Tax Notes

Our business – your insight

Sales tax liability for domestic insurance holders

In the previous tax notes, we pointed out the risk of a transfer stamp tax liability when arranging employee shares. In addition to the transfer stamp tax liability from the purchase and sale of securities, there is also a tax liability on premium payments for insurance policies if they are part of the portfolio of an insurer subject to federal supervision or of a domestic insurer under public law. The majority are probably aware of this. It is less well known that the tax liability 'passes over' to the domestic insurance holder, if the latter has taken out an insurance with a foreign insurer who is not subject to federal supervision (with exceptions for various types of insurance). It is not relevant in this respect, as it is with transfer stamp tax, whether the domestic insurance holder qualifies as a securities dealer or not. Due to the formalistic handling of the tax liability, this can be avoided wherein a foreign group company is the insurance holder and the costs are only passed on to the Swiss company.

Establishing a company in Switzerland – what should be taken into consideration?

The first step in establishing a company consists of determining its legal form. Most companies choose a corporation in the form of an incorporated company (Aktiengesellschaft – AG) or a company with limited liability (Gesellschaft mit beschränkter Haftung – GmbH). The main differences lie in the company's capital (liability substrate) and in its publicity. The minimum capital of an AG is CHF 100,000, of which at least CHF 50,000 must be paid up. The minimum capital of a limited liability company is only CHF 20,000, whereby the entire capital must be paid up. While the shareholders of an AG are not published publicly, the law provides that the shareholders of a GmbH are published in the publicly accessible commercial register. When founding a corporation, there are various administrative clarifications and preparations which must be made: this includes drafting the Articles of Incorporation and the founding documents, opening a Swiss bank account for the payment of nominal capital, entry into the Swiss commercial register for the registration of the company, and the appointment of an audit company if an audit is required according to the statutory provisions. Newly-established companies can obtain a rough overview of the Swiss tax and social security system below.

Tax basics

In Switzerland, individuals and legal entities are taxed at the federal as well as at the cantonal and municipal levels. This leads to big differences in the actual tax burden of a company and its employees. For a legal entity, the tax rates are always 8.5% at the federal level. The capital is not taxed at the federal level. The tax rates for profit and capital are organised proportionally or progressively, and vary widely (from 6.0% to 24.2%) at the cantonal and municipal levels. The same applies to capital tax rates. Since taxes in Switzerland can be recorded as operating expenses, the effective tax rates at federal, cantonal and communal level are lower (all in all 12.3%-24.1%). Special tax states could still be claimed at the present time at the cantonal level, whereby the tax burden can be greatly reduced.

For employees, the tax rates are organised progressively at the federal as well as at the cantonal and municipal levels.

Compared to foreign authorities, Swiss tax authorities are very accessible. In particular, the possibility to apply for preliminary tax rulings in complex matters—such as restructuring and the like—increases legal security for local companies.

Value added tax (VAT)

The Swiss Federal Tax Administration (SFTA) levies VAT or import tax on services provided by companies in Switzerland for a fee and on the import of goods. Tax liability generally applies to sales of CHF 100,000 or more generated worldwide. Since 01.01.2018, the standard tax rate has been 7.7%, the special rate for accommodation 3.7% and the reduced tax rate 2.5%. The latter is used in particular for food, books, medicines and other everyday goods.

Social insurance

As regards employees, Switzerland offers an attractive social security system consisting of three pillars. The first pillar—old-age, survivors' and disability insurance—prescribes that all residents and employees are insured in Switzerland. The second pillar is occupational pension and the third pillar is private pension. Both employees and companies are required to make contributions to the first two pillars of the Swiss social security system, whereby the contributions to the second pillar must only be paid starting from an annual income of CHF 21,150. The contributions for the first pillar each amount to 5.125% of the gross income for employers and employees, while their cumulative contributions for the second pillar amount to a minimum of 7% and a maximum of 18%. The share of the employer must always correspond to at least 50% of these contributions.

Settlement permits

With regard to the work and residence permits of the employees, it is necessary to determine whether they come from an EU/EFTA state or from a third country. While the former are subject to simplified approval procedures, employees from third countries have only contingent access to the Swiss labour market (this also applies to transferred employees; Expatriates). The probability of their approval increases with the qualifications of the employee and the impact of the establishing company on the local economy.

Judith Lorenz
lic. oec. publ., Certified Tax Expert
Senior Manager
judith.lorenz@primetax.ch
+41 58 252 22 12

Dominic Nazareno
M.A. HSG, Certified Tax Expert
Senior Manager
dominic.nazareno@primetax.ch
+41 58 252 22 03

PrimeTax
Professional Tax Solutions

Tel. +41 58 252 22 00
Fax +41 58 252 22 99
E-Mail: info@primetax.ch

Stans Hansmatt 32 |CH-6370 Stans
Zurich Seestrasse 356 | CH-8038 Zurich

Links
Linked-In
Website