

International comparison of insurance taxation

Switzerland

General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	A company to which property and casualty insurance legislation applies.	Not defined by tax legislation.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Swiss generally accepted accounting principles (GAAP) as set out in the Swiss Code of Obligations. Swiss Accounting and Reporting Recommendations (issued by Foundation for Accounting and Reporting Recommendations) and other international standards are mandatory for quoted companies. Beginning 2005, International Financial Reporting Standards (IFRS)/US GAAP have been mandatory for companies quoted on the main trading segment of SIX.	Generally, based on statutory accounts.
Regulatory return	A separate return as issued by the Regulatory Authorities (Swiss Financial Market Supervisory Authority, FINMA).	N/A.
Tax return	N/A.	A separate annual return as required by the tax authorities.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Calculated by time appointment (e.g. pro rata, 1/24 th) or risk-based.	Allowed as per statutory accounts.
Unpaid claims reported	Calculated on case-by-case or lump-sum basis. Discounting not required (and rarely used) except for annuities in accident insurance.	Accounts provision allowed in full, by case basis, or by statistical estimate.
Claims incurred but not reported (IBNR)	Calculated based on experience or statistical method.	Accounts provision allowed in full for the statistical estimate.
Unexpired risks	Calculated on a statistical basis.	Tax deductible in accordance with accounting rules.
General contingency/ solvency reserves	Set by management.	Allowed as per statutory accounts.
Equalisation reserves	No calculation is mandatory.	Allowed as per statutory accounts.
Expenses/ refunds	Accounting	Taxation
Acquisition expenses	Fully charged in year incurred.	According to the statutory accounts.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Provided by reference to claims reserves, including IBNR. No rules are defined for the calculation.	Allowed when provided.
Experience-rated refunds	Credited when earned.	According to the statutory accounts.

Switzerland: General insurance – overview (continued)

Investments	Accounting	Taxation
Gains and losses on investments	Generally, unrealised FX-gains are taken to provision (so-called “Gewinnspitze”). Unrealised gains on equities valued in accordance with Art. 667 OR (“Obligationenrecht” Swiss Code of Obligations) are shown in the profit and loss (P&L). Realised gains and realised as well as unrealised losses are included in P&L.	Realised gains and losses are included in taxable income. Unrealised losses are tax deductible. Gains on qualifying investments are eligible for the participation exemption.
Investment reserves	Generally, investments are valued at lower of cost or market value for statutory account purposes (non-consolidated). Under certain conditions equities can be valued at market price (Art. 667 OR). Bonds are valued at amortised cost. Under company law, quoted securities can be valued at market value for statutory account purposes. For consolidated accounts market values are used, if a company is quoted at SIX and need to apply US GAAP or IFRS.	According to statutory accounts. In some cantons investments can be depreciated even if the fair market value is higher.
Dividend income	Included in income.	The participation exemption applies to qualifying dividend income, which reduces the tax burden significantly.
Investment income	Statutory accounts: included in P&L, including “unrealized” capital gains (where equity securities are valued at market value). Consolidated accounts: included in P&L. Unrealised gains taken to reserves (see above).	Included in taxable income. The participation exemption applies to qualifying investments.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/ payable are deductible from gross premiums, which are then netted in P&L against claims paid/payable (netting is allowed, not mandatory).	Follows accounting treatment. Premiums paid to group company should be at arm’s length.
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	No special treatment.	No special treatment.

Switzerland: General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Federal and all cantonal/communal income taxes: seven year carry- forward is available.
Foreign branch income	Exempt if there is permanent establishment according to Swiss internal law. Calculation of exempt profit under the direct or indirect method.
Domestic branch income	Calculated under ordinary rules based on branch accounts (direct method) or according to premium income (indirect method: split of profit between branch and head office according to premium income).
Corporate tax rate	Depending on the canton, the effective ordinary tax rate ranges between 11.66% (Cantons of Obwalden and Appenzell Ausserrhoden) and 24% (Canton of Geneva and Vaud). If mixed company status granted, reduced income (starting at 9%) and reduced annual capital tax rates applicable (see below).
Other tax features	Taxation
Premium taxes	5% of cash premiums if Swiss licensed insurer is involved and the contract belongs to its Swiss business, or if the contract is concluded by a Swiss counterparty. 2.5% of life insurance policies with a single-premium payment. Exempt: reinsurance, other life, sickness, disability and transport insurance, and risks located outside Switzerland (applies to risks of tangible goods only).
Capital taxes and taxes on securities	Annual ordinary capital tax rates range from 0.001% to 0.53% depending on the canton and is paid annually based on the company's equity. Several cantons allow crediting capital tax against corporate income tax (CIT). 1% issuance stamp tax on contributions to share capital and reserves. 0.06%/0.12% issuance stamp tax per year on the issuance of bonds and similar instruments. Securities transfer stamp tax of 0.15% on domestic and 0.3% on foreign securities.
Captive insurance companies	For Swiss captives special tax treatment may be available (mixed domiciliary company): reduced income (starting at 9%) and reduced annual capital tax rates.
Value added tax (VAT)	Insurance and reinsurance business (including real brokerage) is Value Added Tax (VAT) -exempt, respective input VAT is not recoverable (Swiss and foreign turnover). Pure insurance holding companies might be able to reclaim Swiss input VAT on costs related to the holding function. Other services (management, IT, loss adjuster, recharges of costs, trademark, etc.) are subject to VAT – as turnover or as acquisition from abroad (reverse charge). Unlike in the EU, cross border supplies of services between head office and branch can trigger VAT. General VAT rate is 8%. Reduced rate of 3.8% and 2.5% for certain items.

