

## Lump-sum Taxation in Switzerland

Non-Swiss citizen taking up residence in Switzerland can opt for taxation based on expenses. This special tax regime called lump-sum taxation is available to resident non-Swiss nationals who do not engage in gainful activity in Switzerland. Instead of basing the tax rate on global wealth and income, the taxpayer's lifestyle expenses are used as a surrogate tax base. This means that it is not necessary to report effective global earnings and assets. Once the tax base has been determined as explained below, it is then subject to ordinary tax rates. The resulting tax planning opportunities can open up attractive taxation perspectives.

### **A. Requirements of lump-sum taxation**

Lump-sum taxation is only possible under the following conditions:

1. No Swiss citizenship
2. Taking up residence in Switzerland for the first time or after an absence of at least ten years
3. No gainful activity in Switzerland

In case of married couples, both spouses must meet these requirements.

Under current law, gainful employment abroad is not incompatible with Swiss lump-sum taxation, neither are functions relating to the administration of private assets in Switzerland.

### **B. Determination of the income tax base**

Since January 1, 2016, the minimum requirement for calculating income tax based on expenses is:

- For taxpayers with their own household: the equivalent of seven times the annual rental expense or rental value of their principal residence in Switzerland.
- For all other taxpayers: the equivalent of three times the amount for lodging and food.
- A minimum expenses threshold of CHF 400'000 is assumed at federal level. Cantons must also define minimum expenses thresholds but the amount is at their own discretion. Certain cantons have already stipulated minimum threshold amounts.

This individual tax assessment base is subject to standard tax rates applicable at the place of residence. The determination of the tax assessment base and the corresponding tax burden is generally subject to a case-by-case ruling by the competent tax authorities.

### **C. Tax amount test («Shadow accounting»)**

The resulting tax burden, calculated on the basis of annual rent (or rental value) and agreed upon with the tax authorities, is subject to a tax base assessment test, a so-called shadow accounting in the course of an annual tax return: the tax payable calculated on the agreed lump sum tax base must be at least equivalent to the ordinary tax payable on

- (i) Swiss-source income (mainly from Swiss real estate, securities issued by Swiss entities, Swiss source pensions or royalties) as well as
- (ii) foreign income for which the benefits of a double tax treaty is claimed (for certain specific jurisdictions all income from the respective country for which benefits of the double tax treaty are claimed have to be taken into account).

#### **D. Determination of the wealth tax base**

To determine the wealth tax base, the lump sum used for income tax is multiplied by 20 in several cantons. The determined wealth is then subject to the ordinary wealth tax rates. Due to the new legislation all cantons must take into account the wealth situation of those subject to lump-sum taxation; Berne for example, explicitly takes Swiss immovable assets into consideration. Shadow accounting may also apply for wealth tax purposes.

#### **E. Cantons without lump-sum taxation**

The cantons Zurich, Schaffhausen, Basel Landschaft, Basel Stadt and Appenzell Ausserrhoden abolished the system of lump-sum taxation. However, lump-sum taxation for the Swiss Federal income tax is also possible in those cantons that have abolished lump-sum taxation for cantonal and communal taxes, due to federal law.

#### **F. Immigration aspects**

EU/EFTA nationals without a gainful activity may become Swiss residents if the following conditions are met:

1. They have adequate financial resources to cover the cost of living in Switzerland so as to ensure that they will not become dependent on welfare benefits.
2. They conclude a Swiss health insurance policy.

Third-country nationals (taxpayers of non-EU/EFTA countries) without gainful activity are divided into two categories:

a) Non EU/EFTA nationals over 55 years of age:

1. They have close ties to Switzerland.
2. They abstain from any gainful activity in Switzerland and abroad.
3. They have sufficient financial resources to maintain their upkeep and that of their accompanying family members.
4. They conclude a Swiss health insurance policy.

b) Non EU/EFTA nationals under 55 years of age:

Third-country national taxpayers, who are younger than 55 years and do not have close ties to Switzerland may nevertheless be granted a residence permit on the basis of «the preponderant cantonal fiscal interest». Generally, the cantons require a total annual tax liability of approximately CHF 250,000 to CHF 1 million as a minimum amount. The

cantons usually consider their financial interest in case of a third-country national taxpayers and apply a higher minimum income taxation base.