LUMP-SUM TAXATION – SWITZERLAND

Welcome to Switzerland

Each year, several thousand foreign nationals make the decision to relocate to Switzerland. Their motivation is often a higher quality of life and more favorable taxation but can also stem from a desire to leave a type of society in which they no longer perceive economic opportunity, or even feel safe.

Offshoring represents not only a legal and tax challenge, but above all a human one, hence the need to defin a clear and concise relocation strategy, and to seek the involvement of experts. Doing so will ensure a smooth and comfortable transition to your new life in Switzerland.

Relocation

Offshoring breaks down into three distinct phases.

First, you must lucidly and honestly ask yourself if you are indeed willing to leave familiarity and daily routines behind, in order to relocate to a new, foreign country. Moving away from family, friends, colleagues, and asking your children to do the same, is not a decision to be made lightly.

When relocating to Switzerland in particular, you will have to choose between the different cantons (states), each of whom have significant differences. Not all cantons offer the same living environment, climate, language, or taxation rates, both for taxation according to expenditure, and estate/inheritance taxation.

Once the relocation decision has been made, the steps involved in renting or buying a property, obtaining a residence permit, and presenting your case to the tax authorities need to be undertaken.

The last step is to take the plunge; to move to and integrate yourself in Switzerland, and to remain a resident here for enough time so as not to risk losing your residency permit, or preferential tax status.

Good Habits to Adopt

Ensure your firm resolve to leave your home country and begin a new adventure in Switzerland. Take time to inform yourself on everything from weather to culture, to ensure that you will be happy in your new home.

Choose your Swiss canton of domiciliation in terms of general well-being and <u>not only tax interests</u>.

Respect the rules in a disciplined manner so as not to put yourself or your family at financial or legal risk. Despite Swiss discretion and a strong culture of personal privacy, as a small and closely-knit country, nothing here goes unseen.

Taxation based on expenditure

For many years, Switzerland has supported a system of taxation according to expenditure, also called lumpsum taxation, which allows persons of foreign nationality who do not exercise a lucrative activity in Switzerland, to be taxed not on their income or wealth, but rather on their expenses.

This taxation system for foreigners is widely acclaimed by the Swiss people, who on November 30, 2014 voted to reject an initiative to abolish it, by a majority of almost 60%, As a result, this tax is enshrined in Swiss legislation, and its long-term existence confirmed.

Do I Qualify for Special Taxation?

To be taxable according to expenditure, you must satisfy the following conditions:

1) You do not have Swiss nationality. This requirement also includes couples who are domiciled together in civil union or marriage, where one is a Swiss national but the other is not.

2) You have been granted an unlimited residence permit (C Permit) for the first time in Switzerland, or you have been a resident abroad for least ten years if you were previously a resident in Switzerland.

3) You do not hold any gainful employment or exercise any other lucrative activity in Switzerland.

How Special Taxation is Calculated

As the name "taxation according to expenditure" suggests, the basic principle is that both federal direct tax (IFD) and cantonal and communal tax (ICC) are calculated based on the annual expenditure of the taxpayer.

Federal Tax (IFD)

The special federal tax that replaces income taxation is calculated on the amount of the annual expenditure of the taxpayer, and is based on the highest of the following three amounts:

- CHF 400,000
- For taxpayers who are the head of a household, seven times either their annual rent or the "valeur locative" ascribed to their property (for Swiss property owners), and, for other taxpayers, triple the amount of their annual pension.
- The income that is considered in the control calculation.

Cantonal & Communal Tax (ICC)

Regarding the calculation of the cantonal and communal tax, the tax that replaces income is calculated based on the taxpayer's annual expenses, but at least according to the highest of the following amounts:

- A fixed expenditure amount determined by each canton, for example CHF 400,000 for Geneva, CHF 360,000 for Vaud and CHF 250,000 for Valais. n.B. These amounts may be higher for non-European nationals.
- For taxpayers who are the head of a household, seven times either their annual rent or the "valeur locative" ascribed to their property (for Swiss property owners), and, for other taxpayers, triple the amount of their annual pension.
- The income that is considered in the control calculation.

Once the complete tax is calculated based on the principles mentioned above, it is appropriate to compare this amount each year with that calculated as part of a calculation called the "control calculation".