INSIGHT

Lump-sum taxation in Switzerland: tax benefits for HNWI

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Switzerland offers interesting tax-planning opportunities to foreigners. Lump-sum taxation is one of the most advantageous tools available, able to make Switzerland a very attractive place to reside for wealthy individuals.

Foreign nationals with a substantial wealth and consistent foreign sourced income willing to make Switzerland, and particularly Canton Ticino, their country of residence, may choose to be taxed through a simplified lump-sum taxation system or expenditure based system, based upon their worldwide living expenditures (the so called "lump-sum" or "global" taxation). In order to be eligible for such a tax regime, the following conditions must be met:

a. neither the applicants nor their spouses shall be Swiss citizens (even if only one spouse applies for the regime);
b. for citizens of non-EU / EFTA countries a minimum age of 55 years is in principle required (exceptions apply); citizens of EU / EFTA states can apply irrespective of their age;
c. applicants must be resident in Switzerland for the first time or after an absence of at least 10 years;
d. applicants and their spouses cannot exercise any lucrative activity in Switzerland (there is an exception for members of the board of directors of Swiss companies, provided that they only perform such activity in an honorary capacity).

I. Determination of income presumed to be subject to taxation

The relevant tax base for the taxation of the (presumed) income of the taxpayer matches the annual expenses incurred on a worldwide basis for his / her livelihood and that of his / her family members living in the same household.

The lump-sum taxpayer is in principle required to list all the annual costs incurred with the relevant supporting documentation for the tax authorities to calculate the exact applicable tax base.

Clearly this process would be unreasonably burdensome for the tax administration; the tax authority therefore identifies the applicable tax base in the higher value among the following parameters:

a. minimum income presumed necessary for subsistence: CHF 400’000 (resulting in effective taxation of about CHF 123’000) for citizens of one of the EU / EFTA member countries, and CHF 750’000 (which correspond to about CHF 275’000 in taxes) for citizens of non-EU / EFTA states;
b. an amount equal to seven times the annual rent or the rental value of their home, as determined by the tax authority (applicable to taxpayers who reside in their household);
c. an amount equal to three times the amount of their annual pension, for board and lodging at the place of residence (applicable to taxpayers who do not reside in their household).

II. The 'modified' global taxation

With regards to some countries (i.e. Canada, France, Germany, Belgium, Austria, Italy, Norway and the USA), with which Switzerland has concluded Double Tax Treaties, taxpayers subject to taxation based on expenditure are not entitled to claim for conventional benefits.

Where a given taxpayer derives substantial part of his / her income from one or more of the above mentioned countries, he / she would be advised to opt for the so called ‘modified’ lump-sum taxation. In such a case, the taxpayer will be able to:

a. avail himself of the total or partial exemption of foreign taxes withheld at source or obtaining their reimbursement by the above mentioned countries;
b. benefit from a tax credit computation (provided that certain conditions are met) for the remaining unrecoverable foreign tax withheld.

By opting for the ‘modified’ lump-sum taxation regime the taxpayer - beyond his / her assets and income that have a Swiss source regularly taxed - he / she will be therefore taxable at the maximum ordinary tax rate on all income elements arising in those countries the taxpayer has elected among the above mentioned ones.
By doing this he / she will be entitled to claim the relief of the Double Tax Treaties having a full recognition of his / her tax residence in Switzerland.

III. Taxes and social charges not covered by taxation on expenditure

The lump-sum taxation does not relieve the taxpayer from cantonal taxes such as:

a. inheritance or gift taxes;
b. tax on real estate gains;
c. cantonal property tax.

The taxpayer is also subject, in case he / she has not reached the retirement age, to the payment of social security contributions (AVS), or to contributions for old age and survivors' benefits, which represent the central pillar of Swiss social security.

III. Switching over to ordinary taxation

Foreign nationals, provided that the above listed requisites are met, are entitled to choose whether to apply for the lump-sum taxation regime or be subject to the ordinary regime. That choice must be expressed clearly on their arrival in Switzerland.

Once the taxpayer has opted for the lump-sum taxation he / she can switch at any time to the ordinary regime but the reverse is not possible. Lump-sum taxation may be a positive choice where:

a. the overall fiscal burden is lesser than the one that would derive from the ordinary taxation regime;

b. there is no or little Swiss-sourced income and wealth;

c. there is substantial income deriving from foreign sources and there are considerable assets located abroad. This also applies to the 'modified' lump-sum tax regime where such income and the assets are not related to treaty countries (i.e. Canada, France, Germany, Belgium, Austria, Italy, Norway and the US);

d. the taxpayer values a simplified tax return.

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