Relocating insurance business to Switzerland

2018 edition
Editorial
Dear Reader,

It is our pleasure to present to you our updated study on the subject of (re)insurance relocation and Switzerland as a base for platforms designed to tap European markets.

Low premium rates and investment yields, regulatory pressure, geo-political change (BREXIT, nationalism, US tax reform) or the need for Asian (re)insurers to diversify, are all factors that are driving (re)insurers to reconsider their corporate structure and location strategy.

Switzerland is the world’s third largest (re)insurance center, with a well-trained, multi-lingual talent pool of about 20,000 employees in the industry. As a result, Switzerland continues to see an influx of (re)insurance companies, new platforms geared toward tapping European markets and repatriated off-shore captives.

When asked for the reasons for relocating to Switzerland, insurance companies cite access to a highly qualified workforce and a high-caliber peer group, the stability and quality of the social and political landscape, the robust and reputable supervisory system, the good infrastructure and high quality of life, the appeal of the Swiss insurance hub with its international orientation and integration in global networks and the attractiveness of the general tax environment.

Aligning the interests and expectations of a company and its staff with the legal and regulatory requirements and the authorities involved, especially the Swiss Financial Market Supervisory Authority (FINMA) and the tax authorities, is a pivotal task when considering a relocation and should therefore be a priority right from the start.

The purpose of this publication is to provide you with an overview of the requirements - divided into five main disciplines - that an insurance company should focus on in the course of relocating to Switzerland: 1. Regulatory and Solvency Requirements, 2. Corporate Law Requirements, 3. Employee Reporting Requirements, 4. Accounting and Statutory Reporting Requirements and 5. Tax Requirements. We briefly explain these requirements, identify key considerations and show how you can proactively address them. If you would like to discuss how any of our insights relate to your organization specifically, please get in touch with us.

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Switzerland is an established and attractive (re)insurance hub

A wide range of (re)insurance players are represented in the Swiss market, generating considerable business

- 120 non-life insurers
  - Including 46 branches of foreign insurance companies
  - Premium volume of CHF 48 bn in 2016

- 55 reinsurers
  - Including 25 reinsurance captives
  - Premium volume of CHF 51 bn in 2016

- 19 life insurers
  - Premium volume of CHF 33 bn in 2016
Multiple factors contribute to the strength of the Swiss (re)insurance ecosystem

Switzerland benefits from a plentiful (re)insurance talent pool comprising global-minded specialists, combined with favourable and stable legal, regulatory and tax systems.

- Proximity to clients thanks to central position in Europe
- No EU branches needed for reinsurance
- Utmost political and currency stability
- Second largest ILS market
- Dynamic innovation hub (e.g., leader in blockchain technology)
- Business-minded regulators
- Simple, clear regulations
- Realistic capital adequacy requirements (equivalent to Solvency II)
- Benefit of bilateral agreements with the EU
- Competitive tax rates (corporate, VAT, personal income tax)
- A plentiful pool of talent fed by both the business sector and world-class institutions of third-level education
- Highest living and working standards
- International environment
EY's Swiss (re)insurance Practice

We offer specialized (re)insurance expertise locally with a global outlook

Our credentials in the Swiss (re)insurance market

We provide our (re)insurance clients with a broad range of services and capabilities — locally and globally:

- Business model innovation and strategy support, from ambition to market cultivation, organizational change and implementation
- Location studies to benchmark Switzerland against potential alternatives in all relevant dimensions
- Comprehensive support of reinsurer relocations to Switzerland or in the establishment of greenfield operations:
- Managed services to operationalize newly established branches or legal entities encompassing legal, regulatory, actuarial, corporate tax, compliance, payroll and people tax services
- Actuarial support including pricing, reserving, Swiss Solvency Test - StandRe (standard model for reinsurers) calculation and Responsible Actuary mandate
- Exploiting process efficiency, including process automation (robotics)
- End-to-end finance system transformation programs
- SAP implementation including SAP Hana
- Enterprise risk management transformation
- IFRS 17 gap analysis

Recognized as the global leader in (re)insurance advisory

EY is the most globally integrated professional services firm. We have a strong global leadership team that sets a single global strategy and agenda. Our integrated structure sets us apart from our competitors. It facilitates efficient crossborder services and the consistently high quality of the work rendered by our 247,000 people around the world. EY is recognized as:

- No. 1 risk and management consulting firm in the (re)insurance market
- No. 1 advisory firm in the (re)insurance market
- No. 1 advisory and audit firm in the Swiss health (re)insurance sector
- Leading in tax, legal and transaction services
- CPA Firm of the Year at the 2017 US Captive Services Awards
Relocating to Switzerland

We provided advisory support to a Bermudan reinsurer in redomiciling to Switzerland, taking care of the FINMA license application, business plan, legal entity setup, work permits, corporate and personal income tax planning and transfer pricing.

We have since earned a standing as the reinsurer’s preferred advisor, providing a variety of compliance services under a managed services contract, including actuarial, accounting, corporate tax, VAT, payroll and global mobility services.

