

Doing Business in Switzerland

2008



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1. Introduction

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 66 countries throughout the world. Business partners work together through the network to conduct trans-national operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Switzerland has been provided by the office of UHY representatives:

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Inevitably, the information contained in the following pages is both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions.

This publication is current at August 2008.

We look forward to helping you to do business in Switzerland.

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2. Business environment

Switzerland is an important centre for international business. The following factors make it an especially attractive location for doing business:

Central location

Since the Middle Ages Switzerland has played an active role in trade due to its geographically key position in the heart of Western Europe.

Free enterprise economy

A business can only grow and develop if it can operate within a free enterprise environment. The Swiss economy is based on the principle of free enterprise. Freedom of trade and commerce has been guaranteed by the Swiss constitution since 1847.

Political and social stability

Ever since the foundation of the federal state, Switzerland has enjoyed uninterrupted political stability. This is evidenced by the pre-dominance of political parties which support the functioning of the market economy. Even though the 7.5 million inhabitants of Switzerland belong to four different language groups and possess different cultural backgrounds, there is a high degree of tolerance and personal freedom. The good relations between employers and employees have provided an excellent social climate for decades, which has contributed to the above average growth of the standard of living. Switzerland's policy of neutrality, to which it is bound by its constitution, is an important reason for making Switzerland a good place in which to conduct business.

Strong international links of the Swiss economy

Due to the lack of any raw materials as well as the impossibility of growing sufficient food for its population, Switzerland relies heavily on imports. On the other hand, Swiss industry, which produces goods of high quality, exports almost half and, in some sectors even more than 90%, of its production. Excellent international relations also exist in tourism, telecommunications and the finance sector.

Efficient centre of finance

Switzerland is one of the leading and most efficient centres of finance in the world. Besides the local banks, international banks offer services such as foreign exchange, precious metals trading, asset management and underwriting. Banking secrecy, which guarantees discretion on the part of banks and their employees in respect to client information, is famous. Interest rates are low when compared to other countries. This has a favourable impact on the attractiveness of doing business in Switzerland.

Facts and figures about Switzerland

Population:	7.460 million inhabitants (2005)
Area:	41,285 square kilometres
Population density:	181 inhabitants per square kilometre
Currency:	Swiss Francs (CHF)
Languages:	Swiss German, French, Italian, Romanic

3. Foreign investment

Switzerland offers ideal operating conditions for a foreign company, including: liberal and business-friendly legislation, political and financial stability, first-class infrastructure as well as a highly motivated and well-trained workforce.

The country ranks as one of the world's most important technology locations. Leading domestic companies and well-known foreign companies have chosen Switzerland as their location for research, development and production activities in the following sectors: bio/medical technology, IT, telecommunication, pharmaceuticals and chemicals.

The high quality of the Swiss education system guarantees the competence and know-how found in the labour market, and provides a strong incentive for foreign managers and their families to relocate to Switzerland. The quality of research programmes is recognized world-wide.

Switzerland is also a prime location for international headquarters and management centres. Successful multinationals from all over the world have moved to Switzerland over the past few years, recognising that it is an ideal location from which to cover the European market.

Switzerland's international banking system, the multilingual capabilities of its professionals and academics, set the foundation for a supportive and dynamic international environment.

4. Setting up a Business

Forms of business organisation

Swiss company law is part of the Swiss Code of Obligations. The following sections describe some of the commonly used and most widespread forms of business organisation.

a) Sole proprietor

The business is carried out by a sole proprietor and has to be registered in the commercial register if it produces at least CHF 100,000 gross income per year. It is not a legal entity, i.e. the proprietor is personally liable for his business without any limitation. The proprietor himself is subject to taxation. This form of business organisation is commonly used for smaller enterprises.

b) Ordinary partnership

This is based on a contract of association between two or more partners and is a very loose formation without being a legal entity. Each partner is individually subject to taxation rather than the partnership itself. For business debts, each partner is personally liable with his own private assets. The ordinary partnership cannot be entered into the commercial register. This form of business organisation is often used for activities of short duration or for specific projects only (e.g. consortia or joint ventures).

c) General partnership

To form a general partnership, two or more individuals enter into a contract of association, in order to operate an enterprise based on commercial principles. It has a trade name and must be registered in the commercial register. Although it can acquire rights, incur liabilities, take legal action and be sued, the general partnership is not in itself a legal entity. Liability for debts is not limited to the capital of the partnership but is extended to the private assets of the partners in the form of a joint and several liabilities. This form of business organisation can, therefore, be set up only by individuals and not by corporations, where the liability is limited to the capital of the company.

