KANTON AARGAU

DEPARTMENT OF
FINANCE AND RESOURCES

Cantonal Tax Administration

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LEAFLET

Taxation of Companies

Table of contents

1. Ordinary Taxation of Companies ... 2
   a) Calculation of Taxable Income ... 2
   b) Tax Rates ... 2
      aa) Corporate Income Tax ... 2
      bb) Capital Tax ... 2
2. Taxation of Domiciliary Companies ... 3
   a) Requirements ... 3
   b) Calculation of Taxable Income and Tax Rate ... 3
3. Taxation of Group Coordination Centers ... 3
   a) Requirements ... 3
   b) Calculation of Taxable Income and Tax Rates ... 4
4. Tax Holidays ... 4
   a) In General ... 4
   b) For Group Coordination Centers and Domiciliary Companies ... 4
   c) Taxation as Domiciliary Company or Group Coordination Center ... 4
   d) Checklist ... 5

1. Ordinary Taxation of Companies

a) Calculation of Taxable Income

As a general rule, taxable income is based on the **financial statements** as established under Swiss commercial law. Such profit or loss may, however, be adjusted according to specific provisions in Swiss tax law.

Expenses incurred for business purposes are deductible for income tax purposes. Such expenses include federal, cantonal and municipal taxes, as well as depreciation and creation of reserves. **Reserves built up for research and development projects** also qualify as deductible expenses in the canton of Aargau. Such reserves are allowed up to an amount of 10 % of taxable net profit to a maximum of 1 million francs.

If assets necessary for the business activities of the company need to be replaced, any hidden reserves are transferred to the new assets.

b) Tax Rates

aa) Corporate Income Tax

Income tax is risen at both federal and cantonal/municipal level.

Federal corporate income tax is levied at a rate of 8.5 % flat.

At cantonal level, there is a double-tiered income tax with a marginal rate of 8.5%. The first 250,000 francs of taxable net profit are taxed at 5.5 %, the remaining net profit at 8.5 %. This rate is subject to cantonal and municipal multipliers that currently amount to 1.69. Thus, the actual cantonal tax burden amounts to between 9.3 % and 14.4 % on the profit after taxes and to between 8.5 % and 12.6 % on the profit before taxes, respectively (all taxes due by corporate taxpayers are deductible).

bb) Capital Tax

The cantonal tax rate amounts to 1.25 ‰ of the company's equity (to be multiplied with 1.69). Profit tax is offset against capital tax.

At federal level, there is no capital tax.

2. Taxation of Domiciliary Companies

a) Requirements

A company qualifies as Domiciliary Company if it does not conduct any business activities in Switzerland, but mere administrative activities. The management of intangible assets is generally considered to be of an administrative nature provided that such management does not include any efforts to increase the value of the intangible assets (e.g. research and development).

Companies performing business activities mainly outside Switzerland, but also performing ancillary business activities in Switzerland, also qualify as Domiciliary Company provided that business activities in Switzerland do not exceed 20% of the overall business activities (so-called "Mixed Companies").

b) Calculation of Taxable Income and Tax Rate

aa) Corporate Income Tax
Cantonal income tax is levied as follows:

- Income from, capital gains on and appreciation of participations held by Domiciliary or Mixed Companies are exempt from income tax.
- Other income from activities outside Switzerland is subject to taxation pro rata, depending on the volume of administrative activities in Switzerland (Domiciliary Companies) or the volume of business activities in Switzerland (Mixed Companies), respectively.
- Income resulting from business transactions in Switzerland is subject to ordinary taxation.

At federal level, the general tax rates apply.

bb) Capital Tax
For both Domiciliary Companies and Mixed Companies, the capital tax rate amounts to 0.1 ‰ of the paid-in capital.

3. Taxation of Group Coordination Centers

a) Requirements

To qualify as Group Coordination Center, a company needs to perform services for group companies, such as financing and management services. A company conducting research and development activities as well as management of intangible assets generally qualifies as Group Coordination Center.

Additionally, at least 90 % of the group's turnover need to be made outside Switzerland. Three group companies with a consolidated equity of 20 million francs and a consolidated turnover of 100 million francs need to be domiciled in different jurisdictions outside Switzerland.

The Group Coordination Center needs to be equipped with a staff of at least five full-time employees.

b) Calculation of Taxable Income and Tax Rates

aa) Corporate Income Tax
As a rule, taxable net profits are assessed at 5 % of relevant operating costs, such costs not including, in particular, financial and personnel expenses.

At federal level, there is no privileged taxation.

bb) Capital Tax
The tax rate for Group Coordination Centers amounts to 0.3 ‰ of the paid-in capital.

4. Tax Holidays

a) In General

The cantonal government grants tax holidays up to a maximum of ten years to (1) companies established in the canton of Aargau starting a new business activity and (2) to companies moving to the canton of Aargau. Tax Holidays are, in particular, granted if the following requirements are met:

- investments and employment creation fulltime jobs within the first two business years in the canton of Aargau;
- innovative strategy;
- focus on international markets;
- importance for local/national economy;
- competitive market conditions; and
- no competitive relation.

Actual duration and kind of tax relief are subject to individual negotiations. The maximum relief is a full exemption from cantonal and municipal income and net worth taxes for a period of 10 years.

b) For Group Coordination Centers and Domiciliary Companies

Tax holidays are generally awarded to companies performing business activities in Switzerland only. Thus, tax holidays may not be granted to Domiciliary Companies. While Group Coordination Centers may apply for tax holidays, the actual tax holidays granted are, however, less extensive than those granted to companies that are subject to ordinary taxation.

c) Taxation as Domiciliary Company or Group Coordination Center

The tax status of a company is part of the income tax assessment and, thus, lies within the competence of the tax authorities of the canton of Aargau (Kantonales Steueramt Aargau, Sektion Juristische Personen, Postfach 2531, 5001 Aarau).

d) Checklist

In order to be granted tax holidays, the company needs to file a request with the **cantonal government** including the following information and documents:

1. Name of the company
2. Name of the directors of the board and the general management
3. Structure of the company; distribution of ownership
4. Auditor
5. Envisaged company location (community or region)
6. Scheduled data of company establishment in the canton of Aargau
7. Object of the company
8. Description of the products / services provided by the company
9. Competitors in the canton of Aargau (if known)
10. Markets and development potential
11. Planned investments within the next 5 years
12. Envisaged creation of jobs and trainee positions within the next 5 years
13. Short business plan for 5 years which consists of the information demanded in this checklist