Offshoring from Switzerland

We advised a Swiss reinsurer in its initiative to offshore a carrier. In particular, we provided support in the tax planning and in the negotiations with the regulators and tax authorities in both countries.
1 Regulatory and solvency requirements
Relocating insurance business to Switzerland 2018 edition

Business plan for FINMA (Swiss Financial Market Supervisory Authority)

Insurance companies conducting business in Switzerland are subject to supervision by FINMA, with the exception of Swiss branches of foreign reinsurance companies conducting only reinsurance business in Switzerland.

FINMA – the Swiss regulator

It is important to note that FINMA enjoys a high standing in the international regulatory community. Among its clients, it has a reputation as being fair, professional and business-minded.

Establishing a relationship of mutual trust is key, and we typically recommend an initial meeting – with an informal presentation of the company, key people and the business plan – early on in the project in order to initiate dialog.

(Re)insurance companies are required to file a formal application for a license with FINMA and submit a business plan compliant with the applicable legal, financial and risk requirements. In this respect, the 1 July 2015 revision of the Swiss Insurance Supervision Ordinance (ISO), focusing primarily on the themes of solvency, qualitative risk management and disclosure, had a significant impact on the regulatory solvency requirements of insurers' business plans.

Key content of the business plan:

- Organizational structure requiring, among other aspects, a separation of power between the board of directors and the executive management, strict “fit and proper” requirements for the members of the board of directors and that the insurance company has an effective local management in place. Business plan B has seen a significant increase in granularity and now requires a detailed description of the governance structure.
- Insurance activities (lines of business) intended to be carried out
- Financial and solvency requirements
- Appointment of the responsible actuary (a person with the appropriate education, experience and knowledge of Swiss law and regulations and the Swiss (re)insurance market); additionally, the responsible actuary must have a deputy according to the new FINMA Circular 2017/5
- Implementation and documentation of appropriate quantitative and qualitative risk management and internal controls, including also the official establishment and integration of an independent compliance function and effective compliance processes within the internal risk control system (ICS); the establishment of an internal audit function is also mandatory.

New FINMA Outsourcing Circular

Under FINMA’s new Outsourcing Circular 2018/3, in principle all material functions can now be outsourced, provided supervision and control by the insurer is ensured. Functions that cannot be outsourced are board, supervision and control tasks, core executive management functions as well as functions integral to strategic decision-making. For captives, the outsourcing of management and control functions is permissible to a larger extent. Outsourcing abroad is generally also permissible, provided the insurer can ensure that the insurer, its external auditor and FINMA can exercise their right to inspection and audit. Insurers now have to keep an up-to-date inventory of the functions outsourced. Prior to entering into an outsourcing agreement, the insurer must document the objectives and specifications of the work rendered, including a risk analysis. The outsourced service must be integrated into the company’s existing risk and control system. The requirements basically apply to intra-group outsourcing arrangements as well. However, concessions can be made for group affiliation with respect to the selection, instruction and control of the service provider, provided that the risks typically attached to outsourcing do not exist or specific requirements are irrelevant or are taken into consideration in a different manner (risk-based perspective). The new circular applies to all first-time licensed businesses and in the event of business plan changes.

A key point that inbound groups often find challenging is that all data (such as the financial accounts) required for a potential unwinding of the insurer must be readily available in Switzerland (“mirroring” of foreign servers).

Group supervision by FINMA

An insurer that is part of a (re)insurance group/conglomerate might – if certain conditions are met – be subject to group supervision by FINMA.
Excerpt of key requirements in corporate governance and risk management

• Separation of power between the board of directors and executive management, e.g., members of the board cannot act as CEO at the same time
• Stricter “fit and proper” requirements for the members of the board of directors
• Official integration of an independent compliance function within the internal risk control system (ICS)
• Specific requirements for an Own Risk and Solvency Assessment (ORSA).
• In an insurance group, corporate governance, risk management and internal control systems and the respective documentation must be implemented not only at group level, but also at the level of the licensed Swiss company.

Key capital/financial requirements

Direct insurers

• Minimum capital: CHF 5,000,000 – 12,000,000 (for life insurance) or CHF 3,000,000 – 8,000,000 (for property insurance) and CHF 8,000,000 (for supplementary health and accident insurance)
• The amount of the technical provisions must be covered by tied assets; a minimum amount of CHF 750,000 (life insurance) or CHF 100,000 (property insurance) has to be deposited in a bank account. There are prudent investment requirements which are particularly strict with regard to tied assets (FINMA Circular 2016/5)

Reinsurers

• Minimum capital of CHF 10,000,000 (for captives: CHF 3,000,000)
• There are no regulatory requirements regarding tied assets and their investment. However, the general prudent investment requirements apply (FINMA Circular 2016/5)

Swiss Solvency Test (SST) and Solvency II

For companies that are subject to FINMA supervision, the main solvency regime in place is the Swiss Solvency Test (SST).

The SST is a mandatory risk-based economic solvency regime. It requires a stochastic model (FINMA does not accept pure factor-based models).

The SST is based on an economic balance sheet. Assets and liabilities have to be valued on a market-consistent basis. Required capital is calculated over a one-year time horizon.

All companies need to submit an SST calculation every year.

Risk classes to be quantified are:

• Insurance risks
• Market risks
• Credit risks

Operational risks are not quantified and are considered from a qualitative point of view.