d) Limited partnership

The limited partnership has two kinds of partners. At least one of them must be liable for the business without any limitation, while the others are only liable to the extent of their capital contribution. Only individuals can be partners with unlimited liability, whereas partners with limited liability may also be legal entities, e.g. corporations. Since the limited partnership is derived from the general partnership, their other characteristics such as rights and duties, etc. are the same as described in the above section.

e) Limited Liability Company

The limited liability company is a legal entity with a fixed capital. The minimum capital is CHF 20,000, which has to be fully paid up (in cash or in kind). For the formation of a limited liability company, one founder is required. Each partner (individual or company) participates with a capital contribution (minimum CHF 100) and they each must have a name and domicile, registered in the commercial register.

The management and representation of the company may be transferred to people who are not partners, but at least one of the managing officers must be domiciled in Switzerland. All partners and managers may be non-Swiss citizens.

In terms of auditing, the limited liability company is treated in the same way as the corporation.

f) Corporation

The most common form of company in Switzerland is the corporation. Because of the easy transferability of shares it is a very flexible form of business organisation. In most cases foreign investors choose the corporation as the vehicle for their enterprise.

To emphasise the importance of this type of entity, regulations regarding corporations are described below.

Formation and administration of corporations

Company name

The company name of a corporation is protected by law. It must therefore be distinguishable from the names of all other corporations already existing in Switzerland. The name must not be misleading, e.g. as to the company's commercial activity. National, regional or territorial designation can be used only if so permitted by the federal commercial register. Within these limits, the choice of the company name is open. However, it is advisable to have the intended name checked by the

authorities before the corporation is actually formed. The legal form has to be specified by adding the Swiss abbreviation for corporation “AG”.

Share capital and shares

The minimum capital for a corporation is CHF 100,000. At least 20% of the nominal value of each share, but not less than CHF 50,000, has to be paid (in cash or in kind) prior to incorporation.

The nominal value of a share must not be lower than CHF 0.01. It is possible to issue registered shares or bearer shares. Bearer shares are easily transferable. The company has to maintain a share ledger for registered shares. The transferability of this type of share can be restricted, provided that the legal regulations are met.

Articles of incorporation (Statutes)

The statutes must contain various provisions prescribed by law. These include details of the company name and domicile, the purpose of the corporation, the share capital and contributions made thereto, the number, the par value and the type of shares, the calling of the general meeting of shareholders and the voting rights of the shareholders and arrangements for the administration and the audit. Additional clauses can be adopted.

Corporate bodies

There are three bodies in a corporation, namely the general meeting of shareholders (as the supreme body), the board of directors and the auditors.

The general meeting of shareholders is called every year, within six months of the financial year end. It has the following powers which are inalienable:

- The adoption and amendment of the articles of incorporation, the election of the members of the board of directors and of the auditors;
- The approval of the annual report and of the consolidated statements of account; and
- The approval of the annual financial statements as well as the resolution on the use of profit, in particular, the declaration of dividends; and
- The deposition of the members of the board of directors.

It passes all resolutions on matters which, by law or by the articles of incorporation, are reserved to the general meeting of shareholders.

The board of directors (the executive body), is composed of one or more members. In contrary to the past they don't have to be shareholders. In general, the board of directors can take decisions on all matters, which in law or the articles of incorporation are not allocated to the general meeting of shareholders. The corporation has to be represented by at least one person domiciled in Switzerland. This person either acts as a member of the board or as director of the company. Some duties of the board of directors are fixed by law as non-transferable and inalienable, and essentially comprise the supreme management and supervisory function. The board of directors can be authorised by the articles of incorporation to delegate the management fully or partially to individual members or third parties, in accordance with special organisational regulations.

Auditors are elected by the general meeting of shareholders. They must be independent and qualified to fulfil their duties. In certain cases, they must meet special professional qualifications. Individuals as well as commercial companies and co-operatives are eligible as auditors. At least one auditor must have his domicile, registered office, or a registered branch office in Switzerland.

Incorporation and costs

For the formation of a corporation, there is at least one founder required. They declare in an authorised deed the formation of the corporation, by adopting the articles of incorporation and by appointing the necessary bodies, i.e. auditors and board of directors. Each founder participates by subscribing his number of shares.

