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Global Employer Services NewsFlash

Switzerland – Higher taxes on expatriate benefits

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Background

The Swiss government has recently announced changes to the Federal ordinance that provides the legal basis for deducting moving, housing and schooling expenses for expatriate employees. These changes will enter into force as of 1 January 2016.

Main changes

Below you will find a summary of the current rules as well as the new rules that will take effect in 2016:

1. Definition of “Expatriate employee”

Current rule: Many cantons accept that executive employees and specialists transferred to Switzerland on a Swiss *local contract* can be expatriates and benefit from the expatriate deduction for a period of five years.

New rule: Only executive employees and specialists who are sent temporarily *with a letter of assignment* by their foreign employer will qualify for these deductions. A local contract should still be accepted assuming it is limited to five years and includes a contractual clause guarantying re-employment with the home country company.

2. Lump-sum deduction

Current rule: Expatriates can choose to deduct either the actual expatriate expenses or a lump-sum amount of CHF 1,500 per month. There are no additional conditions for taking the lump-sum deduction.

New rule: In order to benefit from the lump-sum deduction, it is now required that permanent home country lodging must be kept for the expatriate’s own use for the duration of the assignment. In circumstances where the home country lodging has been rented out or is otherwise unavailable, the lump-sum deduction will not be accepted and only the actual expatriate expenses will be deductible.

3. Double housing cost deduction

Current rule: The cost of rent in Switzerland is deductible if the expatriate maintains lodging in their home country. Many cantons consider that it is enough that the expatriate owns real estate in their home country.

New rule: The deduction will only be possible if it can be proven that home country lodging is *permanently and readily available*. The maximum allowable amount will still be determined by the local tax authorities.

4. Travel costs from home to host country and moving costs

Current rule: Many cantons accept that house hunting visits and other less direct costsrelated to the preparation of the move are deductible (in addition to typical moving expenses, such as flights and removal costs).

New rule: According to the commentary, only those costs deemed as indispensable for moving to the assignment country will be deductible. In other words, only costs that are in direct relation to the move such as flights and removal costs will be deductible.

5. Schooling costs

Current rule: Many cantons accept that the payment of private schooling costs for children of expatriate employees is not a taxable benefit for the employee if the costs are paid in the form of a subsidy to the school (subsidy / cooperation agreement system). The current rules do not indicate a limit in time to this benefit.

New rule: The number of years that schooling costs can be deducted is now aligned to the other expatriate deductions (for a period of five years). The system of subsidy / cooperation agreements with international private schools won't be abolished, however the effective costs will have to be reported on employees' annual salary certificates if they exceed five years and consequently will generate additional tax liabilities.

Deloitte's view

These changes limit certain tax benefits previously available to multinational companies and their employees. Multinationals need to assess the additional tax costs that these changes will bring and take the appropriate measures to plan for future transfers.

Deloitte can support you with a detailed analysis of the impact of these changes. We can also assist you in restructuring your current arrangements with the tax authorities and / or your mobility policies.