Corporate governance/risk management

FINMA requires details regarding:

• The implementation and documentation of appropriate risk identification, risk limitation and risk monitoring
• The results of the Own Risk and Solvency Assessment (ORSA); ORSA requires at least a yearly forward-looking self-assessment of the risk situation and capital requirements, including reporting requirements to FINMA and a public disclosure report
• The required compliance with the supervisory law and respective ordinances, compliance with applicable FINMA circulars, e.g., on Corporate Governance for Insurance Companies (FINMA Circular 2008/32) and on Internal Audit for Insurance Companies (FINMA Circular 2008/35)

Financial information

Apart from the solvency calculations, FINMA requires the following financial information:

• Details of technical provisions
• Details of the proposed investment policy
• Financial statements for the last three business years
• Organizational fund (to cover setup, development and extraordinary business expansion costs)
• Budget showing projected balance sheets and projected statements of income for the first three financial years of the Swiss company
Additional items to be considered:

A company intending to use an internal model has to pass a so-called “Use Test”; the company has to demonstrate that the model is integrated into the company’s core processes and that its outcomes are considered in business decision-making. The model has to be fully documented for the model approval process. In addition, the complete SST report for the transferred portfolio is required. If the model and the report meet certain minimum standards, FINMA typically grants a temporary approval of the internal SST model within the normal license application process period. A more rigorous model investigation is usually initiated after the license has been granted.

**Changed SST calculation under FINMA Circular 2017/3**

With Circular 2017/3, FINMA introduced changes to the calculation of the SST. The FINMA standard models for non-life, reinsurance, captives and life (in progress) apply by default. Applicants wishing to use an internal model need to apply accordingly and demonstrate that the standard model does not reflect their risks. In addition, there is no unconditional obligation for the aggregation of the prescribed scenarios. If the standard model does not cover a specific risk, there is still the possibility to cover the given risk with a company-specific scenario and aggregate it to the target capital. Finally, the formula for the calculation of the SST quotient has changed slightly.

**SST equivalence with Solvency II**

Solvency II, which is applicable throughout Europe, is also an economic risk-based solvency regime. Even though the underlying principles of the two solvency regimes are similar, there are significant differences of relevance for insurers, including the solvency capital calculation schemes.

As a consequence, the solvency capital requirements in the two solvency regimes can be quite different; the disparity can depend on the products underwritten.

The Swiss insurance supervision system has been recognized in full and for an indefinite period as equivalent with the Solvency II Directive, in all three areas that apply for equivalence assessment, i.e.:

- Solvency calculation
- Group supervision
- Reinsurance

The EU recognition of equivalence enhances the reputation and competitiveness of the Swiss marketplace. It also eliminates competitive disadvantages and regulatory duplication for internationally active Swiss (re)insurers.
2 Corporate law requirements
Legal form (corporation/cooperative)

Swiss law offers a limited number of legal forms for the registration of insurance companies, i.e., a stock corporation (“Aktiengesellschaft” or “AG”) or a cooperative (“Genossenschaft”). A limitation of the owners’ liability is possible with both legal forms. The cooperative, whose main purpose is the promotion or protection of specific economic interests of an unrestricted number of individuals or legal entities, is similar to the US cooperative.

Whereas, historically, traditional Swiss insurance companies where often organized in the form of a cooperative, many of these insurance companies have changed their legal form in recent years, becoming stock corporations in order to benefit from the additional flexibility of this legal form. In particular, a cooperative cannot be listed on the Swiss Stock Exchange.

The stock corporation and the cooperative both need to be registered with the Commercial Register of their respective canton of domicile in order to come into existence.

As foreign insurance companies can provide insurance services in Switzerland via a branch office, the branch also needs to be registered with the competent cantonal Commercial Register.

Nationality/residence requirements

The registration of a stock corporation in Switzerland requires at least one Swiss-domiciled member of the board of directors (or a director who is not a member of the board of directors) with sole power of representation or two Swiss-domiciled members of the board of directors (or directors) with joint power of representation.

The board of directors as a body must have sufficient knowledge of the insurance business and the requisite experience and knowledge of business management, strategic management, risk control as well as finance and accounting.

All directors must have a good reputation and must have sufficient expertise and enough time for the performance of their duties.

At least one-third of the members of the board must meet the independence criteria listed below. FINMA may approve exceptions if there is good reason for doing so (e.g., for reinsurance captives or for subsidiaries of insurance groups and of conglomerates supervised by FINMA).

Members of the board of directors are deemed to be independent if they:

• Are not and have not in the previous two years been employed in some other function within the insurance company
• Have not been employed in the previous two years by the insurance company’s audit firm as lead auditor of the regulatory audit responsible for the insurance company
• Have no commercial links with the insurance company which, in view of their nature and scope, would lead to conflicts of interest and
• Are not shareholders of the insurance company and do not represent any shareholder. (The definition of a shareholder can be found in Article 4 para. 2 lit. f of the Swiss Insurance Supervision Act)

Executive board

Every member of the executive board must have a good reputation and sufficient expertise for the departments under its direct control.

