

The Benefits of a Swiss Investment Holding Company

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Why are Swiss Holding Companies so Popular?

There are many reasons why Switzerland is a favoured location for international business. These include:

- Political, financial, social and economic stability.
- A favourable fiscal environment.
- Geneva and Zug are major centres for commodity trading.
- Excellent business support structures and a wide variety of professionals including: lawyers, bankers, accountants, insurance companies, inspection companies and corporate service providers such as Dixcart.
- A high quality and multilingual local workforce.
- Location in the centre of Europe, enabling real time communication with Europe and within the same working day as the US and Asia.

Tax Efficiencies

Various tax exemptions or concessions exist for holding companies in relation to federal and cantonal taxes when specific criteria are met. These advantages are described

below.

Geneva

There are 26 cantons in Switzerland, with Geneva being one of the most important financially. This information note considers the tax advantages that are available to holding companies located in Geneva, Switzerland.

◦ CANTONAL TAX EXEMPTION

The Swiss tax system grants holding companies privileged tax status at the cantonal level when the following three conditions are met:

1. The company articles must state that the main activity of the company is the long-term management of equity investments.
1. The company must not have any operating business activity in Switzerland. Certain activities are accepted. These include: management of the company and its investments, providing services on behalf of a consolidated group, debt financing of subsidiaries and/or the holding and exploitation of intellectual property.
1. In the long term, either the company's participations must represent 2/3 of the assets in its balance sheet, or the income derived from such participations (dividends/capital gains) must represent at least 2/3 of its total income. The shares of corporations, limited liability companies and cooperatives are considered to be participations, as well as certificates of participation.

When the above conditions are met, no income tax is levied at the cantonal level. This also means that income from dividends, interest, royalties, commissions and management fees are exempt from cantonal income tax.

◦ CONCESSIONS RELATING TO FEDERAL TAX

At the federal level income is subject to an effective tax rate of 7.83%.

However, dividend income derived from, and capital gains made on, the disposal of qualifying participations are subject to a participation deduction, which generally results in a complete tax exemption.

Dividends

◦ Company tax on dividends received

A participation deduction provides relief from taxation on dividends received from qualifying participations.

Qualifying participations are:

1. a participation of at least 10% of the equity (capital stock), OR
1. a participation with a market value of at least CHF 1 million.

For dividend income purposes, there is no holding period requirement.

◦ Withholding tax on distributed dividends

A Swiss holding company is generally required to withhold 35% tax on dividends paid to its shareholders.

Tax treaties, however, can reduce or eliminate the withholding tax on distributed dividends and Switzerland has an extensive double tax treaty network of more than 100 double tax treaties.

Switzerland also has a bilateral agreement with the EU, giving access to the EU Parent/Subsidiary and Interest/Royalties Directives.

In addition, withholding tax is reduced to zero on dividend distributions when the following conditions are met:

1. The parent company holds at least 25% of the Swiss subsidiary and has held this minimum percent for at least two years.

1. The shareholder company is based in the EU.

1. Both companies are subject to corporate tax and both are limited company structures.

Capital Gains

The participation deduction detailed above for dividends is also valid for capital gains on the sale of qualifying participations.

The participation sold has to represent at least 10% of the company's equity (capital stock) and has to have been held for at least one year prior to the sale.

International Pressure and the Future

Switzerland is reviewing its corporate taxation system in response to growing international pressure.

It is anticipated that certain regimes, for example the special cantonal tax regime for holding companies, may be abolished. However, many cantons such as Lucerne, Schwyz and Zug already have business-friendly low corporate income tax rates.

Geneva has announced that it will reduce cantonal tax rates to retain its attractiveness to companies.

Changes are scheduled to come into force on 1 January 2018.

Additional Information

If you require any additional information relating to Swiss holding companies, please speak to your usual Dixcart contact or the Dixcart office in Switzerland:

advice.switzerland@dixcart.com.