www.switzerland-family-office.com/relocation/moving-to-switzerland.html

Moving to Switzerland

Switzerland is internationally known for its quality of life. Situated in the heart of Europe, families relocating to Switzerland can find political stability, beautiful nature, safety, confidentiality and access to world-class financial services, health care and internationally recognised schools. In addition to the very attractive tax conditions, these are the main reasons why many wealthy foreigners choose Switzerland as their country of residence.

Switzerland's history

Switzerland is a federal republic and is officially named the 'Swiss Confederation'. It originated over 700 years ago, in the year 1291. The alliance in that year between the cantons Schwyz, Uri and Unterwalden (located in the central Alps) was the start of the Swiss Confederation. Over the following centuries the other cantons that now constitute the confederation successively joined this alliance. In 1798 the Swiss Confederation was invaded and conquered by its neighbour France. Until the Congress of Vienna restored the independence of the Swiss Confederation in 1815, it was under the control of Napoleon's France.

Since 1815 Switzerland has not been at war with any foreign nation, having since then adopted a policy of neutrality in all international conflicts. However, it was engaged in some domestic conflicts in the first decades of the eighteen hundreds. Those were the conflicts that triggered the drafting in 1848 of the Swiss constitution and the establishment of the Swiss Federal Republic as we know it today. Since then Switzerland has been at peace with itself and all other countries.

Switzerland's government & economy

The Constitution of 1848 was instrumental in creating a sense of unity within the country while fully respecting its regional diversities. Today Switzerland is structured on three political levels: municipal, cantonal and federal. There are a total of 26 cantons, each of which enjoys considerable political freedom and administrative autonomy within the federal structure.

Switzerland's federal government, or "Federal Council", with Berne as its seat, has seven members representing seven departments. Every year a different member becomes the Federal President; this post confers no special powers or privileges and the president continues to run his or her own department. The four strongest political parties are represented in the Federal Council. The Federal Chancellery assists and advises the Council on the running of its business. The Swiss people have the power to influence political affairs at all government levels (federal, cantonal and municipal) through its almost unique system of direct democracy

By dint of its location at the heart of Europe, Switzerland is very multicultural. The co-existence of different language groups and cultural regions does not impair the country's internal stability. In addition to the four official languages – German, French, Italian and Romansh – there is a wide variety of other languages, with English often serving as the lingua franca in business.

Competitiveness

As one of the world's most competitive economies, Switzerland enjoys a stable, modern economy among the most capitalist in the world. It almost always ranks among the top five countries in the Index of Economic Freedom, while also providing broad public service coverage.

Banking, insurance, precision machinery, micro-technology, hi-tech, biotechnology and pharmaceuticals are the main areas of the Swiss economy; small and medium-sized enterprises also play an important role. Banks are strongly regulated at both micro- and macro-prudential levels and depositor security is excellent.

Switzerland has a very low government debt ratio and because of that it is one of the very few countries in the world with a AAA credit rating. International investors have long considered the Swiss franc (CHF) a "safe-haven" currency.

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Switzerland’s main trading partner is the European Union (EU). Although Switzerland is not a member of the EU (nor of the Eurozone), it has been part of the Schengen area since the end of 2008.

Taxes in Switzerland

Income tax in Switzerland is levied at federal, cantonal and municipal levels. Each canton has its own tax system, alongside the federal tax system.

- **Personal income tax:** Families relocating to Switzerland that have not opted for or do not qualify for Swiss lump-sum taxation (see below), will be subject to progressive income tax on their worldwide income, regardless of its source. All items of income have to be declared, be it income from dependent or independent personal activities, real estate or movable property. Owners of real estate in Switzerland who use this themselves have to add a deemed rental value to their taxable income. A small amount of church tax is levied from taxpayers who declare themselves as belonging to one of the main religious communities.

  Capital gains are not subject to tax if realised on the disposal of private movable assets. The sale of real estate in Switzerland is an exception, where capital gains tax is payable by the seller on the realised capital gain.

  Since tax rates can vary substantially from canton to canton and, within cantons, from municipality to municipality, the choice of residence by the person relocating to Switzerland can have considerable tax implications. In addition to cantonal/municipal taxes, federal tax is payable. This is calculated separately, with its own deductions and progression curve and can amount to 11.5% of taxable income.