Relocation to Switzerland

Migration vs. transfer of assets and liabilities

Under Swiss corporate law, there are basically two different ways of relocating an insurance business to Switzerland: either an already existing foreign company moves its registered office from a foreign jurisdiction to Switzerland without being liquidated in the former country of residence and without a new incorporation in Switzerland (so-called “migration”) or the existing company transfers its assets and liabilities from its country of residence to a newly incorporated Swiss company. The latter leads to a liquidation of the company in the foreign jurisdiction and requires the incorporation of a new company in Switzerland (so-called “transfer of assets and liabilities”). Alternatively, the assets and liabilities can be transferred to an existing Swiss company.
The Swiss Federal Code on Private International Law allows the migration of a foreign legal entity to Switzerland if the foreign jurisdiction permits the migration to Switzerland. The migration involves the continuation of the legal entity without liquidation in the foreign jurisdiction and without a new incorporation in Switzerland.

Upon migration, the legal entity must adopt a legal form permitted under Swiss law. As described above, an insurance company may only be registered in the form of a stock corporation or a cooperative. Thus, according to Swiss law, a migration requires the company’s shareholders to make the following legal decisions:

- Transfer the company’s registered office to Switzerland
- Adapt the company name in accordance with pertinent Swiss rules
- Amend the company’s purpose in order to comply with the requirements of Swiss law
- Convert the nominal capital to Swiss francs (if the minimum capital is not paid in, the nominal capital will have to be increased)
- Amend the articles of incorporation in order to comply with mandatory Swiss regulations
- Elect the members of the board of directors and assign the respective powers of representation
- Elect the statutory auditor

The decisions of the shareholders’ meeting need to be taken in the form of a public deed. Further, the financial statements need to be audited by the statutory auditor. The public deed, the audited financial statements including a confirmation by the statutory auditor and all further legal documents need to be filed with the competent Commercial Register in Switzerland.

In addition, the registration requires the filing of the extract from the Commercial Register of the foreign jurisdiction and the articles of incorporation of the company prior to its migration.

It should be noted that the documents filed with the Commercial Register need to be in an official language of the Swiss Confederation. Otherwise, an official translation is required. Finally, an opinion has to be submitted regarding the legitimacy of the migration and the compatibility of the previous legal form with the company’s new Swiss legal form. Such an opinion may be issued by the Swiss Institute of Comparative Law.

From a Swiss legal point of view, the company is considered a Swiss company as soon as it is registered with the competent Commercial Register in Switzerland. Upon registration, the company needs to be deregistered in the foreign country.

### Transfer of assets and liabilities

Due to the fact that the laws and regulations in many foreign jurisdictions do not allow migration, a foreign company may have to transfer its assets and liabilities to a newly incorporated Swiss company. From a legal point of view, the shareholders of the foreign entity may contribute their shares of the foreign entity into the newly incorporated Swiss entity and subsequently liquidate the foreign entity. Upon liquidation of the foreign entity, its assets and liabilities are transferred to the Swiss entity as a liquidation dividend. Alternatively, the shareholders of the foreign entity may contribute all its assets and liabilities into the newly incorporated Swiss subsidiary. After this contribution of all assets and liabilities, the sole asset of the foreign entity is the shares in the new Swiss entity. Upon liquidation of the foreign entity, all shares in the Swiss company are transferred to the shareholders of the foreign entity as a liquidation dividend in kind. The incorporation process requires a founders’ meeting at the notary public and the filing of all necessary legal documents with the competent Commercial Register. Depending on the details of the incorporation and transfer, the auditor may have to approve the value of the contributed assets and liabilities and the decisions of the founders regarding the particulars of the new Swiss company.

Instead of a formal liquidation of the foreign entity, Swiss law offers the possibility to merge the Swiss entity with the foreign entity. The so-called “cross-border merger”, however, is not permitted in many foreign jurisdictions. In addition, the rather complex merger process should be carefully weighed up against the main drawback of an ordinary liquidation - i.e., the length of time it takes to liquidate.
3 Employee reporting requirements
Work and residence permits
Foreign nationals intending to work in Switzerland generally require a work and residence permit. There are different types of work and residence permits depending on the type and duration of the stay in Switzerland. Some of them are subject to a yearly quota defined by the Federal Council.

Non-EU nationals, so-called “third-country citizens”, and nationals from Croatia are only granted work and residence permits if:
- They are highly skilled individuals/specialists
- The priority of Swiss and EU nationals is respected with the exception of intra-company transfers
- The employment agreement ensures that wage and working conditions are comparable to local and professional standards and
- The quota for the issuance of such permits has not been exhausted

Nationals of EU/EFTA member states have to meet the same conditions for work permits as third-country citizens if they are on assignment. However, proceedings might be simpler and take less time. Nationals of EU-25/EFTA member states with a local employment contract do not have to fulfill the conditions mentioned above.

Swiss labor law favors the employer
Compared with the EU, Switzerland regulates relatively few aspects of the employer/employee relationship and labor law is in general more favorable to the employer.

Personal income tax
Based on Swiss domestic tax law, individuals are considered tax resident if they establish legal residency or have the intention of settling permanently, making Switzerland the center of their personal and business interests.

For non-resident individuals, as a general rule, employment income paid for work performed in Switzerland is subject to Swiss taxation.

The 183-day presence test of a double tax treaty (DTT) is an exception to the workplace principle. Under an applicable DTT, an employee is not liable to pay tax in the country where the work is performed if the following three conditions are met cumulatively:

a) The person is present in Switzerland for a period or periods not exceeding the aggregate 183 days in any twelve month period (or fiscal year/calendar year concerned) and

b) The remuneration is paid by, or on behalf of, an employer who is not a resident of Switzerland and

The remuneration is not borne by a permanent establishment or a fixed base of the employer in Switzerland

If these conditions are met, the country of residence has the right to tax the employment income and the country where the activity is performed has to exempt the income from taxation.

