LUMP SUM TAXATION IN SWITZERLAND: ALIVE AND KICKING

Lump sum taxation has traditionally benefited foreigners willing to settle down in Switzerland without pursuing a professional activity, and it still does

Countries propose differing preferential tax rules for certain categories of individual taxpayers. In recent times, the new Portuguese and Italian regimes have received a lot of attention.

However, together with the UK, Switzerland has probably been one the more traditional and preferred locations for wealthy individuals and families from all over the world. Both the UK and Swiss regimes are broadly tested and firmly rooted in the respective legal traditions of the two countries.

Unlike in the UK, however, there is no limitation in Switzerland on the years during which an individual can benefit from the preferential rules, they are open-ended. Furthermore, the willingness and ability of political actors in Switzerland to maintain this attractiveness for wealthy individuals and remain a reliable partner has probably never been stronger. This has regularly been confirmed in nationwide referendums.

Lump sum taxation has traditionally benefitted foreigners willing to settle down in Switzerland without pursuing a professional activity.

Since the 19th century Swiss cantons have been offering these types of tax rules to foreigners. Lump sum taxation is available in the entire country, except in five (out of 26) cantons.

How does lump sum taxation work?

Lump sum taxation has the advantage of being a simple and competitive mode of taxation for individuals who meet certain requirements. In essence, it is available to foreign nationals who establish their tax domicile in Switzerland if they have not been Swiss tax residents during the 10 previous years and if they do not exercise any professional activity in the country. Private management of one's own personal wealth is permitted.

Lump sum taxation can also be an interesting immigration tool as it also a way to apply for a Swiss residence permit.

Lump-sum taxation is based on an alternative and simplified method for determining taxable income and wealth: The tax is levied on a deemed income (the 'lump sum'), the amount of which is derived from the annual cost of living.

As a result, the effective tax burden can be extremely attractive. As a positive side effect, the costs of annual tax compliance are generally lower than they would be otherwise.

How is taxable income established?

Taxable income is determined on the basis of the total annual living expenditure (which will serve as a 'deemed taxable income') or of a multiple (7x) of the annual rental costs of the taxpayer and his dependents. For federal tax purposes the minimum taxable income must be at least CHF400,000 (£305,000). The effective amount is usually confirmed by way of negotiations with the authorities, on a case-by-case basis.

What is the general attitude of the Swiss tax authorities?

The Swiss tax authorities follow a sophisticated advance tax ruling practice that has been in place for many decades. The relationship between taxpayers, tax advisers and tax authorities is generally characterised by a culture of discussion and mutual trust, as well as by predictability and stability.

The Swiss tax authorities consider taxpayers to be their 'clients'. They are well aware of the importance of being economically attractive and welcoming to potential taxpayers. As a consequence, it is common practice to approach the tax authorities in the context of major transactions, or prior to the implementation of wealth planning instruments (be it gifts, the settlements of trusts, the establishment of foundations, etc).

The taxpayer-friendly environment is not only ensured by an attractive framework of tax rules, but also through the fact that, unlike in neighbouring countries, the ratio of public debt to GDP in Switzerland has been continuously reduced (!) over recent years and is now as low as 33.1 per cent (the Maastricht debt limit being set at 60 per cent). The moderate level of Swiss public debt ensures the country will be able to maintain its attractiveness for taxpayers for many years to come.

Robert Desax, attorney at law, certified tax expert

walderwyss

Seefeldstrasse 123, P.O. Box 8034, Zurich, Switzerland

Tel: +41 58 658 58 58 **Fax:** +41 58 658 59 59

E-mail: robert.desax@walderwyss.com **Web:** www.walderwyss.com