Cash contributions must be deposited for the exclusive use of the company at an institution subject to Swiss Bank Law. If the contributions are made in kind or by the acquisition of assets (qualified incorporations), additional conditions have to be met. Among other requirements, a contract of contribution in kind or acquisition of assets has to be entered into and the founders must provide a written founders report. This report has to be examined by auditors, whose report has to approve the adequacy of the valuation of the assets brought in or taken over.

The corporation acquires the right of a legal entity only at the time of entry in the commercial register. At that time, the paid in share capital is

released by the bank and put at the disposal of the company. The share capital can not be paid back to the shareholders unless the corporation is liquidated.

Formation costs consist mainly of a 1% stamp duty on the issue of the shares levied on the contributions of the shareholders exceeding CHF 1,000,000, the fees for advising, the notarised deed and the commercial register, as well as for a notice published in the Swiss Commercial Gazette. The overall costs for a corporation with a share capital of CHF 100,000 are currently between CHF 6,000 and CHF 10,000.

5. Labour

Social security

Individuals working in Switzerland, either as an employee or if they are self-employed, are subject to additional charges for social security insurances (i.e. old age and disability insurance and unemployment insurance). The respective contributions, with the exception of the contribution for unemployment insurance, are charged on the total income earned in Switzerland. In addition, a total wealth tax is levied on individuals with no gainful activity.

Switzerland has social security agreements with numerous other countries. Before obtaining residence in Switzerland, a foreigner should have his social security situation carefully checked, especially when the residence is only temporary.

Residence and work permits

Foreigners wishing to work in Switzerland require residence and work permits. Initially a residence permit is granted only on a temporary basis, i.e. usually for one year with the possibility of extensions. After five years of residence, a permit of permanent residence is usually granted.

For citizens of European Union (EU)/ EFTA countries, generous bilateral agreements guaranteeing free movement of people apply as well.

Bilateral agreements between Switzerland and the EU

In December 1998, at a meeting in Vienna, sector-specific bilateral agreements between Switzerland and the EU were adopted. The agreements came into force on 1st June 2002 and cover seven areas:

- Air transport
- Land transport
- Free movement of persons
- Scientific and technological co-operation
- Government procurement
- Trade in agricultural products
- Mutual recognition in relation to conformity assessment

Free movement of people

The Switzerland/EU agreement assures the progressive opening of the employment market for European citizens. After seven years Switzerland has the right to decide whether it wishes to extend the agreement. This decision will be decided by popular vote as a referendum.

The agreement covers workers of all kinds, the self-employed and people without gainful employment who have sufficient financial means of their own. People in gainful employment and the self-employed directly benefit from the rights granted. People who wish to take up employment on the territory of the other contracting party benefit from freedom of personal movement.

This agreement is supplemented by mutual recognition of professional diplomas and co-ordination of social security schemes.

For the eight Eastern European states (EU 8) which joined the EU in 2004, immigration restrictions apply up to 30 April 2011 at the latest, as set out in a supplementary protocol to the agreements.

The new EU member countries Romania and Bulgaria which joined in 2007 do not yet benefit from the free movement of persons with Switzerland.

6. Accounting & reporting

Tax system

The tax system corresponds to Switzerland's federal structure. Tax legislation operates at three levels: the federal, the cantonal and the communal. The federation, the 26 cantons and more than 2,700 communities, have the right to levy taxes in accordance with their own laws. To simplify the procedure, direct taxes for all three levels are usually levied by the cantons or by the communities, which means that only one tax return has to be filed for all three levels of taxation.

The federation is mainly financed through indirect taxes, whilst the cantons and communities are mainly financed through direct taxes. Cantonal and communal income taxes, therefore, are of more importance than Direct Federal Tax. As the tax rates vary widely from canton to canton and from community to community, it is important to consider the choice of domicile as an element of tax planning.

Federal taxes

The following are the most important taxes levied at the federal level:

- Direct Federal Tax on the income of individuals and on the profits of legal entities;
- Withholding Tax;
- Stamp Duties (on shares and on securities transactions);
- Value Added Tax.
- Cantonal taxes

The principal taxes levied by the cantons are:

- Direct taxes on the income and net worth of individuals as well as on the profit and capital of legal entities;
- Inheritance and gift taxes (not levied by all the cantons);
- Real Estate transfer taxes.
- Communal taxes

Communities levy direct taxes on the income and wealth of individuals as well as on the profit and capital of companies. They are levied together with the cantonal taxes and are usually computed as surcharges.