However, according to the current practice of the Swiss tax authorities, an exemption from taxation in Switzerland under the 183-day presence test is only granted if the so-called “economic” employer also remains abroad. The economic employer typically is the one who is responsible for the work performed and bears the risks, and who has the right to issue instructions to the employee and controls the work performed.

Labor law
The most important aspects of Swiss labor law are as follows:
- There is no national minimum wage (however, collective labor agreements may stipulate such minimum wages)
- Maximum legal working time amounts to 45 or 50 hours per week, depending on the industry
- Minimum vacation entitlement of four weeks
- Employers may as a general rule terminate the employment relationship without any reason at any time (the legal minimum term of notice is one month)
- No severance payment required in case of termination (subject to termination for abusive reason)
- There are no works councils in Switzerland and trade unions are rather weak
• **Inbound view.** Basis is an information paper from the Zurich tax authorities (also applicable in many other cantons) that outlines the general rules. In practice, the rule has developed that the economic employer is assumed to be in Switzerland if an employee is assigned for a period of more than 90 days. In fact, this practice has tightened since many business travelers enter Switzerland without a written assignment. In these situations, the tax authorities also investigate cases with multiple entries into Switzerland during a period exceeding three months (e.g., even if a business traveler only visits Zurich for a few days in January and returns in August in the same year for only a few days). These situations need to be monitored carefully. If it is determined that the economic employer is in Switzerland, this will not on its own justify taxation, but will instead trigger a review of the case. Usually, exemption is granted when the employee holds a global role or his visits do not relate to the same project.

• **Outbound view.** For Swiss outbound business travelers (e.g., to the United Kingdom) the economic employer concept might be applied differently than for inbound travelers based on recent court cases in which the 183-day presence test according to the DTT was applied strictly (formal approach) and the economic employer approach was denied.

**Taxation at source**

• The Swiss employer has the obligation to withhold **Swiss source taxes** (and social security contributions, if applicable) on employment income earned by foreign nationals. For resident Swiss nationals and C permit holders (long-term residents) as well as their spouses, there is no Swiss source tax withholding obligation.

• **Swiss source tax rates** are progressive and depend mainly on the person’s canton of residence, church membership, marital status and number of children. In the Canton of Zurich, the maximum source tax rate for a married person with no children and no church affiliation is 30.84%.

**Ordinary taxation**

Individuals who qualify as tax residents in Switzerland are subject to **ordinary taxation** and have to file a Swiss tax return as of the date of arrival (until the date they leave the country). Foreign nationals who are subject to Swiss source taxation are required to complete an additional Swiss tax return if a certain threshold is exceeded (e.g., in the Canton of Zurich: CHF 120,000 gross employment income); in this case, the tax withheld at source is regarded as a prepayment. The **ordinary income tax rates** are also progressive and mainly depend on the canton and municipality of residence as well as the marital status and church membership. The maximum ordinary tax rates range from 34% to 43% (Canton of Zurich). Expatriates can claim special business deductions for double housing costs, relocation costs and education costs for children attending an international school in Switzerland. However, tax practice with respect to these deductions is getting stricter. Deductions are only granted to those falling within the “classic” expatriate definition (an amended version of the “expatriate regulation, ExpaV” is effective since 1 January 2016). Qualifying expatriates must be either an employee in a management position or a specialist, and must be seconded to Switzerland by a foreign company under a temporary secondment agreement for a period of no more than five years. The period of residence in Switzerland must not exceed five years and the employee must arrive in Switzerland directly from their home country rather than via any third country. Furthermore, double housing costs can only be deducted if a permanent abode is retained in the home country (owned, not rented, not rented out to a third party).

**Employee participation schemes**

There are several models of participation schemes (e.g., restricted stock units, stock options, phantom Plans), and tax treatment differs depending on the model.

• **Unrestricted and tradable stock options** are taxable at the date of grant and the taxable value equals the fair market value of the option at grant. Any gain from selling or exercising the option is considered to be a tax-free private capital gain (unless the beneficiary qualifies for tax purposes as a so-called “commercial security dealer”).

• **Restricted and untradeable stock options** are taxed exclusively at the date of exercise. Consequently, the gain realized at exercise is deemed to be employment income and taxed accordingly.

• **Unrestricted stock and stock purchase plans.** In principle, employee stock (purchase) plans only generate

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**Basis for the taxation of individuals who arrived during 2018**

<table>
<thead>
<tr>
<th>Income</th>
<th>Assets</th>
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<tbody>
<tr>
<td>1/1/18 Date of arrival</td>
<td>31/12/18</td>
</tr>
<tr>
<td>• Income earned between date of arrival and 31 Dec 2018</td>
<td></td>
</tr>
<tr>
<td>• Assets as of 31 Dec 2018</td>
<td></td>
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</tbody>
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taxable income in cases where employees are allowed to buy shares below fair market value or shares are granted to them for free. Such plans are taxed upon being granted on the difference between the fair market value (i.e., closing price) on the acquisition date and the price paid by the employee, if any. Taxable income is deemed to be “earned” (realized) immediately and taxed according to ordinary assessment rules.

