Taxation in the Canton of Zurich
An overview

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An Overview

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Overview

1 Canton of Zurich – an attractive tax system

1.1 The tax system in Switzerland and specifically in the Canton of Zurich

In Switzerland taxes are levied at three different levels, as follows:

1.1.1 Federal level

- Direct federal tax levied on income of individuals and on profits of legal entities;
- Federal withholding tax (taxation at source) levied on capital income;
- Stamp duties (in particular, tax levied on issue of securities);
- Value added tax (standard rate 8.0 % with exemptions).

1.1.2 Cantonal level

- Cantonal tax on income and net wealth of individuals and on profits and equity of legal entities;
- Inheritance tax and gift tax.

1.1.3 Municipal level

- Municipal taxes as a surcharge on Zurich's basic cantonal tax;
- Capital gains tax on real estate.

On the federal level, the Confederation of Switzerland has its own tax laws applicable to the whole of Switzerland and which therefore apply equally to all cantons. Especially important in this context are the direct federal tax, value added tax, withholding tax on capital income and taxes levied on issue of and transactions involving securities. The withholding tax is basically a tax levied at source with a safeguarding nature; it can be refunded.

Beneficiaries of income subject to withholding tax who are domiciled outside Switzerland may claim restitution of the tax or offset it under existing double taxation treaties.

The stamp duty levied when corporations are founded or when participation in Swiss corporations or cooperatives is increased amounts to 1 %, with an amount of CHF 1,000,000 remaining exempt from tax in each case. Moreover, numerous tax-free exemptions (such as for restructuring/reorganization of companies) are provided for. A number of different exemptions are also foreseen for the turnover tax, which is between 1.5‰ and 3‰.

The direct federal tax (levied on income of individuals and on profits of legal entities) is regulated by the Federal Law on Direct Federal Tax (DBG) although it is usually assessed simultaneously by cantonal tax authorities along with the cantonal and municipal taxes. The remaining taxes and fiscal charges are assessed by officials at Switzerland's Federal Tax Administration in Berne.

The cantonal tax is regulated by Zurich’s Cantonal Law on Direct Taxes of June 8, 1997 (Steuergesetz/StG) and is levied by the Cantonal Tax Office Zurich. The direct municipal tax is not levied separately but is rather derived as a percentage (municipal tax multiplicator) of the “basic cantonal tax” (einfache Staatssteuer) and included as a surcharge on the same tax invoice.

Inheritance taxes and gift taxes are assessed by the Cantonal Tax Office Zurich. Direct descendants are exempt from inheritance tax and gift tax.

The levels for tax on capital gains on real estate and real estate transfers are set by the municipal authorities on the basis of the relevant cantonal tax laws.
1.2 Double tax treaties

Switzerland has a dense network of double tax treaties with more than seventy states (including Germany, Great Britain, the USA, Canada, France and Italy). Besides avoiding double taxation of income and wealth, most treaties also aim to reduce taxes at source (withholding taxes) levied on interest and dividends (even zero taxation). Switzerland does not levy a withholding tax on royalties.

1.3 Types of taxpayers

1.3.1 Individuals

The system of direct taxes differentiates between individuals and legal entities. Individuals are liable for direct federal tax levied on their income and for cantonal and municipal taxes levied both on their income and their net wealth. As a matter of principle, partners in companies such as limited partnerships and general partnerships are subject to taxation as individuals with respect to the share held in such partnerships. In the case of individuals taxable income corresponds to the gross income less business expenses (professional expenses, outlay for business purposes, etc.), less further deductions such as interest payments, etc. as well as social deductions (for children or for maintenance payments). The tax on net wealth is assessed on net worth after deduction of liabilities.

1.3.2 Legal entities

The bulk of legal entities consists of corporations (such as joint-stock companies or limited liability companies) and cooperatives. These have to pay direct federal tax as well as cantonal and municipal taxes on profits (profit after deduction of tax expenses!). Cantonal and municipal taxes are also levied on share capital (equity).

Foreign trading companies and other partnerships with operating sites or real estate in Switzerland that are not legal entities are taxed in the same way as legal entities.

1.3.3 Capital gains on real estate

Taxes on capital gains on real estate levied on single properties cover all transfers of ownership of real estate involving both business-owned and private properties, subject to civil and/or economic law. However, profits derived from business properties are exempt from direct cantonal income tax.

