

**Possible changes to Swiss forfeit tax**



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*Please note that tax law is a complex subject and you should not rely on this article without professional advice on the facts of your case.*

Almost all the cantons in Switzerland allow a “forfeit” tax or a tax based on expenses. This is an annual fixed tax which usually foreigners negotiate with the cantonal tax authorities. The forfeit tax is on the basis that foreigners do not work in Switzerland. There has been controversy about this system of taxation which appears to conflict with Article 127 of the Swiss Constitution which requires the cantons to ensure in particular that there is equality in taxation and that the economic means of taxpayers to be respected. Individuals uninitiated in the subtleties of Swiss tax law might come to the conclusion that billionaires paying say total of 300.000 CHF income tax on their income blatantly breaches the constitution.

**Cantons which no longer have a forfeit tax**

Zurich no longer allows forfeit taxation from 1<sup>st</sup> January 2010 and two other cantons Glaris and Jura have taken a similar position. It seems unlikely that many other cantons in Switzerland will follow this and abolish forfeit taxation, despite resentment from left wing taxpayers, as a small number of very wealthy people bring money coming into Switzerland which competes with other countries for remittances.

**UK tax payers moving to Switzerland**

The question many UK tax payers considering a move to Switzerland may be asking is whether there will in the near future be any changes in how the forfeit tax will apply in particular cantons. This is particularly relevant given the number of UK high earners who have relocated to Switzerland, or who may do so, and whose Swiss tax status has not been formalized. It has a major bearing on which canton to move to.

**Recent press release**

In a press release from the Swiss Parliament dated 24<sup>th</sup> February 2010 some idea can be formed about the likely evolution of the tax. This involved an application to the Federal Parliament to have the forfeit tax declared illegal. The parliament rejected this but said that the law needed to be looked at further and “adapted”. Importantly the press release states that the

autonomous position of the cantons must be respected as this is the cornerstone of the federal model.

The question is whether any cantons will change their rules on the forfeit tax to make it attractive for high earners to relocate to that canton and for them in one way or another to work in Switzerland. This would have a major impact on which cantons attract the very wealthy and highly mobile individuals who are likely to bring lucrative businesses with them. It will also strain relationships with the UK and other high taxing countries.

### **Second Homes in French Alps**

The forfeit tax is based on expenditure in Switzerland. Accordingly the more expensive home you have in Switzerland the higher the tax. It seems likely that this aspect will become more important, in that perceived high consumption and wealth in Switzerland will be taxed to placate populist Swiss activists. Assets held outside Switzerland should not be a factor in calculating the tax, so for instance a weekend chalet in a sought after French ski resort may well make good tax sense with a flat in Geneva.

If, as seems likely, a “Swiss solution” is found to accommodate pent up demand from UK high earners keen to relocate there, the prices of chalets in prestigious locations in the French Alps will be driven up by the wealth of these new arrivals from the City of London.

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