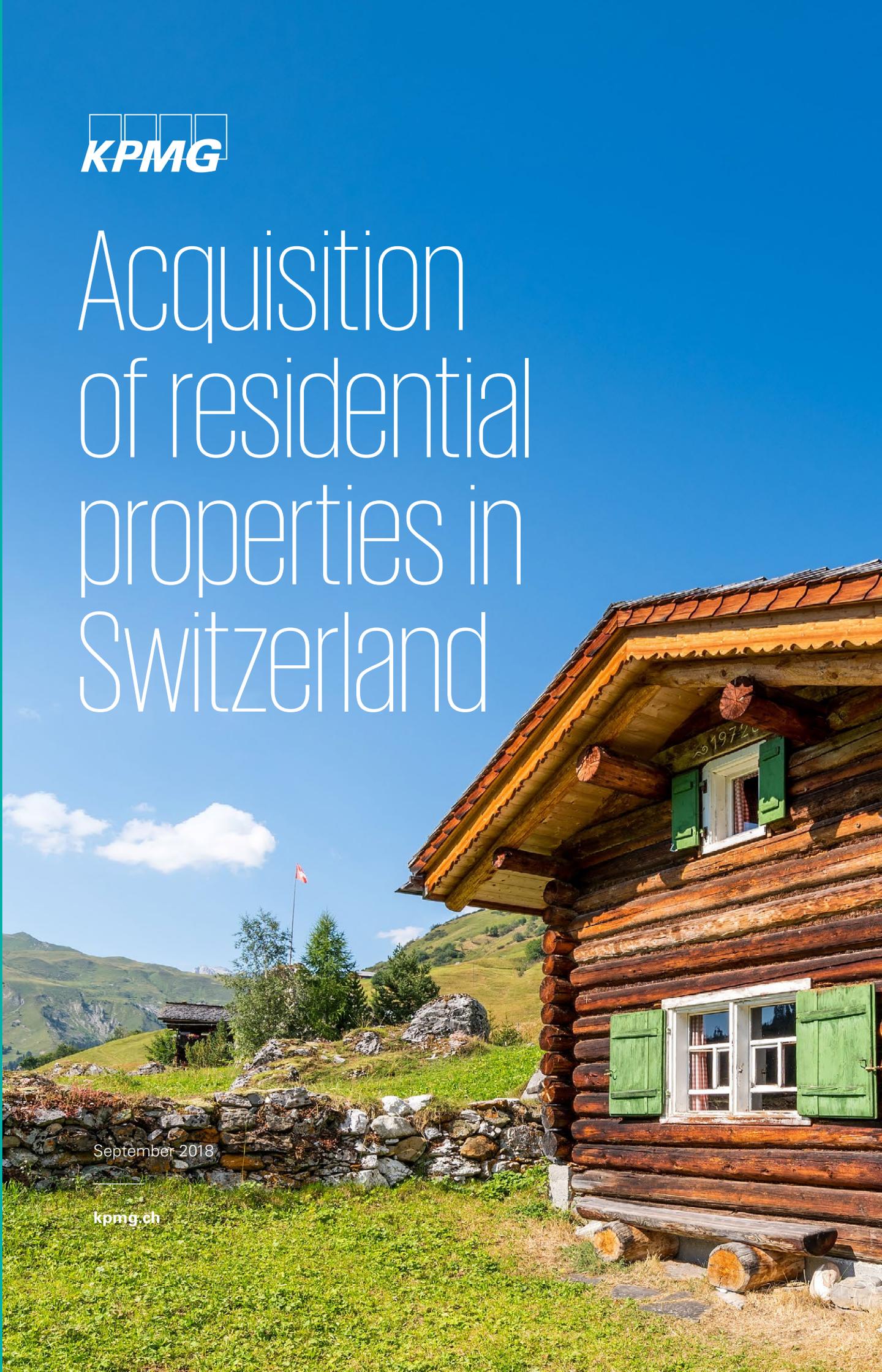




Acquisition of residential properties in Switzerland

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Legal and tax aspects

With its unique natural landscapes and high standard of living, Switzerland is a popular country for tourists. If individuals domiciled abroad plan on buying a property in Switzerland, they must first deal with permit law. Careful planning can achieve substantial tax savings when buying, holding and selling the property. Buyers should resolve financing at an early stage.

