

Lump-sum Taxation – an interesting alternative

International Private Client Services



Non-Swiss citizens taking up residence in Switzerland can opt for taxation based on expenses. This special tax system opens up attractive planning perspectives which are explained in this factsheet.

Concept of lump-sum taxation

The special tax regime of lump-sum taxation is available to resident non-Swiss nationals who do not carry out a gainful activity in Switzerland. Instead of basing the tax rate on global income and wealth, it uses the taxpayer's lifestyle expenses 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 very attractive taxation perspectives.

Concept of lump-sum taxation

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

In case of married couples, both spouses have to fulfill these requirements.

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

Determination of the income tax base

Since 1 January 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 an individual ruling by the competent tax authorities.

Tax amount test ("Shadow accounting")

The resulting tax burden, determined 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).

Determination of the wealth tax base

In several cantons, the lump sum used for income tax is multiplied by 20 to determine the wealth tax base. The

assessed wealth is then subject to the ordinary wealth tax rates. Due to the new legislation all cantons have to consider the wealth situation of the lump-sum taxpayers; Berne for example, explicitly takes Swiss immovable assets into consideration. Shadow accounting may also apply for wealth tax purposes.

Cantons without lump-sum taxation

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

Transitional regulations between 1 January 2016 and 31 December 2020

For taxpayers who were already taxed under the lump-sum tax regime before 1 January 2016, there will be a transitional period of a maximum of 5 years (i.e. until 31 December 2020) before the new regime becomes applicable.

Immigration aspects

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

- 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.
- They conclude a Swiss health insurance policy.

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

- a) Non EU/EFTA nationals over 55 years of age
- They have close ties to Switzerland.
 - They abstain from any gainful activity in Switzerland and abroad.

- They have sufficient financial resources to maintain their upkeep and that of their accompanying family members.
- 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 nonetheless receive a residence permit on the basis of "the preponderant cantonal fiscal interest". Generally, an annual total tax liability of approx. CHF 250'000 to CHF 1 million is the minimum amount required by the cantons. The cantons usually consider their financial interest in case of a third-country national taxpayers and apply a higher minimum income taxation base.

How can we support you?

KPMG International Private Client Services has years of experience in advising international clients with comprehensive net asset structures in all tax issues and especially in Swiss lump-sum taxation matters. We will analyze your situation to determine the best solution from a tax perspective. Due to our excellent relationships with the tax authorities and our experience we are able to offer a wide range of approaches. We are known for finding the right measures for our clients that prove to be an attractive solution.

International Private Client Services

KPMG's International Private Clients team renders services to discerning private clientele. Our integrated service line of tax specialists, lawyers, fiduciaries and auditors is dedicated to providing you with comprehensive tax and legal services.

Contacts

KPMG AG

Landis + Gyr-Strasse 1
P.O. Box 156
CH-6301 Zug

kpmg.ch

Dr. Frank Lampert

Head of International
Private Client Services
Partner, Zug
+41 58 249 49 84
flampert@kpmg.com

Juerg Birri

Head of Legal
Partner, Zurich
+41 58 249 35 48
jbirri@kpmg.com

Michael Mueller

International Private Client
Services Director, Zug
+41 58 249 49 66
mmueller1@kpmg.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received, or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. The scope of any potential collaboration with audit clients is defined by regulatory requirements governing auditor independence.

© 2016 KPMG AG is a subsidiary of KPMG Holding AG, which is a member of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss legal entity. All rights reserved.