- **Wealth tax:** Progressive wealth taxes are levied at cantonal and municipal level, but not at federal level. They are calculated and charged separately from income tax. Swiss residents are subject to wealth tax on their worldwide net assets, with the exception of real estate located outside Switzerland and, in some cases, business assets in foreign countries. Debts as well as personal allowances are deductible from the gross value of a taxpayer’s estate. As with personal income tax, the choice of residence when relocating to Switzerland can have a big impact on the level of wealth tax payable.

- **Inheritance and gift tax:** Inheritance and gift taxes for persons living in Switzerland are not levied at federal level, but only at cantonal level (as well as, in some cases, at municipal level).

  Tax rates vary from one canton to another and are usually progressive depending on the closeness of the relationship to the deceased or the donor and the inherited amount. Devolution of the estate to the surviving spouse is tax-exempt in all cantons. Devolution of an estate to descendants or a gift is only taxed in a minority of cantons. In most cantons a transfer to one's children is fully tax-exempt. The canton of Schwyz is the only canton that does not levy any inheritance and/or gift tax at all.

  According to Swiss law, the country of residence of the deceased or donor has the right to levy inheritance or gift tax, with the exception of real estate which is taxed where it is located. The recipients of the estate or gift are liable for paying the tax. In cases of inheritance by or donation to an unrelated party, the applicable tax rate can, in the worst cases, exceed 50%.

- **VAT:** Value Added Tax (VAT) is levied at different rates, the maximum rate being 8%.

- **Exit tax:** When wealthy families leave Switzerland and move to another jurisdiction, Switzerland does not charge an exit tax on the wealth generated while in Switzerland, or on any non-realised gains.

Special tax treatment for foreigners relocating to Switzerland

Under federal and cantonal tax legislation, foreigners who acquire residency in Switzerland can in certain cantons request to be taxed based on expenditure (living expenses) rather than on actual income and net wealth. The assessment basis is the lifestyle expenditure of the tax subject and his/her family. This system is called lump-sum taxation.

The lump-sum taxation replaces the ordinary income and wealth taxes but does not cover inheritance and gift taxes. Lump-sum taxation can result in a lower tax burden compared to the standard income and wealth taxes.

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Who is eligible?

An individual who:

- takes up residence in Switzerland for the first time or after an absence of at least ten years; and
- does not conduct any gainful activity in Switzerland,

is eligible to negotiate and enter into a lump-sum taxation agreement with the Swiss tax authorities.

Individuals who have moved to Switzerland and fulfil the criteria for lump-sum taxation may put forward a request for such tax treatment with the cantonal tax authorities (N.B.: Some Swiss cantons have abolished lump-sum taxation. In those cantons the lump sum taxation is no longer available at the cantonal level). If the individual wishing to be taxed under the lump-sum taxation regime is married, the spouse must also take up residence in Switzerland and is not entitled to carry out any gainful activity in Switzerland either.

Lump-sum taxation of foreigners who relocate to Switzerland applies for an indefinite period, although the lump sum is regularly renegotiated/revised by the local authorities. No Swiss citizens, even those with dual nationality, are entitled to lump-sum taxation. The right to lump-sum taxation expires when the individual either starts working in Switzerland or obtains Swiss citizenship.

Income tax basis

The tax payable under the lump-sum arrangement is charged on a deemed taxable amount (the lump-sum). This taxable amount is not related to the individual’s actual income but is derived from the individual’s yearly living expenses, including those of the partner and children (if minors). These include all the family’s living expenses, both in Switzerland and abroad.

Since these living expenses are difficult for the authorities to determine, Federal regulations also require a minimum taxable amount of seven times the rent or the rental value of the subject’s primary residence in Switzerland. The higher of the two amounts (documented yearly living expenses or seven times rent or rental value) is the deemed taxable lump sum.

As the lump sum is negotiable, the tax authorities are free to set the taxable amount in the negotiations to a different and even higher level. Factors that play a role are the individual’s total global wealth, age, family situation and the municipality in which the taxpayer will live. Beyond the criteria set down in the respective law (at federal level a minimum taxable

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amount of CHF 400,000 applies), the cantons nowadays also require a minimum taxable amount for lump-sum taxation to apply. For most cantons that starts at CHF 400,000.

Wealth tax basis

A deemed taxable amount of wealth forms part of the negotiations with the cantonal authorities as well. Since there is no federal wealth tax, there is only a negotiation for the cantonal and municipal wealth tax. Here again a minimum applies, which differs from one canton to another. Often a multiplier of the deemed taxable amount for income tax is used to establish the amount of deemed wealth.

