Switzerland's Tax System

The Swiss tax system is quite complex due to the fact that the confederation, the 26 cantons and about 2'300 municipalities levy their own taxes based on the federal constitution and 26 cantonal constitutions. Let us guide you through the maze of Swiss taxes.

Who needs to pay taxes?

Resident individuals or temporary residents in Switzerland are subject to unlimited tax liability. The same applies to Swiss resident legal entities. Limited tax liability applies to non-resident individuals and companies having economic relations to Switzerland. In these cases the tax is levied on specific items of income having their source in Switzerland.

Residence is defined as the place where a person stays with the intention of settling permanently and which therefore provides the centre of his/her personal and business interests. A person will also be considered resident for tax purposes if he/she remains in the country for a protracted period, typically more than 90 days (30 days if working), even if he/she is not engaged in gainful activity. Companies are considered resident when having either their registered office or their actual administration in Switzerland.

What taxes are levied?

Switzerland places taxes on income and wealth (direct taxes), as well as on goods and services (indirect taxes). In addition, most of the cantons levy an inheritance and gift tax (none to spouses and direct descendants), a tax on gains derived from the sale of immovable property and certain other taxes and dues.

On an international scale, taxes in Switzerland are relatively moderate, with considerable differences between the various cantons and municipalities.

More information

To get more information on the different taxes - read our articles below on:

- **The many levels of taxation in Switzerland**
- **Individual income and wealth tax in Switzerland**
- **Swiss expat tax deductions you should know about**
- **Expenditure-based taxation or lump-sum taxation**
- **Corporate income tax and tax on equity in Switzerland**
- **Miscellaneous taxes in Switzerland**
- **How to start a business in Switzerland**

Disclaimer

Please note: The information contained within these articles is for guidance only. Items herein are general comments, do not constitute or convey advice per se and should not be relied upon without obtaining professional advice regarding your direct circumstances.

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Document last revised: January 2015

The many Levels of Taxation in Switzerland

To understand the Swiss tax system, it is important to know that there are different tax levels. Taxes are levied by the confederation, the 26 cantons and the approx. 2,300 municipalities.

The delimitation of taxation powers is governed by the federal and cantonal constitutions. The cantons exercise all rights of a sovereign state. They are authorized to levy any type of tax as long as the Federal Constitution does not reserve a certain right for the confederation. There are, however, only a few types of taxes for which the confederation claims exclusive taxation authority (VAT, special excise duties, withholding tax, and custom duties). Consequently, the cantons are given wide latitude in the creation of their own tax legislation. The municipalities may only levy those taxes, which are the constitution of their respective canton empowers them to levy.

In addition, the parishes of the three national churches (Roman Catholic, Protestant or Christ Catholic) levy a church tax on their members in almost all cantons and usually also on the legal entities liable for tax in the canton.

The levels of taxation authority are:

1. **Federal**
2. **Cantonal**
3. **Municipal**
4. Church - members of one of the three national churches (Roman and Christ Catholic, as well as protestant) are taxed in almost all cantons

The following table depicts the income and wealth taxes levied at each level, including the church tax:

Levels of Taxation

Confederation
federal income tax

Canton
cantonal income tax
cantonal net wealth tax

Commune
municipal income tax
municipal net wealth tax

Church
church tax

Source: Bonfina Treuhand GmbH / www.expattax.ch

Individual Income and Wealth Tax in Switzerland

Resident individuals or temporary residents performing gainful activities in Switzerland are subject to unlimited (worldwide) tax liability, tax treaty provisions prevailing. Limited tax liability applies to non-resident individuals having specific economic relations with Switzerland. In such cases, the tax is not levied on an international basis but only on specific items of income having their source in Switzerland (e.g. property, permanent establishments, etc.).

It is important to note that Swiss tax laws are based on the principle that the income and wealth of a family represents an economic unit and is taxed together. In other words, one tax return is submitted per household. Consequently, the income and wealth of both spouses in a joint household (and, as a rule, also the income and wealth of under-aged children) are combined with the income of the person who exercises parental authority.

The annual tax return and assessment

Swiss citizens, foreigners with a permanent residence permit C or foreigners married to a Swiss citizen need to file a tax return each year. Some cantons have incorporated additional criteria in their tax laws that require an ordinary tax assessment of foreign residents in Switzerland, e.g. if real estate is owned in the canton. An annual tax return is also due if you are working as a self-employed person or as an employee of a foreign employer.

In Switzerland, the tax year corresponds to the calendar year. Thus the tax year-end is 31 December. For most cantons, a tax return must be filed normally within three months after the end of the tax period. Most cantons allow one free deadline extension. But any additional extension request will cost you extra.

If the taxpayer fails to file his/her tax return on time, he/she may be subject to default taxation. In such a case, the tax authorities will assess the taxpayer on the basis of a reasonable estimate. This tax base would usually be substantially higher than the actual tax base and is likely to be more expensive for the taxpayer. No appeal is available if action is not taken within 20 or 30 days (depending on the canton) of the issue of this final assessment. Penalties for non-filing may also be issued.

Withholding of tax at source

Foreign employees (without a C permit) have the fiscal amount deducted directly from their salary each month by their Swiss employer. The rates are lower than the rates of the assessed income taxes, because they apply to the gross income. All typical deductions and allowances are standardized and directly included in the tariffs. The tariffs are generally progressive (i.e. the more you earn, the higher the tax rate) and take into account whether you are married or single, living with children or subject to church tax.

The tax withheld at source does cover taxes of all tax levels (federal, cantonal & municipal, and eventually church tax).

Subsequent ordinary tax assessment

Foreign employees residing in Switzerland whose gross salary exceeds CHF 120,000 per year (CHF 500,000 in Geneva) are obliged to file a tax return for their worldwide income and assets. The tax withheld from salary is credited interest-free against the assessed tax.

Complementary tax assessment

Foreign employees residing in Switzerland whose gross salary does not exceed CHF 120,000 per year (CHF 500,000 in Geneva) but who have additional sources of income or additional assets (e.g. income from securities or real estate property) are also obliged to file a tax return, however in most cantons only for the additional income or assets.

Correction of withholding tax

If you are a foreign employee having tax deducted from your salary and if you are not required to file a tax return, you could eventually reduce your tax burden by submitting a claim for the correction of withholding tax. This may lead to a partial tax refund.

