

Switzerland

Summary

Switzerland has one of the more complicated tax systems of the European countries. In fact, the relevant tax system very much depends upon where in the country the individual resides (the 'canton').

Different cantons have different rates and basis of tax. Some offer favourable lump-sum taxation regimes for high net worth individuals, whereas others have now withdrawn this facility.

The lump-sum basis of taxation applies for all aspects of taxation in Switzerland which include, federal, cantonal, communal and wealth taxes. It not only provides a lower tax, based on what is effectively a fictitious level of income, but offers privacy as individuals are not required to declare their non-swiss income and assets.

Becoming tax resident

There are various permits available in Switzerland. The most suitable permit for someone of high net worth, is the 'fiscal deal permit'.

An individual is eligible for this permit if they:

- Have not settled in Switzerland before, or have had an absence of at least 10 years.
- Do not engage in any gainful activity in Switzerland. i.e. they are retired.
- Are not a Swiss citizen

In the case of married couples, both spouses must fulfil the requirements in order to be able to apply for the fiscal deal permit.

Tax rates

Income tax

It is an individual's and his dependants' annual living expenses that will determine their lump sum taxation. Expenses must amount to at least:

- 7x the annual rental expenses, or
- 7x the rental value of the taxpayer's principal residence in Switzerland, or
- the equivalent amount of taxes on the income derived from Swiss sources and foreign income on which foreign tax relief has been claimed under the Double Tax Treaty, at ordinary tax rates.

In any event, a minimum taxable amount of CHF400,000 (around £300,000) applies for direct federal taxes, even if the living expenses are lower. This may increase depending upon the canton in which the individual resides, to up to CHF600,000.

The amount the taxpayer will have to pay varies from canton to canton and is normally agreed by way of negotiation with the relevant tax authorities.

The following items are considered to be part of the living expenses and are aggregated to calculate the taxpayer's hypothetical income:

- Food and clothing
- Housing
- Personal staff
- Education and culture
- Travelling and vacation
- Healthcare
- Cost of vehicles/animals
- Foreign taxes

Total expense = taxable income.

This agreed amount is then taxed at normal income tax rates at:

1) Federal level:

Progressive rates apply from 1% for single taxpayers (0.77% for married taxpayers) up to a maximum rate of 11.5% on income over CHF 895,901 (c.£680,000).

2) Cantonal level:

Income tax rates are progressive and vary considerable from canton to canton. Cantons with the more favourable tax rates include Obwalden, Schwyz, Zug, Uri up to Nidwalden with the highest observed income tax rate of around 17%. Many cantons, including Zurich, have abolished the lump-sum taxation.

Capital gains tax

In general capital gains are tax-exempt, provided that the disposal was of private moveable assets. On private immovable property i.e. Swiss land and buildings the gain is not subject to federal tax, but the cantons do levy their own tax. In this instance the tax rate depends on two factors:

- The period of time the seller owned the immovable property.
- The realised capital gains.

There is no capital gains tax payable if the property is transferred as a gift or legacy.

Inheritance and gift tax

These taxes are not included in the lump-sum taxation system and are determined by each canton. There is no tax levied at the federal level. Some do not levy any inheritance or gift tax, including Schwyz.

Many cantons do not levy inheritance taxes between spouses or between parents and children, or they levy very low taxes for descendants.

The highest tax rates apply to gifts and inheritances between unrelated persons. In these cases, the tax rate can rise to 50% or higher.

This highlights the importance of choosing the advantageous canton and that although, generally, Switzerland is considered to have a beneficial tax regime, this is not applicable to the entire country.

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