Applicable tax rate

The ordinary progression tables and tax rates, applicable to every Swiss citizen, are applied to determine the actual income and wealth tax payable on the negotiated amounts (on the lump sum). This is done for both the cantonal and municipal income and wealth tax as well as, separately, for the federal income tax. The advantage of the lump-sum agreement is therefore not derived from special rates, but rather from the fact that the deemed taxable amount based on expenditure is potentially much lower than the actual yearly income (and worldwide wealth).

Control calculation

Based on federal legislation the negotiated taxable amount is checked yearly based on a specific control calculation. If the taxable amount resulting from this control calculation is higher than the taxable amount calculated under the lump-sum taxation, then this higher amount will be taken into account for establishing the tax payable.

Modified lump-sum taxation

Certain double-taxation agreements may deny the benefits of their agreement to those with lump-sum taxation status. These tax treaties contain specific provisions according to which an individual can only claim treaty relief if all revenues originating from that country are fully taxed in Switzerland in accordance with ordinary Swiss tax rules.

Inheritance and gift tax in connection with the lump-sum taxation

Inheritance and gift tax are not covered by the lump-sum arrangement. The same rules and exemptions therefore generally apply as described above, under "Taxes in Switzerland".

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However, in a limited number of cantons, the exemptions with respect to the devolution of an estate to the spouse and/or descendants do not or only partially apply to lump-sum taxpayers.

Please note that the specific consequences of civil and tax laws are very much dependent on your own specific personal situation. It is therefore important to check your own circumstances, wishes and structure to ensure you comply with the applicable laws before you change anything in your current situation.

Difference between EU and non-EU citizens

Both EU and non-EU citizens can apply for the Swiss lump-sum taxation regime. In the case of non-EU citizens the taxable amount of income and wealth, which the cantonal tax authorities will propose, will be considerably higher than the minimum taxable amounts mentioned above and offered to EU citizens.

Benefits of living in Switzerland

Switzerland is world-renowned for its unparalleled quality of life, natural beauty, safe and secure social environment, outstanding educational system and cutting-edge health care system. Not to mention its reputation as a great holiday destination. Its lively city centres, charming villages and rich cultural history make it an ideal location to move to. In Mercer's global "Quality of Living Survey", Zurich and Geneva rank in the top ten year after year.

Switzerland's cultural heritage is broad and varied. The influences of German, French, Italian and Rhaeto-Romanic culture in Switzerland clearly stand out; strong regionalism makes it difficult to speak of a single, homogeneous Swiss culture.

World-renowned clinics and institutions using some of the most advanced medical technologies have earned Switzerland the reputation of having one of the finest health care systems in the world.

Education

To ensure that Switzerland remains a leading country in education, the Swiss government makes a larger financial investment per student than any other OECD member country. The country boasts outstanding universities, including the Swiss Federal Institute of Technology in Zurich as well as IMD in Lausanne, one of the world's finest business schools. There are

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also numerous private and international schools with excellent reputations thanks to Switzerland's well-established and respected pedagogical tradition.

Depending on the specific canton and municipality, real estate prices can range from modest to high. Prices are usually interlinked with the level of personal income tax in the canton and the municipality of your choice; real estate prices are high where the level of taxation is low and lower where taxes are higher.

Visa and residency permit

Residents of the EU are free to travel to Switzerland. A valid travel document (i.e. passport and identity card) is therefore enough. As Switzerland is part of Schengen, residents of the Schengen area are even able to cross into Switzerland without any border controls.

Non-EU nationals need a valid travel document to enter Switzerland and should check whether a (Schengen) visa is necessary (usually it is). The Schengen visa needs to be valid throughout the stay in Switzerland. The holder also needs to have the financial means to sustain themselves during their stay and to pay for their trip back, as well as to be covered by a valid travel (health) insurance policy.

Foreigners are allowed to remain in Switzerland for a maximum of 90 days. Those who want to remain longer in Switzerland must apply for a resident's permit. In order to obtain employment, even for less than 90 days, a residency permit is always obligatory.

Becoming a resident of Switzerland

Switzerland has signed a treaty with the EU which gives their citizens the right to free movement between their respective jurisdictions. The conditions for **EU citizens** (and citizens of the European Economic Area) to become a resident of Switzerland without being employed or self-employed are:

1. To rent or acquire property in Switzerland;
2. To provide proof that they can financially sustain themselves;
3. To arrange Swiss health insurance coverage, and
4. To apply for a residency permit.