The correction claim can be submitted for the following items:

- Cost of international weekly residence
- Debt interest (consumer loans and credit cards)
- Further education and retraining costs
- Health and accident costs above a certain threshold
- Costs associated with disability
- Support payments
- Alimony payments
- Contributions in recognized forms to own pension provisioning (pillar 3a)
- Purchases of contribution years in a pension fund (2nd pillar)
- Exceptional travel expenses between home and work (e.g. over 10,000 km per annum)
- Childcare costs
- Donations

Such a claim can be submitted in most of the cantons. Usually the cantons provide a special form that needs to be completed and the additional deductions must be properly evidenced. Some cantons require completion of a full tax return in order to have these deductions taken into account.

If a correction of withholding tax is applied for, the application has to be submitted by 31st March of the following year. In most cantons, this is a fixed deadline, which cannot be extended.

How are taxable income and taxable wealth determined?

Taxable income includes:

- Income from gainful employment and self-employment
- Compensatory income (such as annuities and pensions)
- Secondary income (such as seniority allowances and tips)
- Income from bank accounts/securities and real estate property
- Other income (e.g. prizes on lotteries and pools over 1,000 CHF)

Expenses relating to the earning of income (e.g. professional expenses) are deductible from gross income. In addition, several general deductions (e.g. deduction for double income earners, for insurance premiums, for social security and pension plan contributions, for interest on private debt up to a certain amount, etc.) and social deductions (e.g. deduction for married couples, for single parent families, for children, for needy persons, etc.) are granted.

In general, total property is subject to wealth tax. Total property comprises all of the taxpayer's assets and rights that have a cash value. These assets and rights are usually assessed at market value.

Taxable property includes in particular real estate, capital assets, redeemable life and annuity insurances and business assets. The tax base for the wealth tax is net wealth, that is, gross wealth reduced by the sum of the taxpayer's documented debt as well as personal allowances and social deductions which vary from canton to canton.

How much tax do I have to pay?

The extent of the tax burden varies from canton to canton and from municipality to municipality. The main question that expats in Switzerland have to ask is where they live or intend to live. The chosen canton or municipality will determine the level of tax that will be imposed on their income and wealth. The tax scales are generally progressive. There is a reduced tax scale for married couples living together and single parent families.

The table below shows the income tax burden of a **married couple with two children** in the principal town of each canton. For a gross annual (joint) income of CHF 150,000 for example, the lowest tax is due in Zug with 4.15% and the highest in Neuchâtel with 15.55 %.

Canton	Principal	*Gross income in CHF*											
	Town	*100'000*		*150'000*		*200'000*		*400'000*		*500'000*		*1'000'000*	
		MARRIED COUPLE WITH 2 CHILDREN: TAX BURDEN 2013 (federal & cantonal & communal & church tax)											
		%	CHF	%	CHF	%	CHF	%	CHF	%	CHF	%	CHF
ZG	Zug	1.78%	1'780	4.15%	6'218	7.14%	14'283	16.44%	65'763	17.63%	88'166	20.01%	200'107
SZ	Schwyz	4.11%	4'111	7.65%	11'481	10.88%	21'763	17.60%	70'402	18.96%	94'816	21.29%	212'917
VS	Sion	4.19%	4'191	8.84%	13'254	14.30%	28'603	24.96%	99'824	27.09%	135'458	30.76%	307'636
NW	Stans	5.23%	5'228	9.14%	13'713	12.41%	24'811	19.43%	77'737	20.53%	102'667	22.73%	227'283
ZH	Zürich	4.97%	4'969	9.21%	13'812	13.31%	26'626	23.44%	93'753	26.32%	131'587	32.37%	323'710
AI	Appenzell	5.83%	5'826	9.61%	14'411	12.83%	25'651	19.69%	78'749	20.92%	104'579	23.05%	230'542
OW	Sarnen	6.60%	6'597	9.64%	14'457	12.29%	24'580	18.05%	72'202	19.22%	96'107	21.55%	215'549
UR	Altdorf (UR	6.84%	6'839	9.79%	14'680	12.65%	25'305	18.89%	75'540	20.15%	100'756	22.68%	226'752
GE	Genève	3.30%	3'299	9.80%	14'697	15.16%	30'322	25.57%	102'284	28.08%	140'384	33.96%	339'587
GR	Chur	5.25%	5'255	9.93%	14'888	14.19%	28'379	22.87%	91'492	24.69%	123'470	28.48%	284'793
TI	Bellinzona	4.22%	4'220	9.93%	14'896	14.99%	29'978	25.73%	102'903	28.14%	140'707	33.01%	330'052
LU	Luzern	6.25%	6'248	10.11%	15'169	13.80%	27'607	22.07%	88'276	23.75%	118'734	27.09%	270'923
TG	Frauenfeld	5.83%	5'834	10.58%	15'876	14.32%	28'649	22.43%	89'739	24.30%	121'488	28.01%	280'147
AG	Aarau	6.14%	6'139	10.78%	16'166	14.82%	29'650	23.35%	93'391	25.31%	126'532	29.47%	294'742
GL	Glarus	6.77%	6'767	10.93%	16'398	14.43%	28'853	22.43%	89'725	24.31%	121'561	28.52%	285'169
SH	Schaffhaus	6.61%	6'611	10.99%	16'478	15.48%	30'969	24.91%	99'637	26.86%	134'301	29.19%	291'867
FR	Fribourg	6.19%	6'187	12.05%	18'072	16.56%	33'112	26.63%	106'538	29.00%	145'022	31.52%	315'206
AR	Herisau	7.55%	7'554	12.23%	18'343	15.95%	31'903	23.64%	94'572	25.09%	125'446	27.26%	272'604
SG	St. Gallen	6.62%	6'618	12.38%	18'575	17.06%	34'110	26.30%	105'188	28.19%	140'957	31.02%	310'198
BE	Bern	7.79%	7'786	12.61%	18'910	16.97%	33'935	27.00%	108'007	29.42%	147'107	34.49%	344'916
BL	Liestal	6.30%	6'303	12.61%	18'919	17.45%	34'893	27.71%	110'839	29.94%	149'721	34.80%	347'995
VD	Lausanne	9.15%	9'155	13.12%	19'684	16.88%	33'756	27.45%	109'810	30.33%	151'656	36.39%	363'878
BS	Basel	7.43%	7'425	13.43%	20'142	17.54%	35'087	25.51%	102'035	27.13%	135'640	31.97%	319'738
SO	Solothurn	8.75%	8'751	13.52%	20'287	17.57%	35'145	26.58%	106'321	28.48%	142'393	31.60%	315'993
JU	Delémont	9.55%	9'548	14.83%	22'238	18.87%	37'730	28.56%	114'234	30.70%	153'516	35.18%	351'824
NE	Neuchâtel	9.96%	9'963	15.55%	23'331	19.91%	39'811	29.92%	119'678	31.45%	157'230	34.07%	340'684
							source: Swiss Federal Tax Administration FTA / compiled by the author						

The table below shows the income tax burden of a **single person** in the principal town of each canton. For a gross annual income of CHF 150,000 for example, the lowest tax is due in Zug with 12.45% and the highest in Neuchâtel with 24.05 %.

