

GENERAL OUTLINE

Introduction	19
Chapter 1. Swiss Domestic Law	21
Chapter 2. Swiss Treaty Law	63
Chapter 3. International Allocation of Taxable Income	77
Chapter 4. Double Taxation Relief	123
Chapter 5. Anti-abuse Provisions	137
Chapter 6. Transfer Pricing	151
Chapter 7. Non-discrimination	161
Chapter 8. Mutual Agreement Procedure	169
Chapter 9. Exchange of Information	175
Appendices	183
Abbreviations	263
Translations of Frequently Used Terms	265
General Bibliography	269

CONTENTS

Introduction	19
Chapter 1. Swiss Domestic Law	21
I. Overview of the Swiss Tax System	23
A. Direct taxation	23
1. Introduction	23
2. Individual income and wealth taxes	23
3. Corporate income and capital taxes	24
B. Indirect taxation	25
1. Introduction	25
2. Withholding tax	25
3. Stamp tax	26
4. Value added tax	27
5. Gift and inheritance tax	28
II. Jurisdiction to Tax Income	28
A. Full tax liability	28
1. Individuals	28
a. Domicile	29
aa. Domicile by intent	29
bb. Domicile by law	30
b. Residency	30
2. Corporations	30

a.	Place-of-incorporation test	30
b.	Place-of-management test	30
3.	Partnerships	31
4.	Trusts	31
5.	Investment funds	33
B.	Limited tax liability	33
1.	Income tax	33
a.	Enterprises, permanent establishments and immovable property	33
b.	Personal services	33
aa.	Dependent personal services	34
bb.	Directors' fees	35
cc.	Artistes, sportsmen & lecturers	35
c.	Pensions	36
aa.	Private pensions	36
bb.	Public pensions	36
2.	Withholding tax	37
a.	Taxable investment income	37
aa.	Interest from bonds and other similar debt instruments	37
bb.	Interest on deposits with Swiss banks	38
cc.	Profit distributions from legal entities (dividends)	39
dd.	Profit distributions from investment funds	41
b.	Taxable persons	41
III.	Special Relief for Individuals	42
A.	Lump-sum taxation for individuals	42
1.	Introduction	42
2.	Legal basis	43
3.	Qualifying persons	43
4.	Calculation of standard of living	44
5.	Calculation of comparative tax	45
6.	Availability of treaty relief	46
B.	Taxation of capital gains	46
1.	Introduction	46
2.	Distinction between business and private assets	47
3.	Distinction between independent business activity and management of personal wealth	48
IV.	Special Relief for Corporations	49
A.	Relief for qualifying dividend income	50
1.	Legal basis	50
2.	Operations for which relief is available	51
3.	Dividend income for which relief is available	51
4.	Calculation of tax relief	52
B.	Holding companies	53
1.	Legal basis	53
2.	Criteria to qualify for holding company status	53

3.	Taxation of holding companies	55
C.	Domiciliary companies	55
1.	Legal basis	55
2.	Criteria to qualify for domiciliary company status	56
3.	Taxation of domiciliary companies	56
D.	International sales companies	57
1.	Criteria to qualify for the 50 % ruling	58
2.	Taxation under the 50 % ruling	58
E.	Service companies	59
1.	Criteria to qualify for service company status	60
2.	Taxation of service companies	60
F.	Newly established enterprises	61
1.	Legal basis	61
2.	Practical application	61
Chapter 2.	Swiss Treaty Law	63
I.	Sources of Treaty Law	63
II.	Scope of Tax Treaties	64
A.	Period in time	64
B.	Territory	65
C.	Taxes	65
D.	Persons	67
1.	General principles	67
2.	Individuals	67
a.	Swiss residents subject to lump-sum taxation	68
aa.	France	68
bb.	Germany, Austria, Belgium, Italy and Norway	68
cc.	Denmark	69
b.	Habitual abode or registered office in Germany	69
c.	Extended limited tax liability in Germany, the Netherlands and Sweden	69
3.	Corporations	70
a.	Luxembourg 1929 holding companies (milliardaires)	70
b.	Madeira offshore companies	71
4.	Partnerships	71
5.	Trusts	72
6.	Investment funds	72
7.	Permanent establishments	72
III.	Interpretation of Tax Treaties	73
IV.	Interaction Between Swiss Treaty Law and Swiss Domestic Law	75
Chapter 3.	International Allocation of Taxable Income	77
I.	Business Profits	78

