Intertrust

Swiss Holding Companies

At the crossroads of finance, tax and accounting, our clients count on us to look out for their best interests. To develop and deliver the most relevant solutions to suit your particular goals, we work together with the finest lawyers and financial experts. With our roots in banking and a large international network, we have the global reach and local knowledge to help you succeed. That's why we're still a leading player in Trust and Corporate Services, after more than 50 years.

Switzerland is a popular country to establish holding companies. Part of this popularity can be explained by the Swiss holding status described below, under which dividends and capital gains can qualify for tax relief at the level of the Swiss recipient.

Swiss corporate tax system

The Swiss corporate tax system consists of several layers of taxation: federal, cantonal and communal. The federal corporate income tax amounts to 8.5% but since taxes themselves are tax deductible, the effective rate is 7,83%. Set up of a Swiss company levies Stamp Tax at 1% at a federal level. The law exempts the first CH 1M on the issue of shares/participations.

Cantonal (including communal) taxes are progressive and vary between 6-20%, depending on the canton and municipality of residence. However, on a cantonal level, most cantons may grant special tax privileges (tax rulings) resulting in even lower tax rates.

Holding companies

Under the Swiss Holding status, qualified income such as dividends, liquidation dividends and capital gains may remain almost exempt from corporate income tax, at a federal level, by means of a tax credit. This tax credit is based upon the ratio between the net participation earning and total net profit, which usually results in up to 95% tax exemption, under the conditions that the company is a holding company and has few or no other activities.

Requirements to qualify for tax relief are different for dividends and capital gains:

> Dividends requirements should be received from a participation of which at least 10% of the nominal share capital is held by the Swiss holding company or the participation has a market value of at least CHF 1 million. There is no minimum holding period.
> Capital gains requirements should come from the disposal of at least 10% of the subsidiaries nominal share capital. Several disposals within the same financial year may be added up. The shares must have been held for at least 12 months.
> Since Switzerland does not have a "subject to tax" requirement, income and capital gains from tax-exempt companies could also qualify for the Swiss holding status, provided all further conditions are met.

Pure Holding companies

In addition to the holding status mentioned above, companies qualifying for it may be fully exempt from cantonal and communal corporate income tax if the conditions are met or through a ruling with the local tax authorities. This applies to all sorts of income such as dividends, interest, royalties, capital gains, management fees, etc.

A Swiss company qualifies for the pure holding status if the following conditions are met:

> The main and statutory purpose must be the long-term management of participations;
> At least 2/3 of the total assets (or income) are derived from these participations; and
> The company does not have a commercial activity in Switzerland.

Accordingly, companies with a holding status will only be taxed at 7.83% corporate income tax (federal level) over the income that does not qualify as participation income under the participation exemption status.

Swiss dividend withholding tax

Dividends and profit distributions paid by a Swiss company are formally subject to 35% federal withholding tax. Swiss branches are generally not subject to dividend withholding taxes. Withholding tax rates may be reduced under double-tax treaties.

Withholding taxes are usually partially or fully refunded, provided that the structure was not set up to avoid Swiss withholding tax and the recipient is the beneficial owner of the dividends. In practice this means that in order to qualify for double-tax treaty relief, the recipient must have enough substance (e.g. own equipped office space, local staff and directors, other activities and participations, etc.).

Elimination of taxation at source on dividends, interests and royalties between Switzerland and the member states of the European Union have been dealt with in the Agreement on the Taxation of Interest and is therefore part of the Bilateral Agreements. According to the Agreement between Switzerland and the EU (in force as per 1 July 2005), taxation of dividends, interests and royalty payments among related companies (located in the EU and Switzerland) may be abolished in the state at source.

The above, combined with a solid international reputation, an extensive amount of double tax treaties (around 80) and bilateral agreements signed between the EU and Switzerland, makes Switzerland a popular jurisdiction to establish holding companies.

Intertrust has always had close ties to the financial world. We understand how financial services can best fit in with the structures we set up for our clients. We know how to get the best deal for you. And whatever we do, we always hold ourselves to the highest standards and strict (self-) regulation. It's part of our history, and at the heart of our culture.

Intertrust Switzerland
Alpenstrasse 15
P.O. Box 4620
6304 Zug, Switzerland
tel +41 (0)41 726 82 00
fax +41 (0)41 726 82 50
zug@intertrustgroup.com

Intertrust Switzerland
Rue de Jargonnant 1
P.O. Box 3292
1211 Geneva 3, Switzerland
tel +41 (0)22 317 80 00
fax +41 (0)22 317 80 11
geneva@intertrustgroup.com

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