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Overview of the Swiss Tax System and Planning Opportunities for Individuals

Located at the heart of Europe, Switzerland is an attractive country to take up residence and employment. Its high standard of living, its legal and political stability, a well-developed infrastructure and a very low taxation regime with a broad double tax treaty network offer an attractive environment for employment and business opportunities. The purpose of this fact sheet is to provide a short overview of the Swiss tax system for individuals and a presentation of selected tax related planning opportunities.

Swiss Tax System

Foreign nationals taking up residence and employment in Switzerland will become subject to Swiss taxation on their worldwide income and wealth. However, revenues derived from business carried out abroad, from permanent establishments and from immovable property situated abroad are exempt and are taken into account only for the determination of the applicable tax rate (exemption with progression).

Taxes are levied on the federal, cantonal and communal level. The income tax rates are progressive and vary by canton and commune.

For a gross annual (joint) salary of CHF 150’000 for example, the tax rate varies between 4.6% and 15.5%, for a gross annual (joint) salary of CHF 400’000 between 16% and 27%. These tax rates are calculated on the basis of a married couple (2 children, no church affiliation) after standard lump sum, social security and mandatory pension fund contributions.

Wealth tax rates are progressive and vary between 0.1% and 0.9% of net assets, depending on the place of residence.

Lump-sum Taxation

Under the lump-sum tax regime, foreign nationals taking up residence in Switzerland who do not engage in gainful employment in Switzerland may choose to pay an expense-based tax instead of ordinary income and wealth tax. Typically, the annual living expenses of the tax payer and his family, which are considered to be the tax base, are disclosed and agreed on in a ruling signed and confirmed by the competent cantonal tax authority prior to relocating to Switzerland.

Once the tax base has been determined and confirmed, it is then subject to ordinary tax rates applicable at the place of residence. As a consequence, it is not necessary to report effective earnings and wealth.

The lump-sum taxation regime may be attractive to wealthy foreigners given the fact that the ordinary tax rates only apply to a portion of the taxpayer's worldwide income and assets. Foreigners can opt for the taxation based on their living expenses provided the following criteria are cumulatively met:

- No Swiss citizenship.
- Being subject to unlimited Swiss taxation for the first time or after an absence of at least ten years.
- No gainful employment in Switzerland.

Expatriate Status

Certain special tax deductions apply to expatriates, defined as employees in a position of leadership or specialized professional experts, sent by their foreign employer to Switzerland for a temporary assignment (for a maximum period of five years). The additional professional expense deductions are granted if the following criteria are met:

- The employee must either be an executive or a specialist.
- The assignment is limited for up to five years.
- The employee has a home country contract and is transferred by his foreign employer within the group based on an assignment contract to Switzerland.

Furthermore, the foreign employer guarantees a re-employment after the stay in Switzerland. Employees qualifying as expatriates according to cantonal and federal law are entitled to apply for the following expat deductions lowering their tax burden substantially:

- Reasonable costs for accommodation in Switzerland if the expatriate maintains a permanent abode abroad for his stay in Switzerland.
- Moving costs to Switzerland and back to the home country.
- Travel expenses to and from Switzerland.
- Schooling costs for the expat's children for a foreign-language private school.

For more information in this regard please refer to our fact sheet "Revised Expatriate Ordinance".

Inheritance and Gift Tax

Inheritance and gift tax is only levied on cantonal and communal level if the deceased/donor is a Swiss resident. The rates are progressive and depend on the degree of relationship between the deceased/donor and the heir/donee. However, no tax is levied between spouses and, in many cantons, between parents and descendants. In an international inheritance context the respective double tax treaties have to be considered.

Capital Gain Tax

Capital gains realized on the disposal of movable assets (e.g. shares, bonds etc.) are generally not subject to Swiss income tax.

However, individuals considered to be professional securities dealer (e.g. frequent trades, high leverage, short holding period of the securities etc.) could be liable for capital gains on their trades.

Capital gains arising from the sale of immovable assets (i.e. real estate) in Switzerland are generally subject to a separate capital gains tax. The tax burden varies from canton to canton and usually depends on the amount of the capital gain realized, the holding period of the real estate and the wealth increasing investments during the holding period.

Privileged Dividend Tax

Dividend income is subject to ordinary Swiss income tax. If the shares are held in the individual's private wealth and if the individual holds at least 10% of the stock (so-called "qualified participation") of the company paying the dividend, at federal level only 60% of the dividend will be taxed and 40% will be tax exempt.

At the cantonal level, the cantons are free to provide a comparable reduction of the tax. While some cantons introduced a similar dividend relief system as on federal level, other cantons take a slightly different approach, as they do not provide for a partial tax exemption, but rather for some relief through a reduced tax rate.

As the tax rates vary substantially among the different cantons (and even among the communes of the same canton), the tax rate applicable on dividends is between 5% to 20%, depending on the place of residence.

How can Grant Thornton help?

Grant Thornton is experienced in advising international clients with complex structures in all individual tax issues. We analyze your personal situation to determine the most suitable solution from a legal and tax point of view.

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