Canton	Principal Town	*Gross income in CHF* 100'000		150'000		200'000		400'000		500'000		1'000'000	
		SINGLE PERSON: Total income tax due 2013 (federal & cantonal & communal & church tax)											
		%	CHF	%	CHF	%	CHF	%	CHF	%	CHF	%	CHF
ZG	Zug	7.57%	7'567	12.45%	18'671	14.73%	29'464	18.59%	74'370	19.39%	96'953	20.75%	207'494
SZ	Schwyz	10.42%	10'421	13.40%	20'098	15.59%	31'187	19.76%	79'031	20.56%	102'809	21.93%	219'321
OW	Sarnen	11.75%	11'745	14.11%	21'170	16.00%	32'005	19.98%	79'902	20.80%	103'987	22.20%	222'029
UR	Altdorf (UR	12.43%	12'427	14.87%	22'305	16.90%	33'793	21.08%	84'303	21.94%	109'699	23.43%	234'295
NW	Stans	12.35%	12'351	15.23%	22'843	17.48%	34'966	21.23%	84'923	22.01%	110'041	23.32%	233'249
AI	Appenzell	12.31%	12'313	15.48%	23'220	17.63%	35'262	21.51%	86'038	22.29%	111'426	23.60%	235'981
LU	Luzern	14.05%	14'052	16.94%	25'408	19.38%	38'764	24.91%	99'623	26.05%	130'261	28.11%	281'050
ZH	Zürich	12.86%	12'856	17.05%	25'572	20.69%	41'386	28.99%	115'945	30.91%	154'575	34.53%	345'298
GL	Glarus	13.80%	13'799	17.09%	25'637	19.88%	39'769	26.13%	104'516	27.76%	138'815	29.20%	292'033
TG	Frauenfeld	14.54%	14'542	17.97%	26'959	20.68%	41'363	26.22%	104'896	27.37%	136'828	29.41%	294'086
GR	Chur	14.42%	14'423	18.28%	27'425	21.13%	42'250	26.62%	106'496	27.81%	139'072	29.88%	298'783
AG	Aarau	14.84%	14'842	18.58%	27'871	21.47%	42'935	27.39%	109'579	28.78%	143'899	31.31%	313'082
AR	Herisau	14.99%	14'994	18.60%	27'902	21.26%	42'515	25.80%	103'207	26.57%	132'838	27.86%	278'596
TI	Bellinzona	14.98%	14'976	19.58%	29'368	22.86%	45'723	29.56%	118'225	31.25%	156'272	34.53%	345'325
SH	Schaffhaus	15.92%	15'925	19.93%	29'899	23.16%	46'324	27.80%	111'187	28.58%	142'902	29.91%	299'067
BE	Bern	16.24%	16'245	20.86%	31'287	24.27%	48'546	31.43%	125'704	33.02%	165'096	36.17%	361'682
FR	Fribourg	16.93%	16'929	21.16%	31'740	24.98%	49'952	30.01%	120'043	30.86%	154'277	32.30%	323'036
BS	Basel	17.61%	17'612	21.23%	31'838	23.75%	47'497	29.91%	119'640	31.35%	156'750	33.99%	339'882
VS	Sion	15.71%	15'713	21.48%	32'225	25.23%	50'453	30.48%	121'927	31.40%	157'003	32.78%	327'781
SO	Solothurn	17.61%	17'608	21.58%	32'365	24.62%	49'250	30.12%	120'464	30.92%	154'596	32.29%	322'916
GE	Genève	17.00%	17'003	21.64%	32'463	24.88%	49'763	32.03%	128'130	33.78%	168'911	37.48%	374'836
SG	St. Gallen	17.95%	17'954	22.13%	33'201	24.97%	49'937	29.71%	118'854	30.50%	152'499	31.83%	318'314
VD	Lausanne	17.87%	17'865	22.30%	33'447	25.94%	51'873	34.40%	137'601	35.44%	177'190	36.89%	368'946
BL	Liestal	17.60%	17'597	22.58%	33'874	25.98%	51'955	32.64%	130'575	34.15%	170'728	37.30%	373'035
JU	Delémont	18.45%	18'455	23.33%	34'988	26.56%	53'112	33.05%	132'188	34.41%	172'050	36.89%	368'927
NE	Neuchâtel	19.48%	19'483	24.05%	36'073	27.58%	55'153	32.43%	129'700	33.32%	166'595	34.86%	348'649

source: Swiss Federal Tax Administration FTA / compiled by the author

Wealth tax: The table below shows the **wealth tax** due in the capital town of each canton. By way of an example, the annual tax for a net wealth of CHF 500,000 in the canton of Zürich is around 0.11%. The maximum individual wealth taxes levied in all cantons varies between 0.13% (Canton of Nidwalden) and around 1% (Canton of Geneva).