Tax harmonisation

In order to simplify the tax system of Switzerland, the confederation enacted the Federal Act on the Harmonisation of Direct Cantonal and Communal Taxes (StHG). The StHG has been in effect since January 1st 1993. This law harmonizes tax liability, the period of assessment and the subject of taxation as well as procedure. The confederation, the cantons and the municipalities will continue to have their own authority for fixing their tax rates, the multipliers and the tax free amounts.

From a tax point of view, there are various ways of organising a corporation. In the following sections, we explain the different tax treatments at federal and cantonal/communal levels. To illustrate the different tax treatments at the cantonal level, a schedule of the maximum income tax charge for a fully taxed corporation (i.e. without any privileges) applicable in various cantons can be found on page 18.

Taxation of corporations

Ordinary tax status

Companies which do not merit tax privileges are fully taxed at federal as well as at cantonal and communal level.

Direct Federal Tax

Direct Federal Tax on profits is levied at a flat rate of 8.5% on taxable income. Because tax payments are tax-deductible, the effective tax rate is approximately 7.8%.

Withholding Tax

The Swiss Withholding Tax of 35% is levied mainly on dividend distributions of Swiss companies, on interest payments on bonds, notes or debentures issued by Swiss debtors and on interest payments on deposits with Swiss banks. Switzerland does not levy a Withholding Tax on royalties.

Since the Withholding Tax is a source tax, it has to be retained by the debtor and remitted to the Federal Tax Administration, i.e. the beneficiary or shareholder directly receives only the net amount of 65%. If he is an individual or a company resident in Switzerland he may reclaim the 35% Withholding Tax to the full extent. Non-residents and foreign corporations can reclaim the Withholding Tax fully or partially, according to the double tax treaty concluded between Switzerland and the respective country of residence. For the non-recoverable part many countries grant a tax credit.

Interest payments on loans which are granted, e.g. from the parent company to the subsidiary, are not subject to Withholding Tax as long as they are paid under arm's length conditions. If the interest rates are excessive they are treated as a hidden profit distribution and will be subject to Withholding Tax as distributed profits.

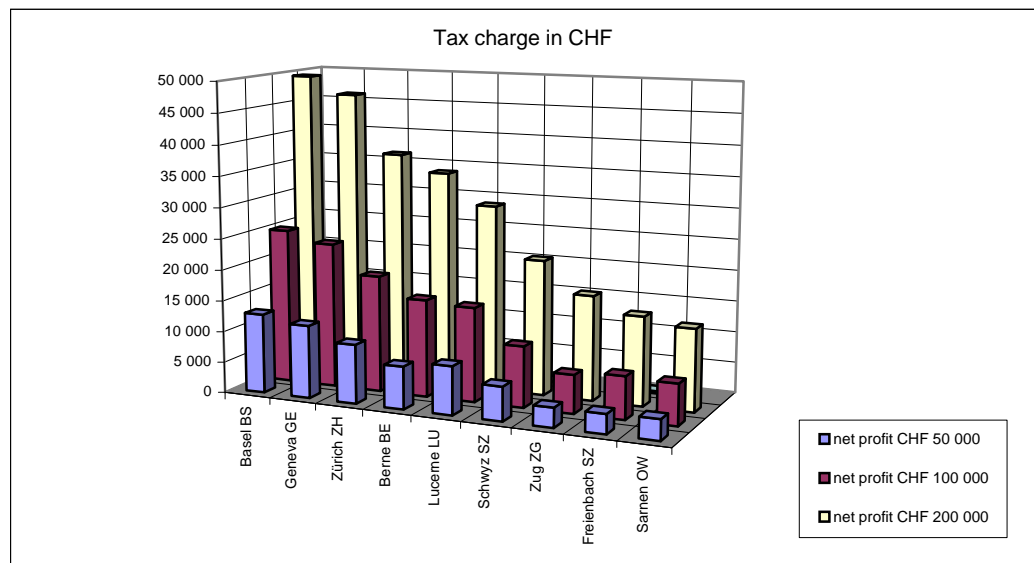
Special rules apply when more than 80% of the voting rights of a Swiss company are controlled by shareholders resident abroad. If most of the assets are located outside Switzerland or consist of debts of foreign debtors, the Federal Tax Administration may require the company to distribute yearly an adequate part of the net profit as dividends. If the company does not comply with that request the tax authorities will require a security for the deferred taxes, e.g. in the form of a bank guarantee.

In the appendices, schedules are provided illustrating the possibilities of recovering Swiss or foreign withholding tax according to various double taxation treaties.

