Lump-Sum Taxation Regime for Individuals in Switzerland

By end of 2014, Swiss voters decided by a clear majority to maintain the lump-sum taxation regime. At federal level the requirements to qualify for being taxed under the lump-sum regime will be slightly amended. Cantonal regulations also consider adjustments to ensure an attractive and pragmatic lump-sum taxation regime for selected individual tax payers.

Background

Under the lump-sum tax regime, foreign nationals taking 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.

Over the last years this taxation regime has come under some pressure in Switzerland. In a few cantons it has been abolished on cantonal level. Attractive cantons remaining to offer the Lump-sum taxation are Schwyz, Zug, Vaud, Grisons, Lucerne and Valais. In autumn 2012, more stringent rules to tighten the lump-sum taxation were approved by the Swiss parliament to strengthen its acceptance. The revised legislation will be effective on federal and cantonal level as of 1 January 2016.

Current legislation and rulings in place continue to be applicable for a transitional period of five years from 1 January 2016 for individuals taxed under the current lump-sum taxation regime.

Requirements
According to the revised regulations, foreigners can opt for the taxation based on their living expenses provided the following criteria are cumulatively met:

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

No Swiss citizenship
According to the revised regulations, only non Swiss nationals are granted the opportunity to opt for the lump-sum taxation if they meet all other criteria. Swiss nationals as well as individuals with a double citizenship (one of them Swiss) are not allowed to opt for the taxation based on their living expenses.

Swiss tax residency
Only individuals being subject to unlimited Swiss taxation for the first time or after an absence from Switzerland of at least 10 years are entitled for the lump-sum taxation. In cases, in which someone originally moved to a canton in which the lump-sum taxation regime is not in force, it is still possible for the individual to move to another canton that acknowledges the special tax regime and to opt for the taxation based on the living expenses. This applies, however, only for individuals who meet all the above mentioned requirements as of the moving date to Switzerland.

No gainful activity in Switzerland
The lump-sum taxation regime is only available to foreign nationals who do not perform any gainful, professional or commercial activity in Switzerland. Gainful activities carried out outside of Swiss territory are not affected by this requirement.

Married applicants must both meet the above mentioned three criteria for lump-sum taxation.

Residence Permit
Wealthy foreigners qualifying for being taxed under the lump-sum taxation regime are generally granted the residence permit B.

Social security contributions
Generally, individuals living or working in Switzerland are subject to the Swiss social security system and have to pay social security contributions.

Individuals being taxed under the lump-sum taxation regime who have not reached the ordinary pension age, have to pay social security contributions as not employed persons. In most cantons the calculation of the contributions is based on the final tax assessment. The maximum contribution amounts to CHF 24'100.– per year. If both spouses have not reached the ordinary pension age, the annual contributions of both together amount up to CHF 48'200.–. In case a gainful activity is performed abroad it might be possible to apply for an exemption from the obligation to pay Swiss social security contributions.

Determination of the tax base
As of 1 January 2016, the tax base for the lump-sum taxation is generally calculated based on the annual living expenses incurred by the taxpayer and his family (spouse and dependent children) in Switzerland and abroad. The worldwide living expenses which are treated as taxable income are housing costs (including heating, cleaning, garden maintenance), costs of clothing and food, schooling for children, leisure time costs (expenses for hobbies, sport activities and holiday), cars, boats, yachts and all other expenses linked to living costs.

At federal level, the total amount of annual living expenses as determined above must amount to at least seven times the annual rental expenses or rental value of the taxpayer's principal residence in Switzerland. In addition, a minimum taxable income of CHF 400'000 will be deemed to apply for the calculation of federal income tax.

The cantons are required to define at their own discretion a minimum threshold as well, taking into account both cantonal and communal income and wealth taxes. For income tax purposes typically the same criteria as for federal taxes apply, as such in many cases CHF 400'000 will be the tax base.

In many cantons, the assessment base for wealth tax purposes amounts to at least twenty times the deemed taxable income.

The individual tax assessment base is subject to standard tax rates applicable in the canton of residence.

Control calculation
The assessment base according to the before explained methods is then subject to a control calculation: the tax amount agreed on must must be at least equivalent to the taxpayer's ordinary taxes payable on:

- Swiss-source income (mainly from Swiss real estate, securities issued by Swiss entities, Swiss-source pensions or royalties) and
- foreign income for which the benefits of a double tax treaty are claimed (for specific jurisdictions all income from the respective country for which benefits of the applicable double tax treaty are claimed have to be taken into consideration)

To sum it up: Under the revised legislation, at federal and cantonal level the minimum tax base will correspond to the higher of the following amounts: worldwide living expenses, the minimum income of CHF 400'000, seven times the housing costs or the total gross income from Swiss sources according to the control calculation.

How can Grant Thornton help?

Grant Thornton is experienced in advising international clients with complex structures in all tax issues and especially with respect to the Swiss lump-sum taxation regime. We analyze your personal situation to determine the most suitable solution from a legal and tax point of view. Due to our good relationship with the different cantonal tax authorities we are able to optimize your individual tax situation under the amended lump-sum taxation regime.

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