Canton	Principal Town	Net wealth in CHF 100'000		200'000		500'000		1'000'000		5'000'000		10'000'000	
		WEALTH TAX 2013 (cantonal & communal & church tax)											
		%	CHF	%	CHF	%	CHF	%	CHF	%	CHF	%	CHF
NW	Stans	0.04%	40	0.09%	174	0.12%	576	0.12%	1'246	0.13%	6'606	0.13%	13'306
OW	Sarnen	0.08%	76	0.11%	227	0.14%	680	0.14%	1'435	0.15%	7'475	0.15%	15'025
SZ	Schwyz	0.00%	0	0.00%	0	0.11%	545	0.15%	1'452	0.17%	8'712	0.18%	17'787
UR	Altdorf (UR	0.00%	0	0.00%	0	0.14%	677	0.18%	1'810	0.22%	10'874	0.22%	22'204
SO	Solothurn	0.00%	0	0.10%	207	0.19%	944	0.21%	2'124	0.23%	11'564	0.23%	23'364
LU	Luzern	0.00%	0	0.14%	270	0.22%	1'080	0.24%	2'430	0.26%	13'230	0.27%	26'730
ZG	Zug	0.00%	0	0.00%	0	0.06%	322	0.16%	1'645	0.27%	13'565	0.28%	28'465
AI	Appenzell	0.00%	0	0.14%	282	0.23%	1'128	0.25%	2'538	0.28%	13'818	0.28%	27'918
TG	Frauenfeld	0.00%	0	0.00%	0	0.18%	921	0.25%	2'455	0.29%	14'731	0.30%	30'076
GR	Chur	0.00%	0	0.06%	127	0.21%	1'057	0.30%	2'973	0.33%	16'641	0.34%	33'726
GL	Glarus	0.00%	0	0.09%	188	0.26%	1'316	0.32%	3'197	0.36%	18'243	0.37%	37'050
AR	Herisau	0.00%	0	0.10%	190	0.27%	1'368	0.35%	3'458	0.40%	20'178	0.41%	41'078
AG	Aarau	0.00%	0	0.03%	58	0.21%	1'052	0.32%	3'157	0.47%	23'457	0.49%	48'987
SG	St. Gallen	0.00%	0	0.12%	242	0.34%	1'696	0.41%	4'118	0.47%	23'498	0.48%	47'723
ZH	Zürich	0.00%	0	0.03%	53	0.11%	527	0.19%	1'935	0.50%	24'911	0.59%	59'261
SH	Schaffhaus	0.00%	0	0.11%	223	0.27%	1'338	0.45%	4'460	0.50%	25'132	0.51%	50'777
JU	Delémont	0.00%	0	0.21%	415	0.31%	1'562	0.40%	4'046	0.55%	27'648	0.58%	57'542
BE	Bern	0.00%	0	0.22%	435	0.32%	1'624	0.42%	4'205	0.58%	29'246	0.60%	59'690
TI	Bellinzona	0.00%	0	0.00%	0	0.30%	1'482	0.42%	4'154	0.61%	30'323	0.64%	64'448
VS	Sion	0.13%	128	0.28%	567	0.41%	2'065	0.50%	5'013	0.63%	31'611	0.64%	63'606
FR	Fribourg	0.00%	0	0.43%	862	0.51%	2'565	0.63%	6'314	0.65%	32'555	0.65%	65'109
NE	Neuchâtel	0.05%	48	0.31%	624	0.52%	2'611	0.69%	6'912	0.69%	34'560	0.69%	69'120
BL	Liestal	0.00%	0	0.06%	115	0.33%	1'673	0.61%	6'110	0.75%	37'277	0.76%	75'707
VD	Lausanne	0.00%	0	0.32%	639	0.52%	2'616	0.65%	6'478	0.76%	38'141	0.78%	77'719
BS	Basel	0.00%	0	0.11%	225	0.32%	1'575	0.48%	4'815	0.78%	39'160	0.79%	79'160
GE	Genève	0.00%	0	0.06%	117	0.30%	1'486	0.49%	4'853	0.87%	43'454	0.94%	93'854

source: Swiss Federal Tax Administration FTA / compiled by the author

Swiss Expat Tax Deductions You Should Know About

One question often asked is whether there any tax concessions made for expatriates in Switzerland.

In fact, certain special tax deductions apply to expatriates, defined as members of management or employees with specialist skills, sent by their employer to Switzerland for a temporary assignment, for a maximum period of five years.

The special tax deductions for expatriates defined in cantonal and federal laws and guidelines. According to these, no deduction is granted if the employee is on a permanent, timely not limited, contract. Furthermore no deduction is possible if the employer pays for the additional costs without adding these payments to the taxable gross salary.
The special treatment ends as soon as the temporary assignment is changed into a timely unlimited contract or after 5 years of staying in Switzerland, whichever is earlier.

Expat deductions include:

- Reasonable costs for accommodation in Switzerland. In some cantons, it is necessary for the expatriate to show that he/she maintains a permanent abode (house or apartment) outside Switzerland during the period of his/her stay in Switzerland.
- Moving costs to Switzerland and back to the home country.
- Travel expenses to and from Switzerland for the taxpayer and his/her family at the beginning and at the end of the employment in Switzerland, respectively.
- Schooling expenses for the taxpayer’s children for a foreign-language private school, to the extent that the public schools do not offer adequate schooling.
- In some cantons, a lump-sum expatriate deduction (often referred to as OEXPA deduction) has to be taken instead of the above itemized deductions. This is usually equivalent to around CHF1,500 per month.

Revised regulation as from 1 January 2015

In January 2015 the Federal Department of Finances published the revised wording of the Expatriate Ordinance which will become effective on January 1, 2016. The changes include:

- A more restrictive definition of who qualifies as an expatriate employee, whereby only employees (either in a position of leadership or specialized professional experts) with a home country contract and a letter of assignment may qualify for these deductions (secondment from the foreign employer to Switzerland). Specialists or executives with a limited local contract will in future only be able to qualify as expatriate if their employment is a transfer within the group and the foreign employer guarantees a re-employment after the stay in Switzerland.
- Reasonable costs for accommodation in Switzerland will only be deductible if it can be proven that the overseas residence is retained and permanently available for the expatriate’s use. If the dwelling in the home country is rented out during the assignment to Switzerland, no

housing deduction can be made in Switzerland. The same condition will apply in order to benefit from the lump-sum deduction of CHF 1,500 per month.

- The deduction of school costs is still linked to the mother tongue of the children and whether the public schools can provide adequate tutoring. Thus, if adequate education in the mother tongue is offered by public schools, international school fees cannot be deducted.

Expatriates, who remain tax resident abroad (commuters), cannot deduct moving expenses and school fees; however, they are entitled to claim the costs for their regular trips back home.

Expenditure-based taxation or lump-sum taxation

For expats that are not pursuing an occupation, or more simply, who do not work or hold a job in Switzerland, an attractive taxation option could be expenditure-based taxation.