1.4 Characteristics of the direct federal tax

1.4.1 Individuals

The tax period for individuals is the calendar year, as with the cantonal tax. Personal income earned during this period is taxed. At the federal level, no tax on net wealth is levied.

Income tax rates:

The rate of income tax is progressively graduated in accordance with the level of income. For married persons with a taxable income of CHF 200,000 the average percentage is 6.281 % and at an income level of CHF 896,000 the rate of taxation is linear at the uniform rate of 11.5 %. The somewhat steeper tax rate curve for singles peaks at a maximum rate of 11.5 % for a taxable income of CHF 755,300.

1.4.2 Legal entities

The period for tax purposes is identical to the company’s financial accounting business year. Under the current value assessment system, profits for this time period (after deduction of tax) are taxed.
As a matter of principle, base for taxation is the company’s official balance sheet for shareholders. Rare adjustments are made with respect to valuations or transfers to shareholders and related parties if necessary.

**Rate of profit tax:**

The profit tax rate is set proportionally and amounts to 8.5 % on after-tax profits.

### 1.5 Characteristics of cantonal and municipal taxes

#### 1.5.1 General remarks

Zurich’s tax law provides the tax rates used to calculate the basic cantonal tax on which the cantonal and municipal taxes are based. At present the cantonal tax chargeable amounts to 100 % of the basic cantonal tax. Current municipal tax rates vary in the tax period 2014 between 72 % and 124 % of the basic cantonal tax for individuals (excluding church tax) and between 82.00 % and 139.58 % for legal entities. The following examples show the totality of cantonal and municipal tax rates applied to legal entities by selected municipalities in the Canton of Zurich as a percentage of the basic cantonal tax (valid for tax year 2014):

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Zurich</td>
<td>229.01 %</td>
</tr>
<tr>
<td>City of Winterthur</td>
<td>236.29 %</td>
</tr>
<tr>
<td>Illnau-Effretikon</td>
<td>227.59 %</td>
</tr>
<tr>
<td>Kloten/Flughafen</td>
<td>209.51 %</td>
</tr>
<tr>
<td>Wallisellen</td>
<td>209.49 %</td>
</tr>
<tr>
<td>Opfikon-Glattbrugg</td>
<td>209.00 %</td>
</tr>
<tr>
<td>Zumikon</td>
<td>190.00 %</td>
</tr>
</tbody>
</table>

The tax and assessment period corresponds to the calendar year. Personal wealth or assets are taxed on the basis of the value at the calendar year end. For corporations and cooperatives the period for tax purposes is identical to the company’s financial accounting business year. Under the current value assessment system, the after tax profits made during the relevant business year is taxed. Tax on capital is assessed on the taxable capital remaining at the close of the business year.

#### 1.5.2 Individuals

**Income tax rates:**

The rate of income tax is progressively graduated in accordance with the level of income. For married persons, the basic rate for cantonal taxes is an average percentage of 6.981 % at a taxable income of CHF 200,000. The somewhat steeper tax rate curve for singles is at the same average rate at a taxable income of CHF 124,500. The maximum tax rate for the basic cantonal tax is 13 %.

**Rates of tax on net wealth:**

The applicable rate for the net wealth tax varies from 0 ‰ to a maximum of 3 ‰ for the basic cantonal tax.

**Example:**

A married manager residing in Zumikon with a taxable income of CHF 300,000 pays CHF 47,250 annually for cantonal and municipal taxes (figure for the year 2014).
1.5.3 Legal entities

Profit tax rates:
The profit tax for the basic cantonal tax is designed proportionally and amounts to 8.0% on the profit after taxes. For a corporation in Opfikon the tax rate is 16.72 % of after-tax profits, which corresponds to 14.33 % of pre-tax profits.

Rate of tax on capital:
The proportional tax on capital amounts to 0.75 ‰ (per thousand) of taxable equity capital (basic cantonal tax). A reduced rate of 0.15 ‰ applies for holding companies, domicile and mixed companies.