Cantonal and communal taxes

The tax calculation and charge varies considerably from canton to canton. For the tax on profits, some apply a calculation based on yield, others apply a proportional rate. Capital tax is charged almost everywhere at a proportional rate. The amount calculated in this way is, in most cases, only the basic rate, which is multiplied by a multiplier fixed yearly by the cantons and communities according to their financial needs.

The graph illustrates a comparison of the tax charge in various cantons for a corporation taxed at full rates (assuming a taxable capital of CHF 100,000):



Conclusion: The tax charge for corporations differs in every canton of Switzerland. However, in an international context, the tax charge is very low.

Foreign Withholding Tax

Switzerland has concluded double taxation treaties with many other countries. In most cases it is possible for the Swiss beneficiary of a payment charged with foreign withholding tax to reclaim that tax at least partially. Several double tax treaties (e.g. with Germany, France, Italy and Belgium) require special conditions to be met before a refund of the foreign withholding tax can be granted. A refund is guaranteed only when the Swiss recipient is taxed at full rates in Switzerland. For an operating company there are no problems in this respect because it is taxed at full rates at the federal as well as at on the cantonal level.

In addition to the provisions of all double tax treaties entered into by Switzerland, the regulations of the Swiss Misuse Decree have to be met in order to get the foreign withholding tax refunded. The Misuse Decree is an internal law of Switzerland designed to avoid the abuse of double tax treaties.

Companies with participation exemption

A company with participation exemption is an operating enterprise, which at the same time has substantial investments in other companies. An investment is substantial, in most cases, when it comprises at least 20% of the share capital of the particular company, or when the book value of the

investment amounts to at least CHF 2 million. Tax on the profits is reduced in the ratio of the income deriving from the participation to the total income of the company. Furthermore, capital gains on the sale of participation of at least 20% are tax exempted under certain conditions. The participation exemption as a "small holding privilege" is applicable for Direct Federal Tax, as well as for most cantonal/communal tax laws. With respect to Swiss or foreign withholding tax, the treatment is the same as for the operating company.

Holding companies

Holding companies are enterprises whose main purpose consists of participating in other companies. The holding privilege is granted only by cantonal tax laws and is not applicable to Direct Federal Tax. On the federal level, reductions are possible only as a participation exemption (described above). The holding privilege is granted when the investment or the income deriving from the investment continuously amounts to at least 66.67% of the assets or the income of the holding company. Once the privilege is granted the holding company does not have to pay any cantonal/ communal tax on the profits (except real estate profits). The only direct tax due at the cantonal level is capital tax, which in the canton of Lucerne is 0.01‰ of the paid-up share capital, plus reserves, but at least CHF 500 per year.

With respect to Swiss Withholding Tax, the same provisions apply as for the operating company.

As far as the possibilities of a refund of foreign withholding tax are concerned, Switzerland's double tax treaties with Belgium, Germany, France and Italy have certain fixed limits. A refund is granted only if the respective income of the beneficiary in Switzerland is taxed on the cantonal/communal level, as well as on the federal level. As a consequence, for any income of that kind, the holding privilege cannot be applied in order to obtain the refund of foreign withholding tax. However, the participation exemption is admissible for such income. As for any double tax treaty, the regulations of the Swiss Misuse Decree must be complied with.

Domiciliary companies

A domiciliary company is an enterprise with no activity in Switzerland. It therefore does not have its own premises or staff in Switzerland. This privilege is often sought after by companies which do not fulfil the requirements for a holding privilege, e.g. sales companies.

For Direct Federal Tax no domiciliary privilege is granted, i.e. all companies are taxed at ordinary rates like an operating company. On the other hand the domiciliary privilege is provided by most cantonal tax laws.

The domiciliary company does not pay any taxes on profits but only a reduced capital tax. In the canton of Lucerne, the maximum tax charge amounts to 0.5‰ of the paid up share capital, on a minimum of CHF 500 per year.

Dividends of a domiciliary company are charged with the usual 35% Swiss Withholding Tax, but the same possibilities for a refund apply as previously mentioned.

In respect of the refund of foreign withholding tax, special provisions in Switzerland's double tax treaties with Belgium, Germany, France and Italy have to be respected, as well as the Swiss Misuse Decree. The requirements to be met are the same as for the holding company.