Expenditure-based taxation, also referred to as lump-sum taxation, is a simplified assessment procedure for foreign nationals who are living in Switzerland but are not gainfully employed here. Less than 0.1% of taxpayers are taxed on a lump-sum basis in Switzerland.

The federal and most cantonal tax legislations provide an option to request to be taxed based on estimated living expenses rather than on actual income and net wealth. This lump-sum taxation is a special way of assessing income and wealth. However, regular tax rates are applied in calculating the tax amount.

The basic prerequisite for lump-sum taxation is that the person concerned does not pursue an occupation in Switzerland. This type of taxation is available to those who make Switzerland their tax home for the first time or return after having been outside the country for at least ten years. Foreigners enjoy this right indefinitely, while it is limited to the first year of residence for repatriating Swiss citizens who are returning from abroad.

The right to expenditure-based taxation expires when a person acquires Swiss citizenship or takes up gainful employment in Switzerland.

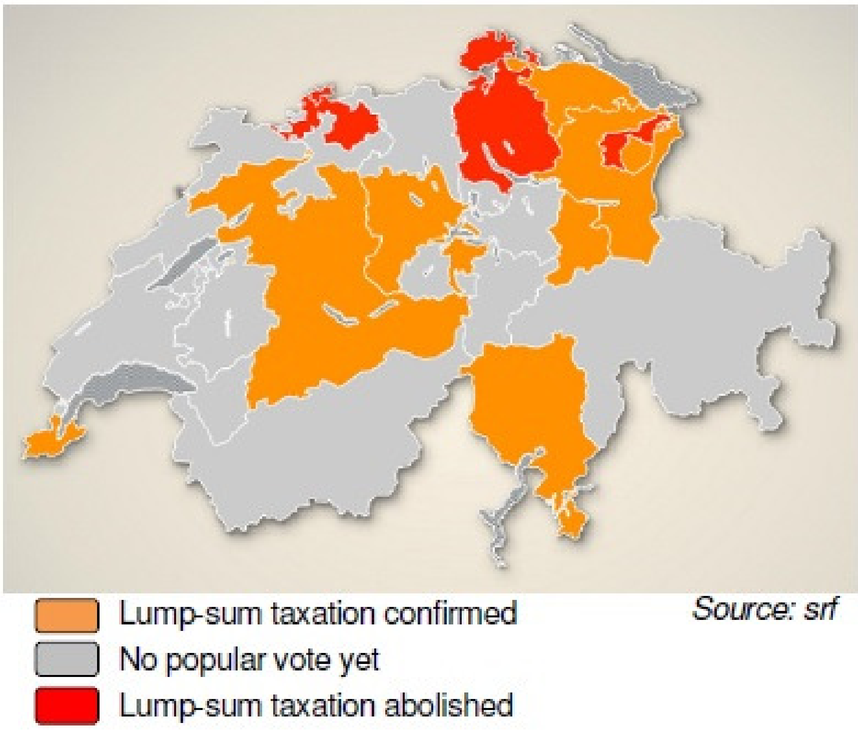
Current expenditure-based taxation mechanism

Tax is calculated on the basis of the total annual cost of living expenses by taxpayers in Switzerland and abroad for themselves and their dependents living in Switzerland. For the Confederation and most cantons at present, the expenses in question must amount to at least five times the rental value of the taxpayer’s home or the rent paid. The law also provides for an additional minimum calculation, according to which the tax may not be lower than the tax on specified gross elements of income and wealth according to the regular tax rate in Switzerland. This income includes all income from Swiss sources as well as income for which the taxpayer claims relief from foreign taxation in accordance with a double taxation agreement concluded by Switzerland.

Significant differences exist between the cantons, in particular, regarding taking into account the taxpayer’s assets, and also whether wealth tax is included in the taxation. Certain cantons have established minimum thresholds for either the tax base or the tax revenue due.

Lump-sum taxation under pressure

For tax equity reasons, citizens in various cantons voted against expenditure-based taxation in recent popular votes, and the practice was abolished in these cantons, namely Zurich, Schaffhausen, Appenzell Ausserrhoden, Basel-City and Basel-Land). Some other cantons initiatives aiming at abolishing the regime were rejected. These cantons however, implemented stricter rules. The following graph shows the current status.



A popular initiative entitled “Stop tax privileges for millionaires (abolition of lump-sum taxation)” was submitted in October 2012, calling for lump-sum taxation to be abolished **throughout Switzerland**. The popular vote on this initiative was held on 30 November 2014 and most voters followed the Federal Council's recommendations and rejected the initiative with a 59.2% no vote.

More stringent rules as of 2016

In order to improve tax equity and acceptance by the population, the Federal Council has increased the assessment basis and made the conditions more stringent. The more stringent measures will be in effect as of 2016 for both the Confederation and the cantons, and include:

- Worldwide expenses should amount to at least seven times the housing costs.
- A minimum assessment basis of CHF 400,000 should now additionally apply for direct federal tax. The cantons must also at their discretion set a minimum amount for the assessment basis.
- In the case of spouses who wish to be taxed on an expenditure basis, both parties must fulfil all of the prerequisites for expenditure-based taxation.
- The existing legislation will continue to apply for a period of five years for persons who were taxed on an expenditure basis at the time of entry into force of the DFTA.

Corporate Income Tax and Tax on Equity in Switzerland

Legal entities with either a registered office or an actual administration in Switzerland are subject to unlimited tax liability. Limited tax liability applies to foreign corporations with a permanent establishment or with real estate in Switzerland. The international comparison shows that Switzerland is a very attractive location for corporate tax payers.

Switzerland has a "classical" corporate tax system in which a corporation and its owners or shareholders are taxed individually, causing economic double taxation. In order to reduce this effect, the taxation of the shareholder benefitting from the dividends is lowered by 40% at the federal tax level. Some cantons have incorporated the federal system while others apply different systems to reduce qualified dividends.

Determination of taxable profit

Resident companies are subject to corporate income tax on their worldwide income with the exception of income attributable to foreign establishments or foreign real estate (immovable property). Such income is excluded from the Swiss tax base and is only taken into account for rate progression purposes in cantons that still apply progressive tax rates.
Non-resident companies are subject to tax only on Swiss source income, i.e. income and capital gains derived from Swiss business, permanent establishments or real estate property.