In Switzerland, real estate for private use is usually held directly, regardless of the purchaser's place of residence. This means that the property is in the direct ownership of the owner without the need for a legal structure.

Nevertheless, a structure should be seriously considered in certain cases, in particular:

- where the purchase of luxury property is involved
- where there are complex family relations and inheritance issues
- for reasons of discretion.

Legal restrictions on acquisition

In principle, persons abroad require prior authorization to acquire residential real estate in Switzerland. Persons abroad are foreigners resident abroad and foreigners resident in Switzerland who are neither EU/EFTA nationals nor holders of a valid settlement permit. Persons abroad also include structures (e.g. companies/trusts) which have their registered office abroad or in Switzerland but are controlled by persons abroad.

Exemptions from prior authorization are amongst others granted to persons abroad who are resident in Switzerland and who intend to acquire residential real estate in their actual place of main residence.

An acquisition for which prior authorization is required is approved on grounds only provided for by Federal or Cantonal Law. The acquisition of holiday homes in designated tourist resorts which are within the annual quota and do not

exceed certain dimensions are generally approved.

Formalities on acquisition

To be valid a written sales agreement has to be certified by a public notary, as do preliminary sales agreements. The real estate is formally transferred once the transaction has been recorded in the land register.

Swiss tax aspects

The following taxes and fees are especially relevant for owners of real estate:

- property transfer tax and notary and land registration fees on acquisition
- income and wealth taxes and possibly a cantonal property tax when holding property
- capital gains tax on selling the property, and
- inheritance and gift tax on a transfer of ownership of the property free of charge.

The effective tax burden depends on numerous factors, such as the location of the property. The adjacent table provides an overview of the cantonal tax rates.

Tax consequences of buying

In most cantons, property transfer is subject to property transfer tax. Unless stated otherwise in the deed of sale, property transfer tax is generally paid by the purchaser. In addition, land registration and notary fees are due. Buyer and seller usually each pay half of the land registration fee.

Tax consequences of holding

Holding a property in Switzerland gives rise to what is known as limited income and wealth tax obligation for the owner.

a) Income taxes

For income tax purposes, the owner is charged a notional income for the right to use the property ("notional rent value"). The notional rental value corresponds to a carefully assessed market rent. Ordinary running costs can be deducted from this amount. Furthermore, debt interest can be deducted, even if not directly related to the property. The amount that may be deducted is instead based on the percentage of total global assets to the value of the property in Switzerland.

b) Wealth taxes

The so-called tax value of the properties, which is based on assessment criteria specified by the cantons, is used to determine wealth taxes. Normally, the tax value is significantly lower than the purchase price. Debts can be deducted, even if they do not relate directly to the property. As in the case of income taxes, the amount of debts that can be deducted is based on the percentage of total global assets to the value of the property in Switzerland.

c) Cantonal property taxes

Some cantons charge an annual property tax in addition to income and wealth taxes, which is based on the property's tax value.

d) Tax return

The owner has to file a tax return in Switzerland each year. In addition to Swiss tax factors, total global income and wealth has to be declared to assess the applicable tax rate. If taxpayers fail to declare global income and wealth, they are no longer entitled to deduct debts or debt interest. In addition, the maximum tax rates apply.

e) Tax planning

Planning, especially for renovations and financing, can result in substantial tax savings. Furthermore, official new estimates for the property value have to be checked closely. We recommend using the services of a real estate specialist for any new estimate.