Auxiliary and mixed companies

This tax privilege is also granted exclusively at the cantonal/communal level, but not at the federal tax level. An auxiliary company has in Switzerland only a service function e.g. for another group company domiciled abroad. An auxiliary company may therefore may possess its own premises and employ staff. It may also have commercial activities in Switzerland, which in some cantons are limited to a certain extent (normally up to 20%).

The income deriving from business activity with Swiss clients is taxed at ordinary rates. The foreign source income is taxed at a lower rate. For capital tax, the ordinary rates are applied as for the operating company.

Service companies

Service companies may be subject to taxation on a cost plus basis. However, the mark ups of service companies must be determined in accordance with the arm's length principle.

Principal-commission agent structure with headquarter in Switzerland

Some large multinationals benefit from "principal-commission agent" – structures. Principal companies centralise their functions at the headquarters in Switzerland. They process trading transactions with foreign subsidiaries and sister companies on a commission basis and also allocate manufacturing orders to such foreign companies. Commission agents have the status of permanent establishments of the principal, according to Article 5 paragraph 5 of the OECD Model Tax Treaty. As a consequence, principal companies can claim a deduction on Swiss direct income taxes for business conducted outside Switzerland. This can lead to a very low overall tax burden.

Tax charge of the various types of corporations

Taxes are calculated on the profits after tax since the taxes due are a tax effective expense. For international and national comparisons of the tax charge, the profits before tax have to be reviewed.

	Maximum tax charge on profits after tax (2007)					Max. tax charge on profits before tax (2007)	
	Direct Federal Tax	Cantonal Comm. Tax		Total		Lucerne	Sarnen
		Lucerne	Sarnen	Lucerne	Sarnen		
Operating company	8.5%	14.8%	6.6%	23.3%	15.1%	18.9%	13.1%
Holding company	Max. 8.5%	-	-	Max. 8.5%		7.8%	
Domiciliary company or Mixed company							

-Profits achieved from Swiss sources	8.5%	14.8%	6.6%	23.3%	15.1%	18.9%	13.1%
-Profits achieved from foreign sources	8.5% *	0-3%	0-3%	Max. 11.5%		Max. 10.3%	

* Fifty-fifty ruling practice has been abolished (applicable for existing rulings up to 31 December 2008).

Switzerland's double taxation agreement with your country

Switzerland has double tax treaties with many countries in order to avoid double taxation. The treaties deal primarily with direct and withholding taxes.

Refundable Swiss Withholding Tax

The purpose of Swiss Withholding Tax is to ensure that income is properly declared to the tax authorities. It is refundable only if the income subject to Withholding Taxes is declared officially. Shareholders and beneficiaries of interest payments, whether individuals or companies with Swiss domicile, can reclaim the full Withholding Tax of 35%.

If the shareholder or beneficiary of interest payments is not resident in Switzerland, Swiss Withholding Tax is refundable in accordance with the respective double tax treaty between the country of residence and Switzerland. Where there are no such treaties, the Withholding Tax is not refundable. The enclosed table (appendix I) illustrates several possibilities of reclaiming Swiss Withholding Tax on dividends in accordance with the double tax treaties concluded by Switzerland.

Refundable foreign Withholding Tax

The opportunities for reclaiming foreign withholding tax charged on dividend distributions based on the same double tax treaties with Switzerland are listed in appendix II.

The opportunity of reclaiming foreign withholding tax is subject to the following additional requirements:

The double tax treaties with Belgium, Germany, Italy and France require additionally that the income on which relief of foreign withholding tax is claimed in Switzerland be fully taxed at ordinary rates at the cantonal and the federal tax level. As a consequence, such treaty favoured income has to

be free from special cantonal tax privileges and must be taxed at ordinary rates. Otherwise the refund will not be granted.

The Swiss regulations against the abuse of double taxation agreements ("Misuse Decree") have to be met (next section).

Saving taxation agreement between Switzerland and the EU: Refund procedure on cross-border dividends abolished

As from July 1, 2005, an agreement on taxation of savings income in the form of interest payments entered into force between Switzerland and the European Union. But not only interest payments are concerned by these new regulations. Based on Article 15 of the agreement, intra group payments as dividends, interest and royalties are free of withholding taxes under certain conditions. A notification procedure applies and leads to a direct relief at source. Companies can choose between this notification procedure and the Double Tax Treaty regulations in order to reduce or eliminate Swiss withholding taxes. Special forms must be filed to the tax authorities in advance to the payments.

