Switzerland – Why Switzerland? The country’s stability and attractiveness, including during a global crisis period

Switzerland has always been one of the privileged destinations for redomiciliation of natural persons and legal entities. The country offers many advantages, among which are the high quality of life, legal security, strong R&D expertise, excellent cooperation between the private and public sectors, attractive career opportunities and world-class educational institutions, medical care systems and infrastructure. All these elements are regularly quoted as elementary building blocks for Switzerland to provide a favourable framework for business development and wealth creation. In our view, these factors are particularly important during the uncertain times of the current global pandemic crisis. In this article, we will briefly review the most important features of the outstanding qualities of Switzerland for individuals and businesses alike.

Political economic and financial stability

It goes without saying that Switzerland has proved to be one of the most successful economies of the past decades. The Swiss Confederation has been repeatedly ranked as one of the top destinations in terms of productivity, innovation capacity, competitiveness and in terms of the efficiency of its financial system.

These elements notably contribute to the attractiveness for multinational companies which choose Switzerland as their regional or worldwide head office location, or as a centre of their supply chain operations and marketing and sales management. Multinationals are an important part of the Swiss economy. They constitute around 5% of all businesses, but create more than 25% of all jobs, contribute to a third of the country’s GDP and represent almost half of all federal corporate tax revenues [1] .

The country is also known as being one of the best locations in terms of availability and attraction of international talent, which is notably based on its outstanding educational system, the offering of attractive working conditions for highly-qualified expatriates and the reputation of the living environment. It is also worth mentioning the low level of unemployment in Switzerland.

Unemployment in Switzerland in 2019 continued to decline in comparison to 2018. The annual average number of unemployed persons in 2019 was 9.5% lower than in 2018, which results in an average annual unemployment rate of 2.3% in 2019 [2] .

Moreover, Switzerland is also a well-established democracy with a stable and reliable legal system. The Swiss people have their final word in the decision making process which results in a strong social consensus and most important political decision making.

It is further important to mention the excellent geographical location of Switzerland which is situated in the heart of Europe, within more or less an hour of flight from most major European centres or economic hubs.

[1] Switzerland Wake up, reinforcing Switzerland’s attractiveness to multinationals, April 2019, McKinsey & Company.

[2] 2019 Analysis by the State Secretariat for Economic Affairs of the Federal Department of Economic

Affairs, Education and Research, published on 10 January 2020.

Banking sector in particular

It is further worth mentioning the importance of the Swiss financial centre in relation to the size of its economy: the banking sector directly generates around 5% of added value and employs more than 115’000 people.

Twelve years after the global financial crisis, the Swiss banking system is more resilient thanks to new regulations that have been put in place and to a certain level of consolidation in the banking sector. The measures targeting the big banks have strengthened stability and reduced the risks they pose to the economy in the event of difficulties.

Moreover, as more than 100 other countries, Switzerland has committed itself to adopt the Automatic exchange of financial account information (AEoI) and thus to increase tax transparency and prevent cross-border tax evasion. In the Report of 6 April 2020, the Global Forum on Transparency and Exchange of Information for Tax Purposes rated Switzerland as largely compliant also in the second round of the Peer Review on the Exchange of Information on request for tax purposes. It noted in particular such improvements as the updated legislation with regard to bearer shares and the efficiency of the processes of information exchange. These important developments further enhance the acceptability and durability of the Swiss financial sector in a challenging global environment.

The COVID-19 economic and tax situation

It goes without saying that the current worldwide sanitary situation entails huge unfortunate changes globally and also in the economic situation of Switzerland.

In response to these unprecedented challenges, the Swiss government was quick to take a number of important economic and fiscal measures.

On the economic front, companies established before 1st March 2020 that are significantly affected economically by the Covid-19 pandemic can benefit from special bridge loans guaranteed by the Swiss confederation at an initial interest rate of 0%, under certain conditions.

Moreover, some Swiss cantonal tax authorities stated that Swiss companies affected by the negative consequences of the coronavirus pandemic may constitute extraordinary provisions in their 2019 financial statements, under certain conditions.

An updated review of the special tax and legal measures taken to deal with the COVID-19 crisis can be consulted in our previous article on the subject, by following this **link.**

The Swiss tax system

One of the reasons of the Swiss attractiveness is its tax system.

1. ***Individual clients:***

Contrary to common belief, Switzerland is not a low-tax jurisdictions for individuals as such, but there are some incentives and fiscally attractive elements provided to Swiss and foreign citizens, such as (i) low tax rate in certain municipalities or cantons (given the Swiss particular system of levying taxes on three different levels: federal, cantonal and municipal with possibly important differences between cantonal and communal tax systems and rates), (ii) exemption from tax on capital gains upon disposal of privately held movable assets (though the counter part of this is tax on wealth on the cantonal and municipal levels, with however an obligation for the tax administration in certain cantons to apply the so-called wealth tax shield), (iii) reduced taxation of dividends from substantial shareholdings, (iv) very well established ruling practice and a certain flexibility of the tax authorities, (v) no gift and inheritance taxes between spouses and in relation to descendants in almost all Swiss cantons, (iv) and the well-known lump-sum tax regime which gives foreigners the possibility to pay taxes only on a lump-sum basis with certain minimum criteria and not on their effective worldwide income and wealth.

Gains realized on the sale of shares or real property are generally not subject to federal tax. The cantons levy a separate capital gains tax on the sale of real estate property, but no canton levies tax on personal capital gains from movable property that is not considered an asset of a business nor considered an abusive conversion of taxable income into a tax-free capital gain.

There is no federal inheritance and gift tax, although the cantons generally levy such taxes.

2. ***<u>Legal entities:</u>***

Despite a period of uncertainty that prevailed for some time over the adoption of the Federal Act on Tax Reform and Old Age Pension Funding (previously called “the Third Corporate Tax Reform), it was finally accepted in the popular vote on 19 May 2019 and came into force on 1 January 2020, thus contributing to the tax attractiveness of Switzerland and strengthening the country’s tax stability and predictability, a key aspect in the thinking of multinationals in particular.

Key measures of the 2020 corporate tax reform:

- Taking into account both the federal and the cantonal/communal income tax,aAs from 1 January 2020, the combined effective corporate income tax rate in the majority of the Swiss cantons ranges between 12 and 14%. In Geneva, the rate is 13,99%, which is one of the lowest in Europe.
- Introduction of a cantonal patent box regime based on the OECD’s modified nexus approach, with tax relief for qualifying income of up to 90%;
- Introduction of R&D super deductions at the cantonal level up to a maximum of 150% of effective qualifying expenses; and
- Asset basis step-up upon the migration of a company or of its activities and functions to Switzerland.

Finally, we should point out that in Switzerland, the tax administrations (whether cantonal or federal) are generally open to discussion with the taxpayer and are willing to work in an efficient and coordinated manner as long as the taxpayer is cooperative and transparent. Advance rulings may be obtained from the Swiss tax authorities on various tax matters.

We will be glad to assist you if you have any specific questions or require any assistance if you consider Switzerland as a place for redomiciliation, as well as with regard to your fiscal or patrimonial situation.

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Bonnard Lawson Geneva SA

Thierry Boitelle

Aliasghar Kanani

Marine Antunes

Aymeric Serre