Switzerland: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	A company that carries on life insurance business and to which specific regulations apply.	Not defined by tax legislation.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	Swiss GAAP as set out in the Swiss Federal Code of Obligations. Swiss Accounting and Reporting Recommendations (issued by Foundation for Accounting and Reporting Recommendations) and other international standards are mandatory for quoted companies. Since 2005 IFRS/US GAAP have been mandatory for firms quoted on the main trading segment of SIX.	Generally, based on statutory accounts.
Regulatory return	A separate return as issued by the FINMA.	N/A.
Tax return	N/A.	A separate annual return as required by the tax authorities.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Specific regulations exist to allocate risk premium, cost premium and investment income in group life business.	Policyholders' income is deductible from corporate income.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Realised gains and realised as well as unrealised losses on investments plus dividends and interests are taken to P&L. Unrealised gains are generally deferred through a provision.	See "General insurance". Follows accounting rules. For taxation see "General insurance".
Calculation of investment income and capital gains	Accounting	Taxation
Actuarial reserves	Zillmerisations not allowed. Activation of non-amortised acquisition cost premium for individual business is allowed; the amount is limited to the surrender charge.	Generally allowed by fiscal authorities.
Acquisition expenses	Deductible immediately.	Tax deductible immediately if recorded in the statutory accounts.
Gains and losses on investments	Generally, unrealized gains are taken to provision. Realized gains and realized as well as unrealized losses are included in P&L (see "General insurance").	According to statutory accounts.
Reserves against market losses on investments	Mark-to-market all investment (see "General insurance").	According to statutory accounts.
Dividend income	Included in income.	The participation exemption applies to qualifying dividend income, which reduces the tax burden significantly.
Investment income	Statutory accounts: included in P&L, including "unrealized" capital gains (where equity securities are valued at market value). Consolidated accounts: included in P&L. Unrealised gains taken to reserves.	Included in taxable income. The participation exemption applies to qualifying investments.

Switzerland: Life insurance – overview (continued)

Calculation of investment income and capital gains	Accounting	Taxation
Policyholder bonuses	Deductible. Premiums need not be approved in advance by FINMA, but the surrender value has to.	Tax deductible.
Other special deductions	None.	N/A.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/ payable are deductible from gross premiums which are then netted in P&L account against claims paid/ payable (netting is allowed, not mandatory).	According to statutory accounts. Premiums paid to group company should be at arm's length.
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	No special rules.	No special rules.

Switzerland: Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Federal and all cantonal/communal income taxes: seven year carry- forward is available.
Foreign branch income	Exempt if there is permanent establishment according to Swiss internal law. Calculation of exempt profit under the direct or indirect method.
Domestic branch income	Calculated under ordinary rules based on branch accounts (direct method) or according to premium income (indirect method: split of profit between branch and head office according to premium income).
Corporate tax rate	Depending on the canton, effective ordinary tax rate between 12.66% (Cantons of Obwalden and Appenzell Ausserrhoden) and 24% (Canton of Geneva and Vaud). If mixed company status granted, reduced income (starting at 9%) and reduced annual capital tax rates applicable (see below).
Policyholder taxation	Taxation
Deductibility of premiums	Generally, tax-deductible depending on canton and life insurance product.
Interest build-up	Generally, not taxed.
Proceeds during lifetime	Not taxed if certain conditions are met.
Proceeds on death	Taxable at special rates.
Other tax features	Taxation
Premium taxes	5% of cash premiums if Swiss licensed insurer is involved and the contract belongs to its Swiss business or if the contract is concluded by a Swiss counterparty. 2.5% of life insurance policies with a single-premium payment. Exempt: reinsurance, other life, sickness, disability and transport insurance, and risks located outside Switzerland (applies to risks of tangible goods only).
Capital taxes and taxes on securities	Annual ordinary capital tax rates range from 0.001% to 0.53% depending on the canton, and is paid annually based on the company's equity. Several cantons allow crediting capital tax against CIT. 1% issuance stamp tax on contributions to share capital and reserves. 0.06%/0.12% issuance stamp tax per year on the issuance of bonds and similar instruments. Securities transfer stamp tax of 0.15% on domestic and 0.3% on foreign securities.
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