As a matter of principle, the statutory accounts of a Swiss company and – in case of a foreign company – the branch accounts form the basis for determining taxable income. Apart from participation exemption for dividend and capital gains income, various adjustments required by tax law and the use of existing loss carryforwards (the loss carryforward period is seven years), there are very few differences between statutory profit and taxable profit.
The most common deductions allowed are depreciation, tax expense, interest expense, and management and service fees/royalties. The last two are deductible to the extent that they are in accordance with the arm's-length principle. The arm's length principle is the condition or the fact that the price for a certain transaction should be the same as if the two companies involved were indeed two independents, not part of the same corporate structure. The arm's length principle is found in Article 9 of the OECD Model Tax Convention and is the framework for bilateral treaties between OECD countries, and many non-OECD governments, too.

Special tax regimes

At the cantonal level only, a "holding privilege" applies to pure holding companies. They are exempt from the cantonal corporate profit tax. Moreover, cantonal law confers a "domicile privilege" on companies who are only administered in Switzerland, but whose business is conducted abroad; including shell corporations. The cantons tax only around 10 percent of the worldwide profits of such companies.

The special tax regimes face increasing international pressure, in particular from the European Union. The federal and cantonal governments have reacted and are currently reshaping the Swiss tax legislation. The Federal Council initiated the consultation phase in September 2014 with the

publication of a legislative draft for Corporate Tax Reform III. In compensation for abolishing the special tax regimes, the legislative draft includes inter alia the following measures: introduction of a license box at the cantonal level, notional interest deduction and a general lowering of cantonal corporate income tax rates.
The consultation procedure for the legislative draft will last until early 2015, after which the Federal Council will prepare the final proposal for discussion within the Parliamentary chambers and commissions. If no referendum is held, it can be assumed that the new legislation will come into force by January 2019.

Determination of taxable equity

The basis for the calculation of capital tax is in principle the company's net equity (i.e. share capital paid-in surplus, legal reserves, other reserves, retained earnings). The taxable base of companies also includes any provisions disallowed as deduction for tax purposes, any other undisclosed reserves, as well as debt that economically has the character of equity under the Swiss thin capitalization rules.

Tax burden

Corporations are subject to corporate income tax as well as tax levied on equity at the cantonal and municipal level.

The federal corporate income tax rate is a flat 8.5%. The cantonal tax rates vary considerably. In general, they are progressive (depending on different factors). The rates laid down in the cantonal tax laws are usually subject to cantonal and municipal multipliers.

In Switzerland, all taxes for corporate taxpayers are deductible. As this is different in most other countries, Swiss tax rates should not be compared 1:1 with foreign tax rates. If the aggregate of all rates in Switzerland amounts to 30% for example (of which 8.5% is federal tax), the effective rate would only be about 23% (of which 7.8% is federal tax) compared to a country where taxes are not deductible. The effective maximum income tax rate of an ordinary taxed company with an EBT of CHF 1,000,000 is around 24%, the lowest around 13%.

The rates of tax on equity are mostly proportional or sometimes defined by a progressive scale with a minimum and a maximum rate. For a total equity of CHF 10,000,000 the tax rate varies between 0.01% and 0.51%. Since 2009, however, cantons are allowed to credit annual equity tax against corporate income tax to the effect that profitable corporations do not owe annual equity taxes.

The table below shows the income tax burden of an ordinary taxed company with an EBT of CHF 1,000,000 and a taxable equity of CHF 10,000,000.

Canton	Principal Town	*Corporate income tax and tax on equity 2015*						
		profit before tax: CHF 1,000,000 // equity: CHF 10,000,000						
		TOTAL Tax		***of which:***	***tax on income***		***tax on equity***	
		% EBT	***CHF***		***% EBT***	***CHF***	***% Equity***	***CHF***
NW	Stans	*12.75%*	**127'486**		*12.65%*	***126'513***	*0.01%*	***974***
AR	Herisau	*13.28%*	**132'834**		*12.57%*	***125'730***	*0.07%*	***7'104***
LU	Luzern	*13.92%*	**139'183**		*12.09%*	***120'942***	*0.18%*	***18'241***
AI	Appenzell	*14.16%*	**141'620**		*14.16%*	***141'620***	*0.00%*	***0***
SZ	Schwyz	*14.29%*	**142'884**		*14.29%*	***142'885***	*0.00%*	***0***
OW	Sarnen	*14.38%*	**143'847**		*12.41%*	***124'135***	*0.20%*	***19'712***
ZG	Zug	*14.88%*	**148'805**		*14.14%*	***141'437***	*0.07%*	***7'368***
UR	Altdorf	*15.12%*	**151'169**		*15.11%*	***151'071***	*0.00%*	***98***
TG	Frauenfeld	*16.43%*	**164'299**		*16.43%*	***164'300***	*0.00%*	***0***
NE	Neuchâtel	*17.01%*	**170'109**		*17.01%*	***170'109***	*0.00%*	***0***
SG	St. Gallen	*17.40%*	**173'976**		*17.40%*	***173'976***	*0.00%*	***0***
SH	Schaffhausen	*17.70%*	**176'998**		*15.64%*	***156'370***	*0.21%*	***20'628***
GL	Glarus	*17.81%*	**178'060**		*15.32%*	***153'173***	*0.25%*	***24'887***
AG	Aarau	*18.27%*	**182'702**		*18.27%*	***182'702***	*0.00%*	***0***
BS	Basel	*19.27%*	**192'747**		*14.13%*	***141'260***	*0.51%*	***51'487***
GR	Chur	*20.75%*	**207'535**		*15.87%*	***158'666***	*0.49%*	***48'869***
SO	Solothurn	*21.23%*	**212'271**		*21.23%*	***212'272***	*0.00%*	***0***
BE	Bern	*21.36%*	**213'607**		*21.36%*	***213'607***	*0.00%*	***0***
FR	Fribourg	*22.26%*	**222'634**		*19.27%*	***192'662***	*0.30%*	***29'972***
BL	Liestal	*22.30%*	**223'005**		*19.65%*	***196'487***	*0.27%*	***26'518***
ZH	Zürich	*22.47%*	**224'704**		*20.79%*	***207'915***	*0.17%*	***16'789***
VD	Lausanne	*22.79%*	**227'885**		*22.79%*	***227'886***	*0.00%*	***0***
TI	Bellinzona	*22.93%*	**229'319**		*20.07%*	***200'741***	*0.29%*	***28'577***
JU	Delémont	*23.64%*	**236'435**		*20.01%*	***200'103***	*0.36%*	***36'333***
VS	Sion	*23.75%*	**237'498**		*19.02%*	***190'188***	*0.47%*	***47'310***
GE	Genève	*25.94%*	**259'359**		*23.60%*	***235'955***	*0.23%*	***23'404***
					source: compiled by the author			

If you are interested in knowing how to start a business in Switzerland make sure you read my article “How To Start A business In Switzerland” further below.