The Swiss Misuse Decree

In the 1960s Switzerland issued regulations on the abuse of double tax treaties concluded by Switzerland. The Misuse Decree is internal Swiss law and the Swiss authorities have to take it into account in connection with all double tax conventions concluded by Switzerland. The aim of the Misuse Decree is to avoid the use of the Swiss double tax treaty network by people or companies who are not entitled to benefit from those agreements. Swiss companies, which are controlled by shareholders abroad or in which foreigners have substantial interests, may enjoy relief, only if they meet with the following requirements:

- Obligatory distribution (at least 25%)

A company must distribute 25% of its gross treaty-favoured income annually as a dividend (to avoid profit accumulation companies).

- Transfer limit (50%)

No more than 50% of the gross treaty-favoured income may be transferred as tax effective expense in any form (to avoid conduit companies).

Capital structure and maximum interest rates (thin capitalisation rules)

The Swiss company must have a reasonable capital structure. As a general rule, the Swiss authorities accept a ratio of interest-bearing debt to equity to a maximum of 6:1. Additionally, the maximum interest rate on debts may not exceed a certain limit. The Federal Tax Administration issues periodically the allowed maximum interest rates.

Covering of expenditures

Of the treaty-favoured income, which remains after settlement of claims of people not entitled to benefit from the double tax treaty, only the tax expense and the administration costs relating to such revenues may be deducted.

Should the requirements set out above not be met, misuse of the double tax treaty is assumed. In that event, the Swiss tax authorities would not provide the certification necessary for the reclaim of foreign withholding tax.

Tax Holidays for Newly Established Companies

The cantons, together with the federal government, may grant tax holidays up to 10 years under restrictive conditions. It is recommended to negotiate the tax incentives in advance of the establishment of a new company.

Tax holidays on federal level are stated in the Lex Bonny Decree. The Swiss parliament has recently extended the application of this decree.

7. Accounting and Reporting

Commercial accounting

Every corporation is obliged by law to keep books. The company must be able to provide information on the financial situation, including liabilities and outstanding claims. At the end of each financial year, a balance sheet (with notes) and a profit and loss statement have to be prepared in local currency to conform to generally accepted accounting principles.

Swiss branches of foreign companies

A branch of a foreign company must be entered in the commercial register in the same way as a branch of a Swiss company. It must conform to Swiss law, i.e. with regard to bookkeeping and the preparation of financial statements. It must be represented by at least one person who is domiciled in Switzerland. The branch can be sued in Switzerland for claims concerning its own business operations. It is taxable in Switzerland according to the rules of international tax allocation. As Switzerland has numerous double tax treaties with other countries, it is possible to avoid double taxation in most cases.

Swiss rules of orderly bookkeeping

The basic rules of orderly bookkeeping in Switzerland are stated in the Swiss Code of Obligations (OR). They are valid for every company which is registered in the commercial register, no matter what the size it is. The protection of creditors is an important aspect of the Swiss Code of Obligations. Therefore, bookkeeping according to the OR follows a principle of prudence. Companies are authorised to accumulate hidden reserves on their assets. Taxes are levied on this balance sheet which allows companies to understate their actual profit.

In addition to these elementary rules, a Swiss standard has been established. The aim of the Swiss GAAP FER (Generally Accepted Accounting Principles – Fachempfehlungen zur Rechnungslegung) is to provide a true and fair assessment of the assets and the financial viability of the company. Swiss GAAP FER is classified to be the minimal standard for companies quoted on the stock exchange. Being a principle based standard, a major goal of Swiss GAAP FER is to offer a good cost-value ratio to small and medium-sized enterprises. Furthermore, Swiss GAAP

FER facilitates an upgrade to international principle-based standards such as the International Financial Reporting Standards (IFRS).

8. UHY firms in Switzerland

The Balmer-Etienne group is one of the 10 leading consulting firms in Switzerland. It provides a complete range of services in business, tax, legal and real estate consulting, accounting and auditing, as well as, bookkeeping. Over 120 highly competent employees are located in the offices at Lucerne, Stans and Zurich. As a dynamic consulting company offering a complete range of services, Balmer-Etienne generates a turnover of more than CHF 20,000,000 per year. The company is structured as a partnership and this ensures a high degree of continuity and personal relationships with the clients.

As the Swiss representative of Urbach Hacker Young International, we can offer you our services in order to the form and/or administer corporations in Switzerland. We offer our services, as well as for private individuals. We can advise and assist you with: incorporations, real estate consulting, residence and work permits, bookkeeping, negotiations with the authorities, tax consulting, auditing and fiduciary services.