- **Restricted stock** (disposal restricted for a number of years). Taxable income is deemed to be realized immediately if full shareholder rights (i.e., voting and dividend rights) are awarded to the employee, but a discount applies to the fair market value of the stock granted depending on the restriction.

- **Restricted stock units (RSUs).** If an employee only receives a “conditional promise” to receive stocks or cash equivalents after the expiration of a vesting period and if no shareholder rights (i.e., voting and dividend rights) are granted prior to the vesting date, taxable income is deemed to be realized at the date of vesting. The taxable income is equal to the total fair market value (i.e., closing price) of the stock granted at the date of vesting.

  No discount is granted for income tax purposes unless the stock granted at the vesting date is subject to a further restriction period. So-called “dividend equivalents” paid during the vesting period are treated as employment income and taxed as such.

- **Taxation of imported/exported stock options** (and other equity-based compensation not taxed upon being granted; e.g., restricted stock units) are allocated based on the working days spent in Switzerland during the vesting period as a proportion of the total vesting period. However, for imported stock options, the full gain has to be considered for tax rate purposes.

  - On **exported** stock options and other equity-based compensation exercised abroad but partially taxable in Switzerland, a lump-sum withholding tax rate of 11.5% applies for federal tax purposes and of approx. 20% - for cantonal/municipal tax purposes (depending on the Swiss employer’s canton of residence).

**Employer tracking and reporting obligations** regarding stock options and other equity-based compensation apply upon granting and realization. The employer is legally obliged to provide additional annexes to the Swiss salary statement (containing the information required by the ordinance).

If applicable, gains realized by exercising stock options and other equity-based compensation are subject to Swiss social security contributions. The treatment of employee equity for **social security** purposes is based on the same principles as the tax treatment.

The taxable income is the difference between the fair market value of the shares at time of exercise of the stock options and the exercise price.

**Social security**

The following types of insurance are compulsory for everyone living and/or working in Switzerland:

- Old age and
- surviving dependants’ insurance
- Invalidity insurance
- Unemployment insurance (only applicable to employed population)

The contributions for the insurance plans listed above are calculated as a percentage (totaling 12.45%) of the gross salary and are borne equally by the employer and the employee. Switzerland has no cap for contributions to old age and surviving dependants’ insurance, although the contributions are moderate compared with other countries (10.25%, of which 5.125% to be borne by the employee).

Contributions to **unemployment insurance** are:

- 2.2% of the relevant salary for salaries of maximum CHF 148,200 per year (maximum contribution CHF 3,260.40)
- Additional 1% of the relevant salary for salaries above CHF 148,200.

These are divided equally between employer and employee.

**Accident and occupational disease insurance** is also compulsory in Switzerland. Contributions for accident insurance vary depending on the company’s risk level and
Switzerland has a close-knit network of different types of social insurance schemes that offer the persons living and working in Switzerland broad protection against all kinds of risks.

In addition to the state social security scheme, there is a compulsory company pension scheme (for employed persons). Contributions vary between 7% and 18% of the insured salary (with a ceiling, as defined in the pension plan rules), depending on the age and the gender of the employee, with at least 50% of the contributions borne by the employer.

Finally, individuals have the obligation to obtain health insurance coverage from a Swiss insurer, if they are resident in Switzerland, or hold a work permit that is valid for at least three months, or are performing a dependent activity in Switzerland with a permit valid for less than three months, and are not covered by similar insurance benefits abroad. Although mandatory, it is the responsibility of each individual to sign up with one of the various private health insurance companies.

From an international social security perspective, Switzerland benefits from an efficient social security treaty network allowing, under certain conditions, an exemption from paying Swiss social security and health insurance contributions for employees coming from abroad and temporarily working in Switzerland.

**Swiss social security summary**

Switzerland has a close-knit network of different types of social insurance schemes that offer the persons living and working in Switzerland broad protection against all kinds of risks.
Accounting and statutory reporting requirements
Accounting standards

The statutory annual financial statements are based on Swiss law (Code of Obligations and supervisory provisions), the articles of association and the business plan, as approved by the supervisory authority. The provisions for accounting are limited to a number of requirements governing financial accounting and reporting. The Federal Council has issued specific guidance for insurance companies regarding the valuation of assets and liabilities, as well as disclosure requirements. They currently include the following items of the financial statements:

- Investments
- Technical reserves (life, non-life, health, reinsurance)
- Deferred acquisition costs
- Costs for foundation, capital increase and organization
- General reserves
- Presentation and disclosure requirements for financial statements
- Requirements for public disclosures

In addition to the minimum capital requirements, an organizational fund is required upon foundation, with funds between 20% and 50% of the minimum capital; the applicable amount is determined on a case-by-case basis by the supervisory authority. The allocation to the general reserves must amount to a minimum of 10% of the profits for life insurance companies and at least 20% for all other insurers. This allocation applies until the general reserves fund equals 50% of the statutory capital.

Functional currency

The annual financial statements can be drawn up in Swiss francs or in another currency of relevance for the business. In the latter case, the Swiss franc equivalent as well as the foreign exchange rate used must be disclosed. Translation differences arising from the conversion are recognized in the income statement as extraordinary items, irrespective of a potentially different tax treatment. It is not permitted to recognize any translation gains or losses resulting from the change of currency directly in shareholders’ equity.