A. Principles of taxation	78
1. General principle	79
2. Shipping, inland waterways transport and air transport	79
B. Permanent establishment defined	79
1. Legal basis	79
2. Fixed place of business	81
3. Representatives	82
4. Subsidiaries	83
C. Allocation of profits	83
1. Principles of international treaty law	83
2. Swiss rules of application	85
a. Introduction	85
b. Companies	87
aa. Total taxable income to be allocated	87
bb. Lump-sum allocation to head office (praecipuum)	87
cc. Criteria for the allocation of profits	88
dd. Rate of taxation	88
ee. Example	88
c. Partnerships	90
d. Individuals	90
D. Force of attraction	90
E. Swiss treatment of foreign losses	91
1. Introduction	91
2. Swiss businesses with permanent establishments abroad	91
3. Non-resident businesses with permanent establishments in Switzerland	92
II. Income from Immovable Property	93
A. Principles of taxation	93
B. Allocation of income	94
1. Immovable property held by individuals	94
a. Total taxable income attributable to immovable property	94
b. Deductions attributable to immovable property	95
c. Allocation of mortgage interest and social deductions	95
d. Rate of taxation	96
e. Example	96
2. Immovable property held by businesses	97
a. Operational property	98
b. Traders in property	98
c. Investment property	98
III. Investment Income	99
A. Dividends	99
1. Definition	99
2. Taxation in the State of the beneficiary	100
3. Taxation in the State of source	100
a. Limited tax liability	100

b.	Extraterritoriality	102
4.	Relief from economic double taxation	103
a.	Introduction	103
b.	United Kingdom	103
c.	Ireland	104
d.	France	105
5.	Procedural issues	106
a.	General principles	106
b.	Special rules in the United States-Switzerland tax treaty	106
aa.	United States source income paid to Swiss beneficiaries	106
bb.	Swiss source income paid to United States beneficiaries	107
B.	Interest	109
1.	Definition	109
2.	Rules of taxation	109
C.	Royalties	110
D.	Capital gains	110
IV.	Personal Services Income	111
A.	Independent personal services	111
B.	Dependent personal services	112
1.	General rules	112
2.	Short term employment	112
3.	Employment in international transport	114
4.	Frontier workers	114
a.	Austria	115
b.	France	115
c.	Germany	116
d.	Italy	116
e.	Liechtenstein	116
C.	Directors' fees	116
D.	Artistes & sportsmen	117
E.	Government service and members of diplomatic missions and consular posts	118
F.	Students	118
V.	Pension Income	119
A.	Private pensions	119
B.	Public pensions	121
VI.	Other Income	121
Chapter 4.	Double Taxation Relief	123
I.	Double Taxation Defined	123
II.	Relief from Concurrent Full Tax Liability	124
A.	Introduction	124
B.	Individuals	124

C. Other persons	125
III. Relief from Concurrent Limited Tax Liability	126
IV. Relief from Concurrent Full and Limited Tax Liability	126
A. Introduction to commonly used methods	126
1. Deduction method	126
2. Exemption method	127
3. Credit method	127
4. Comparative chart	127
B. Methods applied in Switzerland	128
1. Swiss domestic law	128
a. Swiss residents	128
b. Non-residents	128
2. Swiss treaty law	128
V. Credit Method Applied in Switzerland	130
A. Introduction	130
B. Eligibility	131
1. Swiss residents	131
2. Foreign tax at source	131
3. Swiss income tax	131
4. Absence of treaty abuse	132
5. Significant amounts	132
C. Calculation of tax credit	132
1. Foreign tax at source	132
2. Swiss income tax	132
a. Gross treaty favored income	133
b. Net treaty favored income	133
c. Swiss tax rate	133
aa. Simplified calculation	134
bb. Exact calculation	135
D. Procedure	136
Chapter 5. Anti-abuse Provisions	137
I. The 1962 Abuse Decree	138
A. Introduction	138
B. Broad definition of treaty abuse	139
C. Examples of treaty abuse	139
1. Abusive transfer of income to non-qualifying persons	139
a. 50 % transfer limit	140
b. Covering of expenditures	141
2. Inappropriate profit distributions	141
a. 25 % distribution rule	142
b. Thin capitalization and maximum interest rates	143
3. Fiduciary relationships	143
4. Foreign-controlled family foundations or partnerships	144

