



**Kanton Zürich
Finanzdirektion
Kantonales Steueramt**

Taxation in the Canton of Zurich - an overview





Gender inclusivity

For the sake of linguistic simplification, the male pronoun has been adopted throughout this document. However, as a matter of course, this use of pronoun is intended to be inclusive of both sexes in all relevant instances.

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1 Canton Zurich - an attractive tax system

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

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

1.1.1 Federal level (Switzerland)

- Direct federal tax levied on income of individuals and on profits of legal entities;
- Withholding tax (taxation at source) levied on capital income;
- Stamp duties (in particular, tax levied on issue of securities);
- Value added tax (standard rate 7.7%).

1.1.2 Canton of Zurich

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

1.1.3 Municipalities

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

At federal level, the Confederation of Switzerland has its own tax laws which apply equally to the territory of the whole of Switzerland and therefore 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 the 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 federal taxes and fiscal charges are assessed by the federal administration's authorities.

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 derived as a percentage (municipal tax multiplier) of the "basic cantonal tax" (einfache Staatssteuer) and charged with 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 on **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 and assisted persons). The tax on net wealth is assessed on net worth after deduction of liabilities.

1.3.2 Legal entities

The bulk of legal entities consist 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 permanent establishments 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 - a tax on objects

In the canton, capital gains tax is levied on all gains realized on the change of ownership of real estate, under civil and commercial law, both on business and private properties. However, profits derived from business properties are exempt from profit tax.

1.4 Characteristics of the direct federal tax

1.5 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.

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 895'900 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 755'200.

1.5.1 Corporations and cooperatives

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

1.6 Characteristics of cantonal and municipal taxes

1.6.1 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 2019 between 72% and 130% of the basic cantonal tax for individuals (excluding church tax) and between 79.62% and 144.35% 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 2019):

City of Zurich	229,01%
City of Winterthur	235,76%
Illnau-Effretikon	226,00%
Kloten / Airport	212,45%
Wallisellen	205,00%
Opfikon-Glattbrugg	201,37%
Zumikon	194,00%

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 profits (after deduction of tax) 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.

1.6.2 Income tax rates for individuals

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%. 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 46'052 annually for cantonal and municipal taxes (figure for the year 2019).

1.6.3 Profit tax rates for corporations und cooperatives

The profit tax for the basic cantonal tax is designed proportionally and will amount to 8.0% of profits after tax until 31.12.2020; as of 01.01.2021, the tax rate will be reduced to 7.0%. At present, for a corporation in Opfikon, the tax rate is 16.11% of after-tax profits, which corresponds to 13.87% of pre-tax profits. As of 01.01.2021, the tax rate for the same corporation will then be 14.1% of after-tax profits, which corresponds to 12.35% of pre-tax profits.

The proportional tax on capital amounts to 0.75‰ (per thousand) of taxable equity capital (basic cantonal tax). The taxable equity is reduced as far as the equity relates to participations, patents and similar intangibles as well as to intercompany loans (measure effective as of 01.01.2020 within the cantonal implementation of the federal act on tax reform and AHV financing TRAF).

The overall tax burden arising from profit taxes (direct federal tax, cantonal and municipal taxes) for a corporation or a cooperative domiciled in the City of Zurich is 26.82% (as of 01.01.2021 the overall tax burden will be 24.53%) 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% (as of 01.01.2021 the tax burden will be 19.7%) of pre-tax profits.

Examples of tax charges levied by the canton and municipality (in CHF)

	A AG	B AG	C AG
Taxable net after-tax profit	80 000	150 000	500 000
Taxable net equity	500 000	500 000	2 000 000
Basic tax on profits	6 400	12 000	40 000
Basic tax on capital	375	375	1 500

Tax burden in the City of Zurich, tax base 2019

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

Tax burden in Opfikon-Glattbrugg, tax base 2019

Total tax on profits	12 888	24 164	80 548
Total tax on capital	755	755	3 021



1.6.4 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. Investments in movable tangible fixed assets may be depreciated in the year of acquisition to a value generally equal to 20% of the acquisition value. Further, reserves for future research and development contracts with third parties 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.

As of 01.01.2020, the following additional tax deductions can be made within the framework of the federal act on tax reform and AHV financing TRAF or the cantonal implementation bill. However, the overall relief limit must be observed; due to federal regulations, at least 30% of the net profit before the previous year's loss have been offset and without taking into account net investment income must remain taxable.

➤ **Patent box**

With the patent box, the portion of income from patents and similar rights attributable to Swiss research and development expenses is included in the calculation of taxable net income at a discount of 90%.

➤ **Increased tax deduction for research and development expenses**

An additional deduction of 50% is granted on the actual research and development expenditure incurred in Switzerland. The basis for determining the additional deduction are the research and development expenses incurred by the taxable entity itself or indirectly through third parties in Switzerland.

➤ **Notional interest deduction (NID)**

A calculatory interest deduction is made on the surplus equity, which corresponds approximately to that part of the equity that could be borrowed on the capital market at any time. This is based on the yield of ten-year federal bonds. Insofar as the surplus equity is proportionally allocated to receivables from related parties (group financing activities), an interest rate corresponding to the third-party comparison is permissible.

1.6.5 Taxation of income and profits from investments

A participation deduction can be claimed on the profits from investments and on the capital gains resulting from the sale of investments. On these amounts will be granted a deduction to the extent of the ratio of net investment profit (investment profits less the share of the financing and administration costs) to total profit. The investment deduction will be granted on the same basis for the cantonal and municipal taxes as well as for the direct federal taxes. Provided that the share of participation is at least 10% or the market value amounts to a minimum of CHF 1 million, the investment deduction on participation income can be granted. The granting of investment deduction on the profits (difference between sales price and investment costs) requires a minimum share of participation of 10% and a minimum holding period of 1 year.



1.6.6 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.

1.7 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. The tax authorities may not of 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.

1.8 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

Contact address in Zurich:

Cantonal Tax Office Zurich
Head Corporate Tax
Bändliweg 21
CH-8090 Zürich

Phone number: +41 43 259 11 11

Email: fachsupport@ksta.zh.ch

Internet: www.steuernamt.zh.ch

Or the responsible division of the Cantonal Tax Office if known.

General information is supplied by:

Department of Economy of the Canton of Zurich
Economic Promotion

Walchestrasse 19

CH-8090 Zurich

Phone number: +41 43 259 49 92

Email: standort@vd.zh.ch

Internet: www.standort.zh.ch

Federal Tax Administration:

Eidgenössische Steuerverwaltung

Eigerstrasse 65

CH-3003 Bern

Phone number: +41 58 462 71 06

Internet: www.estv.admin.ch

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.