

Making the move to Switzerland

Doing it successfully

Moving to the land of the good life – and tax relief – requires expert planning. Here’s how to go about it.

The recent—and continuing—move of individuals and companies relocating to Switzerland suggests that it is a very attractive place to live and work. Many find the Swiss Confederation appealing for its cultural aspects, quality of life, political stability, positive economic climate and excellent public health and education systems, and, of course, its attractive tax regime.

However, any successful move to Switzerland requires research, planning and proper guidance. In particular, prospective residents should thoroughly research the Swiss tax regime and consider which canton best serves his or her interests. Following are some guidelines for anyone considering relocating to Switzerland.

Prior to arrival

Begin by learning a bit about the Swiss tax structure. As a confederation of 26 largely independent cantons, where one lives in Switzerland can have a great impact, especially regarding tax matters. Switzerland hosts 26 separate tax jurisdictions and maintains three different levels of taxation (federal, cantonal and municipal). Tax laws and tax rates vary greatly among cantons. It is therefore important for prospective residents to research the tax regime in each region to which they are attracted in regard to lifestyle and personal situation. Failing to do so, one risks foregoing potentially stunning tax-optimization opportunities. Not only are these concepts important to work out your tax liability, but they can also give rise to many planning and tax-saving opportunities in Switzerland.

After selecting a canton—but prior to coming to Switzerland—a prospective resident should obtain the necessary work

and/or residence permit. Since 1 June 2002, Switzerland has implemented a dual system, which varies depending on the origin of the applicant (whether the applicant is a citizen from an EU/EFTA nation, or from a non EU/EFTA nation). Also, depending on a foreigner’s country of origin, he or she may face restrictions on the acquisition of Swiss real estate.

Establishing residency

Legal residence is defined as the place where a person stays with the intention of settling there permanently, and which is thus the centre of his or her personal and business interests. Within eight days of arriving in Switzerland, new residents must report to the registration office of the municipality where he or she intends to live (note that this date of official registration is usually considered to be the start of one’s Swiss taxation liability). A foreign individual who becomes resident in Switzerland is therefore fully subject to income and wealth taxation from the date of arrival.

In Switzerland, establishing residency typically requires more than 30 days in the country if the individual is engaged in a gainful activity, or more than 90 days if the individual is not gainfully employed during the relevant calendar year. Short interruptions of this 90-day presence will not put at risk the status; however, the accumulation of short visits will not fulfil the 90-day rule.

Swiss tax regime

Residents of Switzerland are subject to federal income taxes and to cantonal/municipal income and wealth taxes. Each of these is based on similar principles and is imposed on worldwide income and net wealth at progressive rates.



Dr Bernhard Zwahlen

Partner, Tax,
Head of Ernst & Young’s
Swiss Private Client
Services Practice

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Rafael Martinez

Senior Manager, Tax,
Member of Ernst & Young’s
Swiss Private Client Services
Core Team

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For individuals, the tax year corresponds to the calendar year. If you become a Swiss tax resident part way through the year, the first year’s income in Switzerland is annualized for determining the applicable Swiss tax rates to be applied against the part year income and wealth. The regular assessment basis is the current year.

Unlimited tax liability does not extend to capital invested in, and income derived from, businesses, permanent establishments and real property situated abroad (but is considered for the determination of the applicable Swiss tax rates). In case of conflict with another country, the relevant tax treaty will be applied to resolve the conflict.

Family tax concept

In order to minimize discrimination, different progressive tax rates apply for married and single persons. Married couples are normally assessed jointly (or separately if they are living jointly but in two different residences), ie their income and wealth are aggregated (the so-called “family tax concept”).

Married couples are allowed higher deductibles, again as a means to avoid discrimination. Regardless of civil status, deductible items for taxpayers include social security contributions, accident and health insurance premiums, company pension plan contributions and qualified private pension plan contribution, and repair and maintenance costs of dwellings, as well as certain charitable donations.

NB: A word of caution, however: some deductions are limited to a certain amount or percentage, the so-called “standard deductions”.

Ordinary taxation

In Switzerland, taxable income includes all earned income, whether received in cash or kind, the rental value of owner-occupied houses, as well as pensions and investment income. However, exposure to Swiss taxation does not extend to assets invested in, or income derived from, businesses, permanent establishments or real estate located abroad. In fact, such assets and income are only relevant for the purpose of calculating the applicable tax rates.

Taxable wealth includes all assets and debts (eg bank accounts, shares and other securities, real estate, mortgages and other loans). However, in most cases, capital gains are tax-free in Switzerland, except for capital gains from Swiss real estate, which is taxable.

Lump-sum taxation

Lump-sum taxation is a special tax system whereby Swiss income tax is levied on the basis of an individual's expenses rather than on his or her taxable income. It is available to those non-Swiss citizens who wish to reside in Switzerland for the first time, or after an absence of more than 10 years, without taking-up any lucrative activity inside Switzerland. The term “lucrative activity in Switzerland” includes all activity derived from any kind of profession or employment performed in Switzerland, whether dependent or independent. Nevertheless, individuals may very well continue lucrative activity outside of Switzerland.

Although cantonal practice is often very similar to federal practice, there may be cantonal differences. Therefore an individual's expenses, which serve as the basis of lump sum taxation, must be negotiated with the relevant cantonal tax authorities, and must then be fixed in a written ruling. As noted above, the basis of lump-sum taxation is calculated on an individual's annual expenses in Switzerland and abroad. In practice, the basis of taxation must be at least five times the rent paid on rental property or five times the imputed income attributed to homeowners. However, the amount of lump-sum tax may not be less than the tax that would be payable on the sum of the following items:

- √ income from Swiss real property;
- √ income from Swiss investments;
- √ income from any other property located in Switzerland;

- √ income from Swiss-source patents, copyrights and similar property rights;
- √ pensions or annuities paid from Swiss sources; and
- √ foreign income, if double tax treaty exemption is claimed.

Inheritance and gift taxes

Whereas the Confederation levies no inheritance or gift taxes, all cantons but one (Schwyz) impose an inheritance tax on the transfer of property to beneficiaries and all cantons but two (Lucerne and again Schwyz) levy taxes on donations.

Inheritance and gift taxes are levied in the canton where the deceased or donor had his (last) residence, or, if real estate is concerned, in the canton or country where it is located. No inheritance or estate taxes are levied if Swiss real estate is not concerned and the deceased was (or donor is) resident abroad. The tax rates differ among cantons. In general, the rates vary according to the value and the property inherited or donated, and the relationship of the beneficiary to the deceased or donor. A number of cantons do not levy a tax if the recipient is the spouse or a direct descendant of the deceased or donor.

The inheritance and gift taxes are payable either by the recipient or by the personal representative of the deceased or by the donor. Note that non-residents are liable to inheritance or gift tax if the deceased or donor was a Swiss resident at the time the property is passed on or if the property concerned is real estate located in Switzerland.

Switzerland has concluded inheritance tax treaties with Austria, Denmark, Finland, France, Germany, the Netherlands, Norway, Sweden, the UK, and the USA. These treaties, however, are not always able to avoid double taxation completely.

Do it the right way

Hopefully, the above remarks provide some insight into the vast and complex world of Swiss tax. There are many considerations to take into account when thinking about relocating to Switzerland. As you can appreciate, making a successful move to Switzerland requires research, planning and proper guidance. «««

* Dr Bernhard Zwahlen, Partner, Tax, Ernst & Young, Head of Ernst & Young's Swiss Private Client Services Practice; Rafael Martinez, Senior Manager, Tax, Ernst & Young, Member of Ernst & Young's Swiss Private Client Services Core Team.