D. Consequences of non-compliance	144
E. Practical application	146
II. Anti-abuse Provisions in Swiss Tax Treaties	146
A. Treaties which refer to 1962 Abuse Decree	146
B. Treaties which include 1962 Abuse Decree	146
C. Other anti-abuse provisions	147
Chapter 6. Transfer Pricing	151
I. Introduction	151
II. Arm's Length Prices	153
A. Introduction	153
B. Arm's length methods	154
1. Comparable uncontrolled price method (CUP)	154
2. Resale price method	155
3. Cost plus method	155
4. Other methods	155
C. The Swiss approach	156
III. Consequences of Inappropriate Transfer Pricing Practices	157
A. Initial adjustment	157
1. Income tax	158
2. Withholding tax	158
B. Corresponding adjustment	158
C. Secondary adjustment	159
Chapter 7. Non-discrimination	161
I. Introduction	161
II. Treaty Law	162
A. Scope of application	162
B. Unlawful discriminations	162
1. Discrimination on the grounds of nationality	162
2. Discrimination against businesses	163
a. Introduction	163
b. Permanent establishments	164
c. Deductibility of disbursements	166
d. Enterprises owned and controlled by non-residents	166
III. Swiss Domestic Law	167
Chapter 8. Mutual Agreement Procedure	169
I. Introduction	169
II. Request by Taxpayers	171

A. Conditions	171
B. Procedure	171
1. Presentation of taxpayer's objections	171
2. Examination by the competent authority	172
3. The mutual agreement procedure proper	173
4. Application of the mutual agreement	173
III. Request by Competent Authorities	174
Chapter 9. Exchange of Information	175
I. Introduction	175
II. OECD Model Treaty	176
A. Treaty application	176
B. Implementation of domestic laws	177
C. Limitations	177
III. Exchange of Information in Switzerland	178
A. General principles	178
B. Special rules in the United States-Switzerland tax treaty	179
C. Procedure	179
IV. International Judicial Assistance	180
A. General principles	180
B. Procedure	181
Appendices	
Swiss tax treaties	
I. International tax treaties signed by Switzerland* (List of States, scope, dates and publication references)	183
II. Rules of application of Swiss tax treaties* (List of Swiss unilateral rules of application of tax treaties)	189
III. Treaty relief from Swiss withholding tax* (List of maximum tax rates on Swiss source dividend and interest income)	191
IV. Treaty relief from Swiss tax at source on pensions* (List of situations where treaty relief is available on Swiss source pensions)	195
V. Treaty relief from foreign tax at source* (List of maximum tax rates on foreign source dividend, interest, royalty and pension income)	197

OECD Model Treaty	
VI. Summary of the rights to tax under the OECD Model Treaty	201
Tax credit mechanism	
VII. Tax credit ordinance of August 22, 1967 (TCO)*	203
VIII. First ordinance of application dated December 6, 1967 (TCO 1)*	213
IX. Second ordinance of application dated February 12, 1973 (TCO 2)*	225
X. Notice concerning tax credits of April 1982 (DA-M)*	227
Anti-abuse provisions	
XI. Federal decree on measures against the improper use of tax treaties concluded by the Swiss Confederation of December 14, 1962 (The 1962 Abuse Decree)	231
XII. Federal circular of explanation dated December 31, 1962	235
XIII. Summary of the 1962 Abuse Decree	251
Other	
XIV. Swiss totalization agreements (List of social security agreements concluded by Switzerland)	253
XV. Swiss agreements with international organizations (List of international organizations whose employees qualify for Swiss tax relief)	255
Abbreviations	263
Translations of Frequently Used Terms	265
General Bibliography	269