

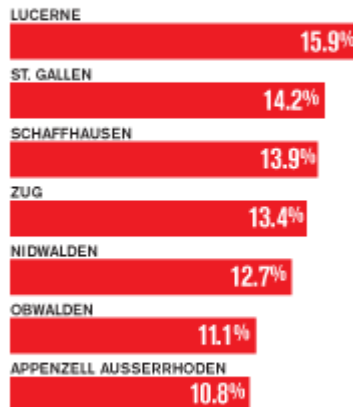
Lower Your Taxes: Move to Switzerland

Multinationals, hedge funds, and private equity firms—spooked by rising taxes—are flocking to the haven in the Alps By [Kerry Capell](#) [September 21, 2009](#)

CORPORATE TAXES, SWISS-STYLE

Companies based in various Swiss cantons pay low rates

EFFECTIVE AVERAGE CORPORATE TAX RATE*



* Effective average tax rate on a profitable investment. Includes corporate tax, other profit-related taxes, real estate taxes, and other taxes based on capital as well as depreciation rules.
Rates as of January 2009.
Data: Bakbasel



As governments around the globe struggle to contain huge deficits, companies and executives are bracing for higher taxes. And increasingly they are turning to Switzerland for relief.

This isn't the Switzerland of shadowy private banking, the kind that got Zurich giant UBS ([UBS](#)) into trouble when it was forced to reveal details of American account holders suspected of tax evasion. Instead, Swiss cantons are openly and legally urging multinationals to relocate. This fall, U.S. fast-food giant McDonald's ([MCD](#)) will move its European headquarters to Geneva from London, joining Kraft Foods ([KFT](#)), Yahoo! ([YHOO](#)), and Nissan. They've all relocated their main Europe offices to Switzerland in the last two years to take advantage of low corporate taxes.

A highly skilled workforce, leading universities, and strong intellectual-property laws also attract companies. Yet those low taxes are very much part of the lure. "There is a lot of interest from companies looking to shift their taxable profit to countries with lower rates," says Andreas Müller, an international corporate tax partner at KPMG in Zurich. Meanwhile, Britain and Ireland are increasing personal income tax rates for top earners. In the U.S., tax hikes seem inevitable. Switzerland has no such plans, says Stéphane Garelli, professor of competitiveness at IMD Business School in Lausanne.

The 26 Swiss cantons are free to set their own rates, so Swiss-based companies' effective average tax rates range from 10.8% to 24% of net income (those effective rates include federal taxes, which are the same throughout the country). Ten cantons even cut rates in 2008 to lure investment. After slashing its corporate rate to 6.6% in 2006, the canton of Obwalden lowered rates to 6% last year, just after the nearby canton of Appenzell Ausserrhoden did the same. "A company might pay 50% less tax just by moving 30 miles down the road," says Martin Naville, CEO of the Swiss-American Chamber of Commerce in Zurich.

OFFSHORE ALTERNATIVE

The Swiss enjoy other tax advantages. Unlike Bermuda and the Cayman Islands, Switzerland has a network of tax treaties. Under those treaties, Switzerland credits corporate taxes paid elsewhere against the taxes owed to the Swiss.

Washington may now tighten restrictions on companies headquartered in jurisdictions that do not have full tax treaties with the U.S. As a result, "there's a trend away from traditional offshore [havens] to countries with tax treaties with the U.S.," says Daniel Küng, CEO of Swiss business development agency OSEC in Zurich. Since last year five U.S. companies, including Tyco International ([TYC](#)), have moved headquarters from Bermuda and the Caymans to Switzerland for tax reasons.

While the Swiss court companies, the British unwittingly help the Swiss out. As of last year, foreigners living in the U.K. for seven years or more must pay tax on income and capital gains earned outside Britain or fork over an annual \$49,000 on top of what they ordinarily owe the government. And starting next April, the top income tax rate will jump to 51.5%, including social security payments. That's up from 40% for anyone, citizen or foreign resident, earning more than \$245,000. The hikes have prompted some hedge funds and private equity firms to head to Switzerland, analysts say. Krom River, a commodities fund with \$750 million under management, moved to the canton of Zug last year. The lure: Swiss stability. "Companies can be sure that once they invest, there won't be any surprises," says Naville.

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