Department for Economic Affairs
Office for Economy
Business Promotion
Bahnhofstrasse 15
P.O. Box 1187
CH-6431 Schwyz
Telefon +41 (0)41 819 16 34
Telefax +41 (0)41 819 16 19
www.schwyz-economy.ch
kantonschwyz

EXCERPT FROM THE INSTRUCTIONS FOR TAXATION OF ASSOCIATED COMPANIES, HOLDING COMPANIES, FOREIGN BASE FIRMS AND MIXED COMPANIES (HDW)

Mixed Companies (Art. 76 para 2 StG)

I. Prerequisites for a Company to be taxed as a Mixed Corporation

Mixed corporations under Art. 76 para 2 StG (Schwyz tax code) are corporate persons and cooperatives whose business is mainly transacted with foreign countries and that conduct little business in Switzerland.
As opposed to foreign base firms (see Section D), which do no business in Switzerland, mixed companies are allowed to conduct a modest amount of domestic business. However the bulk of their business must be with foreign countries. The standard applied is that at least 80 per cent of gross income must come from abroad and 80 per cent of expenses on business conducted on the firm's own account or on the account of others are incurred outside Switzerland. The domicile of the creditor determines whether the expense is incurred in Switzerland or not. To qualify as a mixed company, a firm must meet both the income condition and the expenses condition. All activities classified as business and not as administration are considered contributions to the rendering of the service or production of the good.

II. Tax on Profits

1. Revenue from Equity
No profit tax is assessed on domestic or foreign profits derived from equity or capital gains. "Equity" means title to shares of ownership in another firm, provided it exceeds 20 per cent thereof or has a market value over 2 million francs (Art. 74 para 1 StG).
Profits and capital gains from foreign equity that do not meet these requirements are treated as income from a Swiss source and equivalent to profits from domestic equity.
Administrative and financing expenses and capital losses connected with the foreign equity as defined above are de-ducted from profits. Financing expense is determined as a proportion of the equity's book value to the book value of total assets.
A net loss from equity may not be set off against profits from Swiss or foreign sources.

2. Other income from Switzerland
Other income from Switzerland comprises earnings from administrative activity in Switzerland, profits from equity and capital gains, as well as profits on capital from debtors domiciled in Switzerland, provided they are not considered equity under Art. 74 para 1 StG (see Part B), as well as earnings from Swiss real property.
Any business expenses required to obtain these earnings are deducted from the latter. Financing expenses may be allotted in the same proportion as that existing between the assets in question on one hand and total assets on the other. How-ever, in other respects net profits from Switzerland are determined on the basis of an industry/line of business calculation.
Net profits from Switzerland are taxed at the regular rate. Net losses may be set off against the taxable portion of profits from abroad.

3. Other income from abroad
Other income from abroad includes earnings from foreign business activity and earnings from debtors domiciled abroad.
Any business expenses arising from these earnings are deducted from the latter. Financing expenses may be allotted in the same proportion as that existing between the assets in question on one hand and total assets on the other. In other respects net profits from abroad are determined on the basis of an industry/line of business calculation.
Net profits from abroad are taxed at a rate of 15 per cent. In specific cases this rate may be increased up to 30 per cent. Proportional net losses may be set off against net profits from Swiss sources.

4. Applying for an exemption from foreign withholding taxes on income
If you receive income from abroad that is subject to a double taxation agreement, and this agreement, to be applicable, requires that you pay regular taxes in Switzerland, then you must pay regular Swiss taxes on an amount that is deter-mined as follows: your foreign income plus your income from Switzerland minus the expenses incurred in obtaining the foreign income (Art. 76 para 3 StG).

5. Rate of taxation
The rate of taxation of profits is determined solely on the basis of that portion of net profits that is subject to the tax.

III. Capital Levy

Under Art. 79 para 1 StG taxable equity capital comprises the original capital paid in, the open reserves and the hidden reserves accumulated from taxed profits, plus the hidden reserves that would have accrued from taxable profits if profits had been taxed. Moreover under Art. 80 StG taxable equity capital is augmented by that portion of borrowed capital that is economically equivalent to equity capital.
The simple capital levy is colleted at a rate of 0.025 per thousand of taxable equity capital, but at least 100 francs (Art. 83 para 1 StG).
Under Art. 83 para 2 StG the rate of the simple capital levy on real property located in Canton Schwyz is 0.4 per thousand.

IV. Change in Status

The first time a firm is taxed as a mixed company, any existing hidden reserves are included in the tax base. Nonetheless such reserves may be exempted from the capital levy if they remain fully taxable in Switzerland (real property, Swiss securities, etc.). Under Art. 77 StG the firm may demand

that taxation of its hidden reserves on equity and intangible assets be deferred (see Arts. 74, 243 and 244 StG).
The prerequisites for being considered a mixed company must be met in every fiscal year. Should a firm fail to meet these conditions in any given year, the tax privilege is inapplicable for that year, even if the conditions are met again later.
Hidden reserves that accrue while a firm has mixed company status may be declared in a tax balance sheet before the firm becomes subject to regular taxation. Losses from fiscal years preceding the change in status may be set off only against those earnings that are subject to taxation.

V. Procedure

Mixed companies are subject to the regular tax assessment procedure. They must submit a regular tax return at the end of the year. In this same return they may apply for mixed tax treatment. Furthermore, evidence must be submitted of compliance with the quantitative prerequisites (80% of income earned and 80% of expenses incurred abroad). Moreover they must furnish a report showing a breakdown into different lines of business. Under Art. 76 para 1 StG the tax inspector decides which tax regimen will be applied.

Schwyz, November 5, 2008