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With offices also in:

- Lucerne
- Stans

For current contact details, please visit:

<http://www.uhy.com/pages/locations/office.php?location=11>

9. UHY offices worldwide

UHY offices

For details of UHY offices worldwide, or details of how to contact the UHY office, please visit our [website](#).

Appendix I

Overview of opportunities for reclaiming Swiss Withholding Tax on dividends (based on double taxation agreements)*

*** Switzerland has a large double taxation treaty network with more than 60 countries**

Country of residence of shareholder	Swiss Withholding Tax	Non-refundable part	Refundable according to double tax agreement
Germany	35%	15%	20% under ordinary circumstances
	35%	0%	35% for companies with participation in the capital of at least 20%
Austria	35%	15%	20% under ordinary circumstances
	35%	0%	35% for companies with participation in the capital of at least 20%
France	35%	15%	20% under ordinary circumstances
	35%	0%	35% for companies with participation in the capital of at least 10%
Italy	35%	15%	20%
United Kingdom	35%	15%	20% under ordinary circumstances
	35%	5%	30% for companies controlling at least 25% of the voting rights
Belgium	35%	15%	20% under ordinary circumstances
	35%	10%	25% for companies with participation in the capital of at least 25%

Netherlands	35%	15%	20% under ordinary circumstances
	35%	0%	35% for companies with participation in the capital of at least 25% (exception: intention to avoid tax)
Denmark	35%	0%	35%
Sweden	35%	15%	20% under ordinary circumstances
	35%	0%	35% for companies with participation in the capital of at least 25%
USA	35%	15%	20% under ordinary circumstances
	35%	5%	No refund-procedure necessary because of reduction at source. Various conditions (e.g. control over at least 95% of the voting rights)
Canada	35%	15%	20% under ordinary circumstances
	35%	5%	30% for companies with participation in the capital of at least 10%
Japan	35%	15%	20% under ordinary circumstances
	35%	10%	25% for companies controlling at least 25% of the voting rights

Appendix II

Overview of opportunities of reclaiming refundable foreign withholding tax (based on double taxation agreements)*

* Switzerland has a large double taxation treaty network with

Country of residence of co.	Tax withheld at source	Non refundable part	Refundable according to double tax agreement
Germany	21.1% 21.1%	15% 0%	6,1% under ordinary circumstances 21,1% for companies with participation in the capital of at least 20%
Austria	25% 25%	15% 0%	10% under ordinary circumstances 25% for companies with participation in the capital of at least 20%
France	25% 25%	15% 0	10% under ordinary circumstances 25% for companies with participation in the capital of at least 10%
Italy	27%	15%	12%
United Kingdom	–	18.75%	6.25% of the Advance Corporation Tax (of 25% at present) if control of voting rights in the British company is less than 10%. If it is more than 10% the company is entitled to one half of the tax credit upon deduction of a source tax of 5%.
Belgium	25% 25%	15% 10%	10% under ordinary circumstances 15% for companies with participation in the capital of at least 25%
Netherlands	25% 25%	15% 0%	10% under ordinary circumstances 25% for companies with participation in the capital of at least 25% (except for the purposes of tax avoidance)
Denmark	28%	0%	28%
Sweden	30% 30%	15% 0%	15% under ordinary circumstances 30% for companies with participation in the capital of at least 25%
USA	30% 30%	15% 5%	15% under ordinary circumstances No refund-procedure necessary because of reduction at source. Various conditions apply (e.g. control over at least 95% of the voting rights)
Canada	25% 25%	15% 5%	10% under ordinary circumstances 20% for companies with participation in the capital of at least 10%
Japan	20% 20%	15% 10%	5% under ordinary circumstances 10% for companies controlling at least 25% of the voting rights

Appendix III

Useful internet links

- Swiss Export & Trade Promotion Organization (OSEC),
Zurich- www.osec.ch

- State Secretary for Economic Affairs (SECO), Berne
www.seco.admin.ch
www.europa.admin.ch

- Chambers of Commerce and Industry of Switzerland
www.cci.ch

- Financial Links (e.g. banks)
Crédit Suisse Group www.credit-suisse.com
Union Bank of Switzerland www.ubs.com
Swiss National Bank www.snb.ch

- Financial press sites
Neue Zuercher Zeitung (NZZ) www.nzz.ch
Bilanz www.bilanz.ch
Cash www.cash.ch
Finanz & Wirtschaft www.finanzinfo.ch

- Travel Information Switzerland
Switzerland www.switzerlandtourism.ch