Miscellaneous Taxes in Switzerland

In addition to individual and corporate income tax and tax on wealth or equity, you may be interested in knowing what other taxes there are in Switzerland.

There is a bunch of other taxes, but most importantly the value-added tax (VAT) which is by far the lowest rate anywhere in Europe.

VAT or value-added tax

The value added tax (VAT; Mehrwertsteuer / Taxe sur la valeur ajoutée / Tassa sul valore aggiunto) is one of the Confederation's principal sources of funding. It is a general consumption tax and levied at a rate of 8 percent on most commercial exchanges of goods and services. Certain exchanges, including those of foodstuffs, drugs, books and newspapers, are subject to a reduced VAT of 2.5 percent. Yet other exchanges, including those of medical, educational and cultural services, are tax-exempt; as are goods delivered and services provided abroad. A special rate of 3.8% applies to the hotel and lodging industry.

Although Switzerland is not an EU member state, its value added tax system was structured in accordance with the sixth EU VAT directive as a non-cumulative, multi-stage tax that provides for deduction of input tax. It is designed as a tax owed by the supplier of goods or services and the tax is usually passed on to the customer as part of the price.

Any entity that generates revenues through business or professional activity in Switzerland is liable for tax, including foreign businesses supplying goods or certain services to Switzerland.
There is a registration obligation if the taxable revenue exceeds CHF 100,000 per year. If the revenues are less, then the entity is exempt from tax liability. However, any such entity may waive exemption from tax liability.

Federal withholding tax

Federal withholding tax (Verrechnungssteuer / impôt anticipé / Imposta preventiva) is levied at a rate of 35 percent on certain forms of income, most notably dividend payments, interest on bank loans and bonds, liquidation proceeds, lottery prizes and payments by life insurances and private pension funds. The debtor of such payments is liable for the payment of the tax; they must pay the creditor only the net amount.

With respect to creditors resident in Switzerland, the withholding tax is only a means of securing the payment of the income or profit tax, from which the creditor may then deduct the amount already withheld, or request its refund. The same applies to foreign creditors to the extent that a tax treaty provides for it. Other foreign creditors are not eligible for a refund; with respect to them, the withholding tax is a genuine tax.

Stamp duties

Stamp duties are a group of federal taxes levied on certain commercial transactions. The name is an anachronism and dates back to the time when such taxes were administered with physical stamps.

The **issue tax** (Emissionssteuer / Tassa di emissione) is levied on the issue of certain securities such as shares and bonds. Exceptions are made, inter alia, for securities issued in the course of a commercial reorganization, and the first million CHF of funds raised are in effect exempt from taxation. The tax amounts to one percent of the funds raised and is payable by the issuer. The trade in shell companies (Mantelhandel) is also subject to the issue tax.

The **transfer tax** (Umsatzsteuer / Imposta sulla cifra d'affari) is levied on the trade in certain securities by certain qualified traders (Effektenhändler; mostly stockbrokers and large holding companies). The tax amounts to 0.15 or 0.3 percent depending on whether Swiss or foreign securities are traded. Finally, an insurance premiums tax of 5 or 2.5 percent is levied on certain insurance premiums.

Border duties and miscellaneous federal taxes

The Confederation is constitutionally empowered to levy tariffs, which were its principal sources of funding up until World War I, but are now more important as an instrument of trade policy. Additional federal taxes of lesser economic importance include taxes on the importation or manufacture of spirits, beer, tobacco, automobiles and mineral oil, as well as on gambling establishments. Citizens exempt from military service are required to pay a tax in compensation.

Other cantonal taxes

In addition to individual and corporate income tax and tax on wealth or equity, the cantons are free to introduce others.

Several cantons levy an inheritance tax (Erbschaftssteuer / Imposta di successione) and a gift tax (Schenkungssteuer / Imposta di donazione), although there is a trend towards abolishing those. In all cantons, the transfer of wealth by inheritance to the spouse is tax-free. In most cantons, the same applies for direct offspring and sometimes even for direct ancestors.

Moreover, the cantons are required by federal law to levy a tax on the profit from the sale of real estate (Grundstückgewinnsteuer / impôt sur les gains immobiliers / Imposta sugli utili immobiliari). Except for real estate, there is generally no capital gains tax on private capital such as stocks and bonds.

Most cantons also levy a tax on the value of the property sold (Handänderungssteuer / impôt sur les mutations / Tassa di mutazione) so as to discourage speculation in real estate. Taxes are also frequently levied on the ownership of dogs and motor vehicles, on lotteries, on the sale of tickets to public entertainments, or on overnight stays in certain tourist destinations.

How to Start a Business in Switzerland

There are a number of things you need to consider before starting your business. Firstly, it is essential to understand whether you have a successful business idea and secondly, to choose the right legal setup for it.

We've included below some key areas to help you think about the business you'd like start and identifying which legal structure fits best.

What do I need before I get started?

Before you get started find out if people are interested in buying your products or services. Find out who your competitors are and whether the market can sustain your business.
Conduct some research to see whether your idea is really feasible. This will involve gathering, analysing and evaluating information to help you formulate your business goals.

Some questions to consider are:

- What product/service will you provide?
- Is your idea feasible?
- How will you protect your idea?
- Is there a market for your product/service?
- What skills do you need?
- Who are your competitors?
- What difference will you bring to the market?
- Do you have the financial capacity?

Which business structure should I choose?

What type of business structure will you use? Will you be a sole trader, in a partnership, or establish a legal entity? There are advantages and disadvantages to consider for each. Choosing your business structure is an important decision, so you need to investigate each option carefully.
If you are thinking of starting a company in Switzerland you need to be aware that there are 7 different types of companies to choose from:

1. Single-owner company or Sole proprietorship

   The most common type of company after the standard corporation or 'joint-stock' company; it is most suitable for sole owners of a business or other professionals who work for themselves, such as freelancers, small businesses and individual entrepreneurs. They tend to refer to businesses run by one individual, who must be a Swiss resident. There is **unlimited liability** and the individual’s name must appear in the business name (such as "John Smith Consultancy" or "Smith IT services"). Registration with the Chamber of Commerce is mandatory if annual sales exceed CHF 100,000.