When the above conditions are met, the procedure for obtaining a temporary residency permit in Switzerland is relatively simple, but it is recommended that you use a local private bank or advisor to assist you with the process.

The conditions to fulfil are (in detail):

1. **Property.** EU citizens are free to acquire or to rent a property anywhere in Switzerland when they move to Switzerland. Acquiring a property or signing a rental contract is not possible without providing a copy of the residency permit. Therefore the search for property normally takes place at the same time as the application for the residency permit.

2. **Proof of financial means.** The EU citizen needs to provide evidence that he/she can sustain him/herself (and his family, where applicable) without becoming dependent on Swiss social security benefits. Retirees must also prove that they will not become dependent on the Swiss collective pension, disability, and widowers' insurance system.

3. **Health insurance.** Regulated by the Federal Health Insurance Act of 1994, health insurance is compulsory for all persons residing in Switzerland and must be obtained within three months of taking up residence or being born in the country. Swiss insurance companies generally offer three different levels of coverage; standard, half-private and private. Only insurance coverage under the standard plan is obligatory. Swiss insurance companies are obliged to accept any Swiss resident for coverage under the standard plan.

4. **Administrative conditions.** At least the following documents must be submitted to the municipal authorities:
   - A valid passport (also for your children (<18) where applicable);
   - A certified birth certificate (also for your children (<18) where applicable);
   - A marriage or divorce certificate (where applicable);
   - Proof of a Swiss health insurance policy;
   - An original property rental or acquisition contract.

In every case all documents submitted must be originals. After you have received a temporary residency permit and have actually relocated to Switzerland, you should normally receive a permanent residency permit after five years.

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The possibility for a **non-EU citizens** to become a resident of Switzerland without being employed or self-employed is limited. Generally there are only two categories of people (restricted total annual number) that qualify for a Swiss residency permit:

- Non-EU citizens that apply for the (expensive) lump-sum taxation (see above), and
- Pensioners (>55 years) originating from non-EU jurisdictions, with strong provable connections to Switzerland, fully retired and with proof of substantial financial means.

After having received a temporary residency permit and having actually moved to Switzerland, a non-EU citizen can apply for a permanent residency permit after ten years.

Obtaining a residency permit in Switzerland is potentially also possible by establishing a business which creates employment opportunities for people who are already resident in Switzerland. This option is outside the scope of this article.

Swiss citizenship

There is no easy procedure for foreigners to obtain Swiss citizenship without any family relations connecting them to Switzerland. There is no special citizenship program (such as a Swiss investor visa program).

You can only apply for Swiss citizenship after you have been living in Switzerland for at least 12 years. The number of years spent living in Switzerland while you are between 10 and 20 years of age count double. Not only the federal authorities assess your application but also the cantonal and municipal authorities. Requirements are the following:

- You need to have spent several years in one and the same municipality (the number of years varies from canton to canton);
- It has to be proven that you have fully integrated into Swiss society;
- You must have adapted to Swiss customs and traditions;
- You must not pose any sort of threat to Switzerland;
- You may not have any severe tax or legal issues, such as a tax debt.

In order to acquire Swiss nationality you do not need to give up your own nationality. So you may hold dual citizenship once you have obtained the Swiss passport. The request for Swiss citizenship can be rejected.

Leaving your home country and moving to Switzerland

After you have obtained your temporary residency permit and you have actually moved to Switzerland, you are considered a full tax resident of Switzerland if you are living there for at least three months per year.

As most jurisdictions apply the rule that you should spend six months in that respective jurisdiction to be considered a tax resident, you could find yourself in a situation where not one but two countries consider you a full tax resident of their jurisdiction. The result of that situation could be double taxation, instead of the reduced level of taxation you were most probably aiming for. A treaty for the avoidance of double taxation could solve this issue, but not necessarily in the way you had anticipated. It is therefore essential to address all these risks before you actually move to Switzerland.

In this respect one should also look into so-called exit taxes – taxes that become payable in certain jurisdictions when a wealthy individual relocates to another jurisdiction permanently.

Taking the step

If you are considering relocating to Switzerland, please make sure that a local private bank, multi-family office or dedicated lawyer guides you through that process. If you would like to receive more information about the benefits and possibilities of international relocation, please contact us. We look forward to supporting you.

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