Total tax burden:
The overall tax burden arising from profit taxes (direct federal tax, cantonal and municipal taxes) for a legal entity domiciled in the City of Zurich is 26.82 % of profits after deduction of tax. If the total tax charged is expressed in terms of the tax burden on pre-tax profits to enable a comparison with other countries, it is seen that the tax burden is 21.15 % of pre-tax profits. For a company domiciled in Wallisellen the tax on profits is 20.17 % of pre-tax profits (data for 2014).

| Examples of tax charges levied by the canton and municipality for 2014 (in CHF) |
|---------------------------------|-------|-------|-------|-------|
| A Ltd                          | B Ltd | C Ltd | Holding |
| Taxable net after-tax profit   | 80 000| 150 000| 500 000 | 500 000 |
| Taxable net equity             | 500 000| 500 000| 2 000 000| 2 000 000 |
| Basic profit tax               | 6 400 | 12 000 | 40 000 | 0 |
| Basic tax on capital           | 375   | 375   | 1 500 | 300 |

Total tax burden in the City of Zurich (in CHF)

| Total tax on profits | 14 657 | 27 481 | 91 604 | 0 |
| Total tax on capital | 859   | 859   | 3 436 | 687 |

Total tax burden in Wallisellen (in CHF)

| Total tax on profits | 13 407 | 25 139 | 83 796 | 0 |
| Total tax on capital | 786   | 786   | 3 144 | 628 |

1.5.4 Tax-deductible expenses

Expenses incurred in the course of business are tax deductible. Federal, cantonal and municipal taxes are allowable as expenses as are amortization costs and sums used for the creation of reserves. Usually 80 % of the investment price for movable tangible assets can be written off in the purchase year. Further, reserves for future research and development contracts are also permitted as justifiable tax-deductible business expenses. Creation of such reserves is permitted to the extent of 10 % of the taxable profit to a maximum of 1 million francs. It is also permissible to build hidden reserves on stocks of up to one third of the purchase price or the lower market value.
1.5.5 Losses from preceding years

Losses incurred in the preceding seven business years may be carried forward against future profits. This also applies if the company moves into Zurich from another canton.

1.5.6 Taxation of holding companies and of equity investment companies

Joint-stock companies with main purpose in participation in other companies and without commercial activities in Switzerland do not pay tax on profit under Zurich’s cantonal tax laws if two thirds of assets and earnings are related to participations. Tax on capital is levied at the reduced rate of 0.15 ‰ (basic cantonal tax).

Joint-stock companies with business activities in Switzerland, who cannot be taxed as holding companies may claim tax relief on their participations profits and capital gains by participation reduction. A special reduction is granted proportionate to the ratio of the net profit from participation to the total net profit. This participation reduction is also granted for cantonal and municipal taxes as well as for the direct federal tax.

1.5.7 Taxation of domicile and mixed companies

Joint-stock companies that do not carry on business in Switzerland and whose activities are purely administrative in nature and companies whose main business is carried on outside Switzerland and whose activities in Switzerland are minimal pay reduced cantonal and municipal taxes.

Profits and capital gains from qualified participations in companies are tax free. Profits from foreign sources are added to taxable profits as a quota proportionate to the degree of administrative activity in Switzerland. As a rule, this quota is between 5 and 20 %. Two examples by way of explanation: a quota of 10 % is usually applied to financing companies, whereas the usual quota for captive insurance companies is 15 %. Consequently, up to 90 % of foreign-derived profits is not subject to cantonal and municipal taxes. The tax on capital is assessed at the reduced rate of 0.15 ‰ (basic cantonal tax). Thus, the Canton of Zurich offers companies doing business abroad an attractive tax climate.

1.6 Tax rulings

Companies interested in a Zurich domicile may ask Cantonal Tax Office Zurich to give them preliminary information about taxation modes within current tax law and regulations. In this way for example it is possible to receive a binding determination before assessment procedure whether a company will be classified as a holding company or a management company, which taxation mode will be valid and which profit surcharge rate will apply to a management company. The tax authorities may not of the themselves offer tax consulting. Nevertheless, timely consultation with the Cantonal Tax Office will clarify the tax situation sufficiently so that concrete plans for domiciling a company or for restructuring an enterprise can be made.

1.7 Tax relief

Under certain circumstances, it is possible for large foreign companies intending to locate in the Canton of Zurich to be granted tax relief in the initial year and for nine subsequent years for the cantonal and municipal tax. This tax relief is only granted to new companies operating in new business sectors and which intend to create numerous new jobs and thus benefit the Canton of Zurich. No such tax benefits are possible if companies compete against existing companies subject to ordinary taxation. Tax benefits are granted in the form of reduced percentages for taxes on profits and on capital.
2 Further information

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Moreover, in the greater economic area of Zurich, all well-known audit companies, chartered accountants and fiduciary agents operating on an international level have local offices. In addition, numerous tax experts with international experience, business lawyers and specialized management consultants are available for assistance. Banks operating on an international level also offer their clients teams of experts for counselling.