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Coming to Switzerland

Introduction

Located at the heart of Europe, Switzerland is divided into 26 states, which are known as cantons. Today the total population in Switzerland is about 8.8 million. In comparison with other European countries, the proportion of foreigners is particularly high in Switzerland representing around 25% of the resident population. Besides, Switzerland's economy is fairly robust in terms of gross domestic product (GDP) and the country is known for its high standard of living, attracting many wealthy individuals and their families from around the globe.

On top of the aforementioned reasons Switzerland is also a popular destination due to its favorable tax system. Switzerland has a stable tax system, beneficial tax rates, special tax regimes and agreed numerous tax treaties internationally. Switzerland's attractive tax landscape offers a range of tax incentives and benefits to both individuals and businesses, making it an attractive location for those looking to minimize their tax burden.

At Deloitte, we understand that tax and related matters can be complex and overwhelming. Therefore, we are dedicated to providing our clients with clear, concise, and actionable advice that they can rely on. Our team is always available to answer your questions and provide you with the support you need to succeed.

If you are looking to discuss tax and other related matters, please do not hesitate to contact Deloitte today. Our team is ready and eager to help you achieve your goals and navigate the intricate world of tax law. Please find our contact information at the back of this document.

UNDERSTANDING YOUR POSITION

1. Swiss tax residence

The taxation of income and wealth in Switzerland is dependent on the individual's tax residence status. A foreign individual who is regarded as a tax resident in Switzerland will in general be subject to tax on worldwide income and net wealth while a non-resident taxpayer is only subject to Swiss taxation on Swiss sourced income and Swiss situs assets (e.g. real estate).

Individuals qualify as tax resident in Switzerland based on domestic legislation if:

a) Their tax home (i.e. centre of vital interests) is located in Switzerland; or
b) They spend 30 consecutive days in Switzerland (minor interruptions abroad are ignored) while performing a gainful activity; or
c) They spend 90 consecutive days in Switzerland (minor interruptions abroad are ignored) without performing a gainful activity.

In practice, each individual who is registered as resident with the local authorities is, normally, regarded as fiscally resident based on domestic legislation.

For individuals, the Swiss tax year equals the calendar year, but split years apply for individuals who start or end being subject to Swiss taxation.

☐ **DO I KNOW WHEN I WILL BECOME RESIDENT?**

2. Other jurisdictions

It is possible to be resident in more than one jurisdiction and the domestic rules that determine if an individual is resident differ from jurisdiction to jurisdiction. Advice should be sought in the jurisdiction of current residence prior to arrival in Switzerland so that any local taxes, such as exit taxes, may be identified in advance.

☐ **DO I KNOW THE IMPLICATIONS OF LEAVING MY CURRENT JURISDICTION?**

3. Swiss taxation

Swiss taxes are levied on at least three different levels:

1. The direct federal tax (marginal rate: 11.5%) is uniform throughout Switzerland and only due on income.
2. The cantonal tax varies from canton to canton and is levied on income and wealth.
3. The communal tax can vary from community to community, is levied on income and wealth and is normally calculated as a multiple or percentage of cantonal tax.
4. Church tax is levied in many (but not all) cantons on the income and wealth of individuals affiliated to one of the three official Swiss church communities (i.e. roman-catholic, Christ-catholic and Swiss protestant).

Income and wealth tax rates are typically progressive on the federal and cantonal level. The maximum income tax rate including federal, cantonal and communal taxes (but excluding church tax) is between approximately 21% and 46%, depending on the canton and commune (e.g., Zug and Schwyz have the lowest rates, Geneva and Vaud have the highest). The marginal wealth tax rate can vary from around 0.15% to 1% depending on canton and commune.

☐ **DO I KNOW IN WHICH CANTON I WANT TO RESIDE AND THE TAX IMPLICATIONS THEREOF?**

4. Immigration

Individuals who do not have a Swiss passport should carefully consider their immigration position. This will determine the amount of time an individual may spend in Switzerland and the nature of activities that they can undertake there.

Switzerland has a dual immigration system, distinguishing between EU/EFTA nationals and non-EU/EFTA nationals. Furthermore, when determining the most appropriate immigration category, it is important to establish the activities that the individual will undertake whilst in Switzerland. Consideration of the individual's short term and long-term plans, as well as understanding if they will be sponsored by an employer and/or accompanied by any dependants, will help establish the appropriate immigration category.

It is recommended that pre-arrival immigration planning begins a minimum of three months before the intended date of travel to Switzerland.

☐ **DO I HAVE THE CORRECT IMMIGRATION STATUS TO ENABLE ME TO BE PRESENT IN SWITZERLAND FOR MY INTENDDED PURPOSE?**

BASIS FOR TAXATION – ORDINARY VS. LUMP-SUM TAXATION

5. Basis for taxation

Ordinary taxation

Resident individuals are in principle subject to Swiss taxation on their worldwide income and wealth. Domestic legislation, however, allows the following items to be exempted with progression from Swiss taxation:

- Income deriving from and the value attributable to foreign real estate; and
- Self-employed income deriving from and assets attributable to a foreign place of business or permanent establishment; and
- Income attributable to equity-based incentive schemes that has been earned prior to taking up Swiss tax residency.