Overview of cantonal taxes

Canton	Income tax ¹	Wealth tax ¹	Property tax ²	Capital gains tax ³	Property transfer tax ⁴	Inheritance and gift tax ⁵	
						Children	Third parties
Aargau	33.8%	0.43%	-	40.0%	0.4%	-	32.0%
Appenzell Innerhoden	25.3%	0.26%	0.010%	40.0%	1.0%	1.0%	20.0%
Appenzell Ausserrhoden	30.5%	0.40%	-	30.0%	2.0%	-	32.0%
Bern	41.4%	0.58%	0.015%	37.3%	1.8%	-	40.0%
Basel-Landschaft	42.2%	0.76%	-	25.0%	2.5%	-	30.0%
Basel-Stadt	37.5%	0.80%	-	60.0%	3.0%	-	49.5%
Fribourg	36.0%	0.60%	0.030%	35.2%	1.5%	-	37.4%
Geneva	45.0%	1.00%	0.010%	50.0%	3.0%	-	54.6%
Glarus	31.6%	0.35%	-	30.0%	-	-	28.8%
Grisons	32.4%	0.32%	0.020%	30.0%	2.0%	-	35.0%
Jura	41.2%	0.58%	0.018%	28.8%	2.1%	-	35.0%
Lucerne	31.2%	0.26%	-	23.9%	1.5%	2.0%	40.0%
Neuchâtel	38.9%	0.68%	0.015%	30.0%	3.3%	3.0%	45.0%
Nidwalden	25.6%	0.13%	-	36.0%	1.0%	-	15.0%
Obwalden	24.5%	0.14%	-	12.6%	1.5%	-	20.0%
St. Gallen	33.5%	0.44%	0.008%	33.5%	1.0%	-	30.0%
Schaffhausen	32.3%	0.48%	-	31.5%	-	-	40.0%
Solothurn	34.5%	0.22%	-	23.0%	2.2%	-	30.0%
Schwyz	27.0%	0.22%	-	30.0%	-	-	-
Thurgau	32.5%	0.29%	0.005%	40.0%	1.0%	-	28.0%
Ticino	40.9%	0.68%	0.030%	31.0%	1.1%	-	41.0%
Uri	25.6%	0.20%	-	31.0%	-	-	24.0%
Vaud	41.5%	0.79%	0.015%	30.0%	2.2%	3.5%	25.0%
Valais	36.5%	0.63%	0.010%	24.0%	1.5%	-	25.0%
Zug	22.9%	0.28%	-	60.0%	-	-	20.0%
Zurich	40.0%	0.66%	-	40.0%	-	-	36.0%

¹ Maximum tax burden in the capital cities of the cantons as a percentage of the taxable income or taxable wealth.

² Maximum tax burden.

³ General tax burden as a percentage of the capital gains on selling the private property. Please note: The additions or reductions of short- or long-time ownership result in heavy differences in the general tax burden.

⁴ Tax burden in normal case.

⁵ Maximum tax rates. For other relatives partially reduced tax rates apply.

Tax consequences of selling

Any profits made on selling the property are subject to cantonal capital gains tax. The profit from selling the property is calculated based on the difference between the sales price and the acquisition value, less investments increasing the value. The tax rate depends on the duration of the ownership and the profit earned on selling the property. The seller pays this capital gains tax. In addition to capital gain taxes most cantons levy a stamp duty and registration fees.

Tax consequences of the free transfer of property

Inheritance or gifting of the property results in cantonal inheritance or gift taxes. Inheritances and gifts to spouses are tax-free in all cantons. Transfers of ownership to direct heirs only incur inheritance and gift taxes in some cantons or municipalities.

The Swiss voted in 2015 against a new inheritance and gift tax reform. The implementation of such laws is no longer a topic of political discussion.

Financing

In order to grant a mortgage, banks in Switzerland generally demand own funds of around 20% to 50% of the purchase price. It is not possible to fully finance a property using third parties without additional securities.

How can KPMG help you?

KPMG International Private Client Services has wide-ranging tax and legal expertise. Our professionals will analyze your individual requirements to provide tailored support at every stage of your current real estate acquisition project. Should you decide to take up residency, we can also guide you through the residence and work permit requirements.

Thanks to excellent relations with tax authorities, notaries, and the migration, employment, and land registry offices, we can respond to your questions rapidly and provide comprehensive assistance.

After we have organized your property purchase, we'll continue to support you with administrative tasks such as your annual tax return. We are also on hand if you encounter issues with inheritance planning or the subsequent sale of your real estate.

With many years' experience supporting international private clients, our skilled specialists will help you enjoy your beautiful property, safe in the knowledge that it has a sound structural and administrative basis.

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