Reporting requirements

The reporting requirements encompass the annual financial statements, including a balance sheet, an income statement and notes to the financial statements, as well as a statement of changes in equity and a cash flow statement. In addition, the insurer needs to prepare a report on its financial situation (public disclosure requirement). The mandatory year-end closing date is December 31. The regulatory reporting requirements depend on the insurers’ business activities. For example, direct insurers report their tied assets to the regulator.

Audit requirements

The legal and regulatory requirements for the external auditor can be divided into three main areas:

1. Audit of the annual financial statements (including confirmation of the existence of an internal control system over financial reporting) and audit of the insurer’s report on the financial situation. Since 2016, financial statements of insurance branches in Switzerland are also subject to audit.

2. Regulatory audit in accordance with the Insurance Supervision Act (ISA) and the respective ordinances. These include specific audit procedures, such as audit of the tied assets for direct insurers, internal controls, technical reserves, reporting for pension fund business, reporting for insurance groups, etc.). Certain audit programs are on a rotational basis with the scope set by FINMA annually.

3. Special audits by assignment as instructed by FINMA

<table>
<thead>
<tr>
<th>Overview reporting</th>
<th>Life</th>
<th>Non-life</th>
<th>Reinsurance</th>
<th>Branch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory financial statements</td>
<td>X</td>
<td>1</td>
<td>X</td>
<td>1</td>
</tr>
<tr>
<td>Regulatory reporting pack (FIRST)</td>
<td>X</td>
<td>0</td>
<td>X</td>
<td>0</td>
</tr>
<tr>
<td>Public disclosure report</td>
<td>X</td>
<td>n/a</td>
<td>X</td>
<td>n/a</td>
</tr>
<tr>
<td>Tied assets</td>
<td>n/a</td>
<td>X</td>
<td>n/a</td>
<td>X</td>
</tr>
<tr>
<td>Internal controls (ICSE)</td>
<td>n/a</td>
<td>X</td>
<td>n/a</td>
<td>X</td>
</tr>
<tr>
<td>Business continuity management (BCM) - Cat 2 + 3 entities only</td>
<td>n/a</td>
<td>X</td>
<td>n/a</td>
<td>X</td>
</tr>
<tr>
<td>Technical reserves</td>
<td>n/a</td>
<td>X</td>
<td>n/a</td>
<td>X</td>
</tr>
<tr>
<td>FINRAG (new 2018)</td>
<td>n/a</td>
<td>X</td>
<td>n/a</td>
<td>X</td>
</tr>
</tbody>
</table>
5 Corporate tax requirements
Tax system overview

In Switzerland, taxes are levied at the federal and cantonal/municipal levels. As a result of this multilayered tax system, the applicable rate of corporate income tax varies depending on the taxpayer’s place of business. The regular combined effective income tax rate, if no special tax regime applies, ranges from 12% to 24%. Furthermore, an annual capital tax is levied at cantonal level, which varies considerably between cantons. In some cantons, tax on capital can be offset fully (e.g., Schwyz) or partly (e.g., Geneva) against corporate income tax payable. A one-time capital duty of 1% is levied on the contribution of equity to a legal entity (tax-free allowance up to CHF 1 million in contributions), which can be avoided if the incorporation is structured by way of a tax-exempt reorganization. A securities transfer tax of between 0.15% and 0.30% is levied on certain transfers of securities.

Dividend payments by Swiss legal entities are subject to a withholding tax of 35%, which can be reduced under an applicable double tax treaty or – particularly for payments to an EU-based parent company - fully eliminated in accordance with the EU-Swiss Agreement on the Automatic Exchange of Information. Within a legal entity, the remittance of profits by a Swiss branch to its foreign head office is not subject to withholding tax. No withholding tax is levied on royalties and, if properly structured, on intra-group loans. Furthermore, Switzerland has an excellent network of about 90 double tax treaties that generally mirror the OECD model treaty. Finally, Switzerland does not have any controlled foreign company (CFC) legislation.

In general, premiums for property and casualty insurance are subject to an insurance premium tax (IPT) of 5% if the respective policy belongs to the domestic (i.e., Swiss or Liechtenstein) portfolio of a domestic insurer. Single premiums for redeemable life insurance are subject to 2.5% IPT. Other lines of life and health insurance, certain lines of property and casualty insurance as well as reinsurance are exempt from IPT. With regard to value-added tax (VAT), companies engaged in commercial activities generally have to charge VAT on their revenue at a standard rate of 7.7%. However, several types of revenue are exempt from VAT, in particular financial sector revenue such as insurance premiums as well as any return from or gains on investment assets.

Tax incentives

Tax holidays

In Switzerland, tax incentives are granted to companies either by the cantons or by both the cantons and the federal government. Except for the limitation on the duration of tax holidays to a maximum period of 10 years, the cantons are autonomous in granting cantonal/municipal (income and capital) tax holidays to newly established enterprises and to existing companies that substantially change their business in a way that contributes to the economic development. At federal level, tax holidays are restricted to municipal predetermined geographies.

