



Tax Planning International **European Tax Service**

Volume 13, Number 3 – March 2011

INTERNATIONAL INFORMATION FOR INTERNATIONAL BUSINESS

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Relocating to Switzerland—choosing a low taxing canton

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UK's introduction of the 50 percent top rate of personal income tax in 2009 led to the exodus of some of the top earners to different destinations including Switzerland being a popular low tax jurisdiction which has cantonal based tax rates. The authors highlight the tax consequences of relocation to Switzerland with an insight into the cantonal rates and differences.

I. Background

Since the introduction of the 50 percent income tax rate in the 2009 Budget, many top earners in UK have relocated to lower tax jurisdictions. Switzerland is often a destination, with Zurich a preferred city. High rental costs and limited availability in Zurich usually results in people considering living in the nearby Cantons of Zug and Schwyz. These have lower tax rates than Zurich and are within commutable distance of Zurich. The proximity of these cantons helps to keep tax rates lower in Zurich than in Geneva.

Outlined below are some of the personal tax consequences of a move to Switzerland and in particular the different rates of taxation between the individual Cantons. If one works in Switzerland, one is not able to be taxed on the annual lump-sum basis. This option is, in any case, no longer available in the Canton of Zurich.

II. Taxation in Switzerland

A. Income tax

Swiss residents are subject to Swiss income tax on worldwide income and this is levied at three levels: Federal, Cantonal and Communal. Although certain types of non-Swiss income are exempt from Swiss tax,

such as income from business carried on abroad and foreign based real estate, they are taken into account when applying the applicable tax rate. This means they push you up into higher rates. The tax rates vary depending on your marital status, number of children and the religion of the person.

Currently, the highest rate at the Federal level is around 11.5 percent. The Cantonal and Communal taxes vary from Canton to Canton and are currently between 7 percent and 32 percent (church tax is also included).

B. Wealth tax

Wealth tax is levied by the Canton and the Commune and is charged on the net value of the individual's worldwide wealth. Any real estate assets outside Switzerland are not chargeable but will form the lower part of the estate for calculating this charge and so all chargeable assets are pushed into higher tax brackets.

The individual's debts are deductible when calculating the value of their estate. There are structures which can help to reduce this exposure which need to be considered and set up before becoming Swiss resident.

C. Capital gains tax

Whether capital gains are chargeable will depend on the nature of the asset (moveable/immoveable) and

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whether it qualifies as a private or business asset. Generally, gains from the sale of private moveable assets are exempt at both Federal and Cantonal level. Capital gains tax (CGT) is chargeable on gains from the sale of private real estate but this is levied at cantonal level only. The rate of tax is dependent on several factors such as period of ownership and in which Canton the property is situated. The general rule is the shorter the period of ownership, the higher the CGT liability.

Please note that business capital gains are part of the taxable income of the business and the relevant corporate tax rates will apply.

D. Inheritance tax and gift tax

Inheritance and gift taxes are levied only at Cantonal level (and/or Communal). The rates and tax bands vary from Canton to Canton, and are generally progressive depending on the degree of the relationship and the net value of assets transferred. Ordinarily transfers to spouses and direct ancestors or descendants are exempt. However, where children are taxed, the rates are usually very low (e.g. 1 percent - 3 percent, maximum of around 6 percent). Transfers between non-related persons are taxed at much higher rates, up to 60 percent in certain cantons. There are reliefs available before applying the applicable rate i.e. it is possible to deduct any debts (mortgage) from the total taxable assets.

E. Social security

Social charges apply to anyone working in Switzerland. Federal old age and disability insurances are mandatory for all employees. An annual contribution of 10.1 percent of total employee remuneration (with no upper limit) is divided between the employer and employee, and is deducted by the employers.

III. Taxation in the individual Cantons

For an individual working as an employee, earning CHF 300,000 per annum and who has net worldwide assets worth CHF 5,000,000, the different combined income tax and wealth tax exposure in these Cantons are shown in Tables A & B below:

Canton	Zurich	Zug	Schwyz
Cantonal	36'938	27'477	15'726
Communal	45'064	25'131	32'108
Federal	26'346	26'346	26'346
Poll tax	48	0	0
Total*	108'396	78'954	74'180

Canton	Geneva	Vaud	Neuchatel
Cantonal	87'300	66'137	78'709
Communal	30'494	37'107	47'225
Federal	26'346	26'346	26'346
Poll tax	50	0	0
Total*	144'190	129'590	152'280

Table B-French speaking cantons

* These are approximate figures based on an individual (employee), who is married with 2 children, with no religion, a household annual income of CHF 300,000 and worldwide net assets of CHF 5,000,000.

There are other tax advantages available in each of the Cantons for example, Schwyz is the only Canton which does not levy any inheritance and gift taxes. This is an attractive position when compared to the UK inheritance tax rate which is currently at 40 percent over the nil rate band. Issues of domicile will apply here and there is a double tax treaty between Switzerland and the UK which deals with inheritance tax on death.

IV. Inter-cantonal tax allocation

In 1990 the Federal Law on Harmonisation of the Direct Taxes of the Cantons and Communes was passed which set out the tax allocation between the Cantons if one chooses to live in one Canton and work in another:

- Employment income is levied in the Canton of residence.
- Wealth tax is chargeable in the Canton of residence.
- Income from real estate is levied in the Canton where the real estate is situated.
- Investment income such as securities, bonds, interest etc. is levied in the Canton of residence
- Partnership/self employment income is levied in the Canton of the place of business

As mentioned above, the inheritance and gift taxes are only levied at Cantonal level. However, currently there is no harmonisation in respect of such taxes when living and working in different Cantons. Inter-cantonal allocation in this respect is currently governed by case law.

In general, inheritance and gift taxes are levied:

- By the Canton of domicile of the deceased (or donor) in respect of movable property; and
- By the Canton of situs (location of real estate) in respect of immovable property.

Although generally the donee is the person liable for payment of gift tax, in certain Cantons the donor is subject to a joint liability for gift taxes.

V. Wealth tax

Cantonal wealth tax can be mitigated by the use of discretionary trusts which should be set up before becoming Swiss resident. Existing UK non-domiciled residents moving to Switzerland should review the trust documentation before the move. UK resident non-domiciled people should also be aware that the protection of the UK - Swiss double tax treaty may not apply to them in certain circumstances.

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