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Supporting structures

Taking up residence in Switzerland
Lump Sum Taxation



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Taking up residence in Switzerland - Lump sum taxation

The lure of Switzerland is often associated with breathtaking scenery and an enviable quality of life however the tax advantages afforded by the lump sum taxation regime are an even more significant lure for wealthy non-Swiss individuals seeking alternative residence arrangements.

What is lump sum taxation? (Pauschalbesteuerung in German / forfait in French)

The Swiss lump sum taxation regime offers high net worth individuals the possibility to be taxed on their income and wealth on a fixed annual lump-sum basis obviating the need to report their actual worldwide income and wealth, unless the taxpayer voluntarily seeks treaty relief under a double tax treaty with Switzerland.

What criteria have to be met?

- The foreigner looking to benefit from the lump sum taxation regime must not have been resident in Switzerland at any time in the preceding 10 years and is forbidden from being employed, or even self-employed in Switzerland.
- Foreigners can claim lump sum taxation for an indefinite period when moving to Switzerland.
- Each individual has to apply for a Swiss residence permit.
- Since the Agreement on the Free Movement of Persons between Switzerland and the EU took effect on 1st June



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2002, residence permits are granted to all EU nationals who do not intend to work in Switzerland. There is moreover no age limit for EU nationals.

- Non-EU individuals have to be over the age of 55 years, and may take up residence in Switzerland if they have sufficient means to support themselves financially and also have close personal ties with the country.
- A suitable property, whether rented or purchased outright, has to be found.

What is the basis for the calculation of lump sum taxation?

Lump sum taxation seeks to establish taxable income through computing the foreigner's annual cost of living expenses. As a minimum, the taxable income must correspond to five times either the actual rental payments or the imputed rent if the tax payer were to live in his / her own property.

The hypothetical income is negotiated up front with the tax authorities in whichever Canton / Commune the taxpayer wishes to become resident, and the tax rates applied will vary between the Cantons / Communes.

As far as wealth taxes are concerned, a hypothetical wealth tax base is calculated based on 5 times the annual rental value capitalised at 5%. There is no wealth tax at the federal level.



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Comparative taxation calculation

In assessing a foreigner's tax base, the Swiss Authorities use a comparative method whereby each year the 5 times annual rental income is compared to a broader tax base, and the higher of the two is chosen as the final tax base.

Inheritance and gift taxes

The lump sum taxation regime does not apply to inheritance or gift taxes.

No inheritance and / or estate tax is imposed at the federal level. Inheritance tax is imposed by the Canton in which the deceased last resided. Each Canton is at liberty to set its own inheritance tax rates, and some do not levy it at all e.g. the Canton of Schwyz. The majority of Cantons have low tax rates, and also offer exemptions in certain circumstances e.g. surviving spouse and direct descendants are exempt from inheritance tax.

Tax rates are progressive, and depend on the degree of "proximity" between the deceased and the beneficiaries of a will, or with regard to gift taxes the "donor" and the "donee". Accordingly the highest rates of tax apply with regard to persons not related to the deceased or donor, and may in some cases be as high as 50%.



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Conclusion

The Swiss lump sum taxation regime can be a very attractive tax planning tool for high net worth individuals wishing to make Switzerland their home. Indeed, the recent uncertainties surrounding the UK tax regime for resident, non domiciled individuals have aroused much interest in Switzerland as an alternative jurisdiction to establish residence.

How can Carey Group help?

Carey Group have offices in both Geneva and Zurich and through our extensive network of lawyers and bankers, we are well positioned to assist individuals wishing to take up residence in Switzerland.

Carey Group contacts:

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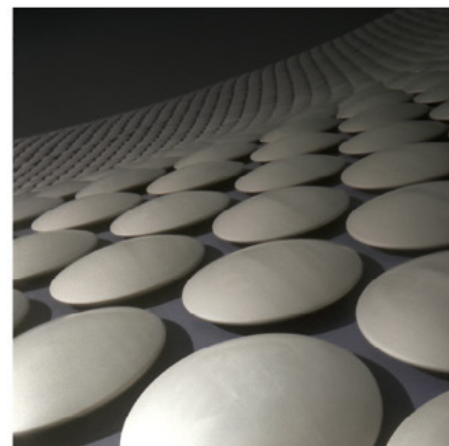
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