The Swiss income tax basis is rather broad. Taxable income includes active (e.g. income from any gainful activity as well as pension income) and passive (e.g. interest, dividends, rental income) income. The most important exception from this general rule relates to capital gains on privately held movable assets (e.g. shares and bonds) that in general remain tax-free. Capital gains on business assets are subject to ordinary income tax while capital gains on properties located in Switzerland are normally taxed separately from any other income at a special cantonal (and sometimes communal) capital gains tax.

Only 70% of the gross dividends deriving from qualified shareholdings (i.e. taxpayers owning 10% or more of the company's capital) are taxed at the federal level. Most cantons provide similar (or even slightly higher) exemptions for such qualified dividends on the cantonal tax level.

Subject to wealth tax are basically all of an individual's assets with the exception of pension entitlements (Swiss and foreign) and household goods (e.g. furniture, clothes, etc.). In general, the fair market value of all the assets as at the end of the tax period (31 December or the date that an individual breaks Swiss tax residency) is subject to Swiss wealth tax. Only Swiss real estate is taxed on the normally lower tax value as determined by the cantonal tax authorities where the property is located. Any outstanding liabilities (e.g. mortgages, student loans, car loans, outstanding credit card balances, etc.) at the end of the tax period can be deducted from the value of the assets so that only the net wealth balance is subject to taxation.

Lump-sum taxation

The lump sum taxation is a special tax status available in some cantons to foreign nationals who:

1. Take up residence in Switzerland for the first time ever or after an absence of at least 10 years; and
2. Do not perform any gainful activity in Switzerland.

Individuals benefiting from this special tax regime are exempt from Swiss taxation on their worldwide income and net wealth but must pay a lump-sum tax based on the highest of the following four figures, which serve as the tax base:

- Family's annual worldwide living expenses.
- Annual housing costs multiplied by seven.
- A minimum amount for a lump-sum payment, as specified by canton of residence based on the applicant's circumstances. Generally, applicants must disclose worldwide earnings and wealth during the application process.
- Amount disclosed under the control calculation. The control calculation, a simplified tax declaration completed annually, considers all Swiss-sourced income, assets in Switzerland, and foreign-sourced income eligible for relief from foreign taxation (based on Swiss double tax treaties).

This special tax status can be an attractive tool for wealthy foreign taxpayers relocating to Switzerland. The minimal annual tax burden under this regime is approximately CHF 150,000 (including cantonal, communal, and direct federal taxes). This minimum tax is indicative for EU/EEA nationals and is usually significantly higher for non-EU/EEA nationals. The tax amount primarily depends on the taxpayer's nationality, Swiss accommodation costs, and worldwide living expenses.

☐ **DO I UNDERSTAND THE DIFFERENT TAX REGIMES AND KNOW ONE IS MORE BENEFICIAL FOR ME GIVEN MY CURRENT SITUATION?**

OTHER PRE- AND AFTER-IMMIGRATION CONSIDERATIONS

6. Acquiring a home in Switzerland

Purchasing property in Switzerland can be time-consuming and impact taxes. The advice of a qualified real estate professional and tax advisor should be sought. They can explain fees like transfer taxes, notary fees, and land register fees (about 6-7% of the purchase price).

Due to high demand, Switzerland has a law, "Lex Koller," regulating property purchases by non-residents. This law requires cantonal approval before acquisition. Individuals who must obtain cantonal approval include:
- Foreign nationals residing abroad; and
- Foreign nationals in Switzerland without a permanent residence permit (C-permit) who are not EU or EEA nationals

Approval depends on factors like property size, cantonal real estate market, and intended use. "Lex Koller" regulations are complex, and violations can lead to penalties.

☐ **HAVE I SOUGHT ADVICE REGARDING THE ACQUISITION OF SWISS PROPERTY AND UNDERSTOOD TAX IMPLICATIONS OF THIS?**

7. Governance of non-Swiss entities

Non-Swiss companies can still be subject to Swiss tax if they are managed and controlled in Switzerland or have a permanent establishment in Switzerland.

Individuals who are involved with such non-Swiss entities should review their roles before becoming Swiss tax resident, so that they do not inadvertently bring them within the scope of Swiss corporation tax.

☐ **HAVE I UNDERSTOOD THE IMPACT OF MY SWISS TAX RESIDENCE ON ANY NON-SWISS ENTITIES THAT I AM INVOLVED WITH, AND TAKEN ACTION WHERE NECESSARY?**

8. Matrimonial Property Law

If the (non-Swiss) spouses have not concluded a nuptial agreement, Swiss matrimonial property law – retrospectively to the date of the marriage – applies automatically with their relocation to Switzerland. However, they can declare, prior to or after moving to Switzerland, the matrimonial property law of their citizenship to be applicable in a nuptial agreement.

☐ **HAVE I SOUGHT ADVICE REGARDING A CAREFUL MATRIMONIAL GOODS PLANNING AND UNDERSTOOD THE LEGAL CONSQUENCES THEREOF?**

9. Inheritance Law

The estate of a foreign citizen with his/her last domicile in Switzerland will be governed by the Swiss inheritance law. However, a foreign citizen may submit, prior to or after moving to Switzerland, his/her estate by will or contract of succession to the law of his state of citizenship.

☐ **HAVE I SOUGHT ADVICE REGARDING MY SUCCESSION PLANNING AND UNDERSTOOD THE LEGAL CONSEQUENCES THEREOF?**

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