Special tax regimes

Holding companies may take advantage of their holding company status at cantonal/communal tax level. With this status, they are completely exempt from cantonal/municipal (but not federal) corporate income tax.

Another special tax status at cantonal/municipal level is the so-called “mixed company” status, which is granted to companies that are primarily engaged in activities abroad. Under this regime, the profits derived from non-Swiss sources are taxed at substantially reduced rates at cantonal/communal level. The combined effective income tax rate for mixed companies ranges from 8% to 14% depending on the cantonal location. Mixed companies can be used for reinsurance and captive companies, as well as for financing and intellectual property companies focusing primarily on non-Swiss markets.

As part of the ongoing Swiss corporate tax reform, the special tax regimes are expected to be abolished in a few years' time. However, the government is determined to preserve the high attractiveness of the Swiss tax system by establishing equivalent alternatives, in particular a general tax rate cut.

Under Switzerland’s territorial tax system, income generated in a foreign branch or permanent establishment of a Swiss company is exempt from Swiss taxation. Income is allocated internationally in accordance with the arm’s length principle, i.e., the more functions performed outside Switzerland, the lower the tax base in Switzerland. In general, income allocated to a foreign branch or foreign permanent establishment of a Swiss company is still protected by the Swiss double tax treaties.

Dividends received are basically taxable as ordinary income. However, under the participation exemption rules, dividend income from qualified participations, i.e., if the recipient owns more than 10% of the shares or if the recipient holds shares with a market value of at least CHF 1 million, is essentially tax exempt. Furthermore, the participation exemption may also apply to capital gains on the sale of qualified participations.

Relationship between taxpayers, tax advisors and tax authorities:

• Excellent and cooperative
• Pragmatic and favorable advance ruling practice
Tax compliance

Tax assessments

Direct taxes, i.e., income and capital taxes, are assessed by the cantonal tax administration based on the annual tax return filed. Any assessment that deviates from the tax return filed can be challenged by companies within 30 days from their date of issuance. Indirect taxes, such as stamp duties, withholding tax and VAT, are assessed by the Swiss Federal Tax Administration in Bern. The accounting period for tax purposes is identical to the company’s financial reporting year.

Tax payments

If the financial reporting year corresponds with the calendar year, direct federal tax is due on March 1 of the subsequent calendar year, whereas for cantonal/municipal tax purposes other due dates may apply. Thirty days after receiving the federal tax invoice, arrears interest of 3.0% is charged on federal tax. The arrears interest rate at cantonal/communal level varies between cantons.

Tax returns

The annual tax return has to be filed in compliance with cantonal/municipal assessment practices; the deadlines are generally extendable. An exception to these rules may be granted for the first fiscal year of incorporation (so-called prolonged business year).

<table>
<thead>
<tr>
<th>City</th>
<th>Schaffhausen</th>
<th>Zug</th>
<th>Zurich</th>
<th>Schwyz</th>
<th>Geneva</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Ordinary taxed company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax (combined effective tax rate)</td>
<td>16%</td>
<td>15%</td>
<td>21%</td>
<td>15%</td>
<td>24%</td>
</tr>
<tr>
<td>Annual capital tax</td>
<td>0.21%</td>
<td>0.07%</td>
<td>0.17%</td>
<td>0.16%</td>
<td>0.40%</td>
</tr>
<tr>
<td>B Mixed company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax (combined effective tax rate)</td>
<td>8.7 - 9.6%</td>
<td>8.6 - 9.6%</td>
<td>9.4 - 10.8%</td>
<td>9.0%</td>
<td>9.2 - 11.6%</td>
</tr>
<tr>
<td>Annual capital tax</td>
<td>0.005%</td>
<td>0.015%</td>
<td>0.034%</td>
<td>0.010%</td>
<td>0.070%</td>
</tr>
<tr>
<td>C Personal income tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax rate of taxable income (gross salary with standard deductions for a married person without children)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHF 100,000</td>
<td>11.3%</td>
<td>4.9%</td>
<td>10.3%</td>
<td>7.6%</td>
<td>12.2%</td>
</tr>
<tr>
<td>CHF 250,000</td>
<td>23.5%</td>
<td>15.4%</td>
<td>22%</td>
<td>16.3%</td>
<td>26.6%</td>
</tr>
<tr>
<td>CHF 500,000</td>
<td>29.8%</td>
<td>20.1%</td>
<td>30.6%</td>
<td>20.6%</td>
<td>34.3%</td>
</tr>
<tr>
<td>Maximum income tax rate</td>
<td>33.6%</td>
<td>24.0%</td>
<td>41.3%</td>
<td>24.9%</td>
<td>45.0%</td>
</tr>
</tbody>
</table>

Switzerland offers (re)insurers a very attractive tax environment:

- Relatively low corporate and personal income tax rates
- Territorial tax regime with unilateral exemption of foreign branch income/capital
- No CFC rules or other extra-territorial tax law
- Extensive network of double tax treaties
- Availability of advance rulings for branch allocation method and other tax issues, enabling bespoke solutions and planning certainty
- Business-friendly, unbureaucratic and responsive tax authorities
- Stable legal environment

The challenges of relocating insurance business to Switzerland

- Tax issues
- Corporate law issues
- Global project coordination
- Regulatory and solvency requirements
- Accounting and statutory reporting
- Employee reporting requirements
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