Zurich Area a highly attractive location for top salary earners.

Switzerland also sets unmatched benchmarks in sales tax / VAT. At 7.6% (8% as of June 1, 2010), Switzerland's VAT is roughly half of its closest European competitor, Luxembourg. Reduced rates are also applicable for certain goods and services.

Stiff tax competition, rulings and holidays

The largest portion of corporate taxes is levied by cantons and municipalities, so there is a great potential for tax rate negotiations on a case-by-case basis.

Advance tax rulings

In the cantons of the Greater Zurich Area, companies may solicit an advance tax ruling for their effective tax burden from the cantonal tax authorities to minimize future tax risk. A tax ruling is a flexible, highly personalized and custom-made package which determines fiscal duties and guarantees sustainable satisfaction to both parties involved: the company and the tax authorities.

²⁾ Source: Swiss Tax Update, KPMG LLP, May 2007 / Greater Zurich Area

Fierce competition between tax authorities of different locations leads to even lower taxes.

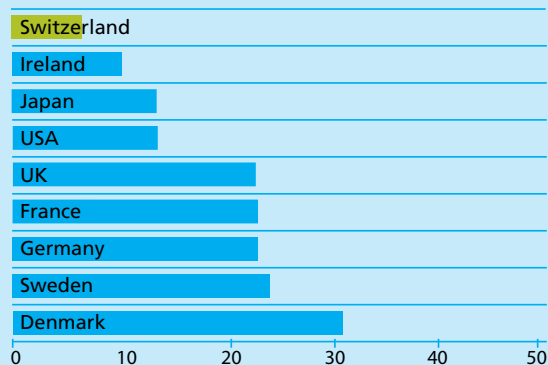
Tax holidays

Cantonal and communal tax authorities may offer and negotiate tax holidays based on a taxpayer-friendly, liberal Swiss tax law. Depending on location, amount and type of investment, value creation and number of jobs created, newly established companies may be granted full tax relief for up to ten years.

Business-minded authorities will make sure that negotiations can be swiftly concluded within two weeks to two months time at maximum.

Effective personal income tax rate

percentage of an income equal to GDP per capita



Source: IMD World Competitiveness Yearbook 2009

Average personal income taxes in the Greater Zurich Area are up to 30% lower than in selected EU countries, e.g. Germany, depending on level of progression.

Privileged tax regimes in the Greater Zurich Area

A liberal Swiss tax law holds sophisticated tax models for certain company structures ready. These privileged tax regimes apply to multi-national companies who have a clearly defined business purpose in Switzerland, in compliance with their global or European business macro strategy.

The two main company types enjoying the benefits of this tax optimization method are the Holding Company and the Mixed Company. Both are ideally suited for international corporations looking for a cost-efficient way to do business in the European and global market.

Privileged tax regimes can reduce an ordinary effective tax rate of 16 - 25.7% to below 8%.

Taxes in the Greater Zurich Area at a Glance

- Federal effective corporate tax rate (flat rate): 7.83%
- Cantonal effective corporate tax rate (depending on location): 8.2 - 17.9%
- Overall effective corporate tax rate (depending on location): 16 - 25.7%
- Privileged tax regimes (holding, mixed company) can push overall effective tax rate below 8%
- Full tax holidays available for up to 10 years
- Switzerland has the lowest VAT rate in Europe (7.6%, 8% as of June 1, 2010)
- No CFC rules
- No domestic withholding tax on royalty payments
- 35% domestic withholding tax on dividends and interest payments on Swiss bonds (mitigation possible)
- Withholding tax relief at source for qualifying investors
- More than 70 tax treaties and 33 social security treaties in effect
- Bilateral agreements with the EU allow for 0% withholding tax on dividends, interest and royalty payments
- Choice to apply either tax treaty or the Bilateral Agreement, whichever is most attractive

Holding company

A holding company is subject to income tax from dividends and capital gains from non-qualifying participations, interest, license fees and other income at federal level only (7.83%). However, there is a relief on income tax on dividends and capital gains from qualifying participants applicable. No cantonal or communal taxes are levied (except cantonal tax on capital: 0.002-2.02%). Other main advantages include that CFC rules don't apply.

Structural and operational requirements to qualify as a holding company are:

- Holding and managing of long term investments of affiliated companies
- No business activities with third parties in Switzerland (exemptions: finance activities, cash and asset management and administration of intellectual property)
- Two thirds of company assets are qualifying shareholdings of other companies or two thirds of company income are from qualifying dividends.

A holding company can expect a total effective tax rate of less than 8%.

Mixed company

Corporations that for the most part carry out administrative functions in Switzerland can apply for a mixed company tax privilege. Commercial activities in Switzerland are permitted, provided they not exceed 20% of the company's income and expense.

A mixed company enjoys greatly reduced taxation of between 8 - 12 % on foreign source income. Swiss source income is taxed at ordinary rates. In addition, there is a relief (federal tax) or exemption (cantonal tax) on income tax on dividends and capital gains from qualifying participations applicable. Finally, capital tax of 0.005 - 0.3% applies.

The Greater Zurich Area is an attractive holding location for group companies to hold and manage substantial participation and functions such as financing, IP management and other centralized functions along the global value chain.

A mixed company in the Greater Zurich Area can expect a total effective tax rate of between 8% and 12%.

Structural and operational requirements to qualify as a mixed company are:

- At least 80% of total income and expenses must derive from foreign sources.
- Accordingly, commercial activities in Switzerland may not exceed 20% of the company's income and expense.

Physical presence, management and operations of the mixed company for limited commercial activity in Switzerland is possible. That's why a mixed company is often the tax regime of choice to be operationally present in the European market but subject to Swiss tax regulations.

The Greater Zurich Area is an ideal location from where to manage commercial operations in the European or global market under the privileged tax regimes of the mixed or holding company.

Have we sparked your interest?

Would you like to get to know your options in the Greater Zurich Area in more detail?

If yes, please contact your nearest Greater Zurich Area representative for more information.

We are happy to assist you in every aspect of expanding your business to the Greater Zurich Area!



Greater Zurich Area
Expanding business horizons

HEADQUARTERS

Greater Zurich Area AG
Limmatquai 122
8001 Zürich / Switzerland
Phone +41 44 254 59 59
Fax +41 44 254 59 54
info@greaterzuricharea.ch
www.greaterzuricharea.ch

USA

Greater Zurich Area Inc.
swissnex building
730 Montgomery Street
San Francisco, CA 94111 / USA
Phone +1 415 912 5909

Greater Zurich Area Inc.
575 Madison Avenue, 10th Floor
New York, NY 10022 / USA
Phone +1 212 937 8415

CHINA

Jianping Gao
Representative China
Phone +86 21 6149 8208

INDIA

Arvind Tilak
Representative India
Phone +91 9822043790

JAPAN

Itsuko Hori
Representative Japan
Phone +81 3 3824 3396