2. General partnership

   A general partnership is an association of people operating a commercial business; it is similar to sole proprietorship but with more than one person involved. This category is used when two or more people jointly operate a company. No limited capital is required, all partners must be Swiss residents and the company must have a Swiss address. The name of one of the partners must appear in the business name of the company (such as "Smith and Co"). All partners have **unlimited liability** and registration with the Chamber of Commerce and Commercial Registry is mandatory. The general partnership is not an incorporated enterprise and therefore has no legal entity, although it may prosecute and be prosecuted under the firm's name. Once the partnership has been registered, full accounts with profit and loss statements need to be kept.

3. Limited partnership

   A much less common version of the General partnership. In this type of company, general partners have unlimited liability while limited partners may be liable up to an agreed amount. Registration with the Chamber of Commerce is mandatory.

4. Corporation/Joint-stock company (AG/SA)

   The most common form taken by businesses; the corporation is considered an independent **legal entity**. Liability is limited to the value of the company's assets and the minimum amount of shareholders' equity is **CHF 100,000**, of which CHF 50,000 must be fully paid for. The company must comply with formal incorporation procedures. Processing the registration generally takes between two and four weeks, after which the company is a legally recognised entity. A member of the board or a director must be resident of Switzerland, with sole signatory rights. This prerequisite can also be met if two members of the board or two directors have joint signatory rights and are residents of Switzerland.

5. Limited liability company (GmbH/Sàrl)

   Another **legal entity**; this type of company requires a minimum shareholders' equity of **CHF 20,000**, of which CHF 10,000 must be fully paid for. At least one managing director who is authorised to sign on behalf of the company must be resident in Switzerland. In general, all members participate jointly in the management and representation of the GmbH/Sàrl, however, the management of the company may be conferred to non-members. This type of company is cheaper to start than a limited company, but – contrary to the AG/SA – the shareholders are publicly listed in the commercial register. Members are jointly liable for the company's debts up to the registered capital amount.

6. Subsidiary

   A legally independent company affiliated to a foreign entity; a subsidiary tends to operate more as a 'Swiss' than a 'branch' company. It can take the form of a corporation or a limited liability company.

7. Branch

   A branch is a legally dependent but financially independent wing of a head office that operates outside of its home country. In this type of company, the foreign parent company is liable and the branch is taxed in Switzerland as a Swiss company. One Swiss resident with legal authority is required.

Setting up a business as a foreign national

You must be a Swiss resident to run a company either as a self-employed person (sole proprietorship and partnership companies) or as director/employee of a legal entity (corporations and limited liability companies).

Switzerland has a dual system for granting work permits to foreign workers. Employees from the EU/EFTA area can benefit from the Agreement on the Free Movement of Persons. Permits for people from countries outside the EU/EFTA area - so-called third states - are restricted to highly qualified workforce.
The Federal Administration's SME portal provides further information on this topic:
http://www.kmu.admin.ch/kmu-gruenden/03476/03575/index.html?lang=en

Accounting for businesses in Switzerland

All businesses must maintain proper books of account and retain accounting records and associated documents for ten years. But the structure and quality of accounting depends on the company's financial size:

The duty to keep accounts and prepare financial reports is applicable to the following:

- sole proprietorships and partnerships which generated sales revenues of at least CHF 500,000 in the last financial year
- legal entities

The following are only obliged to keep accounts on their receipts and disbursements (cash method of accounting) and their financial position:

- sole proprietorships and partnerships which generated sales revenues of less than CHF 500,000 in the last financial year
- associations and foundations without obligation to register with the commercial register
- foundations exempt from appointing an auditor as per art. 83 para. 2 of the Swiss Civil Code

Auditing requirements in Switzerland

By law privately held Swiss companies require a statutory audit if certain thresholds are met. The law sets thresholds for companies requiring "ordinary audits" or "limited statutory examination".

Companies exceeding two of the following thresholds in two consecutive business years are required to have their accounts ordinary audited:

- balance sheet total of CHF 20 million
- revenue of CHF 40 million
- annual average of 250 full-time equivalent employees (FTEs)

Companies below the aforementioned thresholds are subject to limited statutory examination or can even opt out of an audit and examination entirely if there are less than 10 FTEs and with the consent of all shareholders.

How long does it take to establish a company, and how much does it cost?

After you have clarified everything from business plan, legal structure and company name to the residence permits and financing, you can launch your company. A detailed summary of the bureaucratic and legal steps to incorporate and register a new **legal entity** in Switzerland has been compiled by the World Bank. The information is available on the following website and does also contain estimates of costs and timeline:
http://www.doingbusiness.org/data/exploreeconomies/switzerland/starting-a-business/

Recognition of self-employment by the AHV (Old Age and Survivors' Insurance) is necessary when establishing a **sole proprietorship** or in the case of participation in a partnership. From a social insurance perspective, a natural person is considered self-employed if he/she

- works in his/her own name and own account
- holds an independent position
- carries his/her own economic risk

As a rule, recognition of self-employment resides with the cantonal social insurance office. New immigrants must first get a valid residence and work permit. See above under 'setting up a business as a foreign national'.

Should you be unable to get social security recognition for the formation of a sole proprietorship, establishing a capital company (AG or GmbH) may be an alternative.

Taxes

Depending on the legal form of the business, taxes on the company's profit are either due by the business owner directly (in the case of sole proprietorships or partnerships) or by the legal entity (corporations and limited liability companies).

In the latter case, the business owner does either receive remuneration as an employee or dividends from the company. Remunerations are a deductible expense for the company but taxable income for the individual, which is also subject to social security and pension contributions. Dividends are paid by the company from its profit after tax and are not subject to social security and pension contributions.

To eliminate economic double taxation, the dividend amount taxable for the shareholder is reduced by 40% at the federal tax level and even more in most of the cantons. Often a reasonable combination of both, salary and dividends has proven beneficial.

More information on the taxation of individuals and companies is available in the following articles in this document:

Individual income and wealth tax in Switzerland
Corporate income tax and tax on equity in Switzerland