

Switzerland's tax system



How the Swiss tax system works for individuals and companies.

Introduction

Switzerland places taxes on income and wealth (direct taxes) as well as on goods and services (indirect taxes). The tax system is quite complex due to the fact that the Confederation, the 26 cantons and about 2'600 municipalities levy their own taxes based on the Federal Constitution and 26 cantonal constitutions.

This article is specifically addressed to foreigners looking for information on the Swiss tax system.

The three levels of taxation

Taxes are levied on **three levels** (federal / cantonal / municipal level) while the delimitation of taxation powers being governed by the Federal Constitution. The following table shows the direct taxes levied at each level. 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.

| | | |
|----------------------|--|--------------------------|
| Confederation | federal income tax | Church church tax |
| Canton | cantonal income tax cantonal net wealth tax | |
| Commune | municipal income tax municipal net wealth tax + eventually excise taxes (e.g. fire brigade) | |

Source: Bonfina Treuhand GmbH

Personal income tax and wealth tax

Unlimited and limited tax liability :

Resident individuals or temporary residents performing gainful activities in Switzerland are subject to **unlimited** (worldwide) tax liability, prevailing tax treaty provisions. **Limited** tax liability applies to non-residents 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.).

Net taxable income and wealth :

The federation and all cantons and municipalities levy a general income tax. A supplementary wealth tax is due on the cantonal and municipal level if net wealth exceeds a certain threshold.

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

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.

Family taxation :

Swiss tax laws are based on the principle that the income and wealth of a family represent an economic unit and is taxed together. Consequently, the income and wealth of both spouses in a joint household is aggregated (and as a rule also the income and wealth of under-aged children) to the income of the person who exercises parental authority.



Due to the progressive rates applied under Swiss income tax laws, family taxation may lead to a significant increase in the tax burden, particularly in cases where both spouses are employed. Legislators have several corrective measures at their disposal to mitigate these effects. The Confederation and the majority of the cantons apply a “two-schedules” system: In addition to a singles schedule, there is a doubles schedule which eases the tax burden for married couples as well as for single parent families.



Tax burden :

The extent of the tax burden varies considerably from canton to canton and from municipality to municipality.

Income tax: 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 income of CHF 150'000 for example, the lowest tax is due in Zug with around 5% and the highest in Neuchâtel with around 17 %.

| Canton | Principal Town | Gross income in CHF | | | | | | | | | | | |
|--|----------------|---------------------|--------|---------|--------|---------|--------|---------|--------|---------|--------|-----------|---------|
| | | 100'000 | | 150'000 | | 200'000 | | 250'000 | | 300'000 | | 1'000'000 | |
| MARRIED COUPLE WITH 2 CHILDREN: TAX BURDEN 2010 (federal & cantonal & communal & church tax) | | | | | | | | | | | | | |
| | | % | CHF | % | CHF | % | CHF | % | CHF | % | CHF | % | CHF |
| ZH | Zürich | 6.85% | 6'850 | 11.01% | 16'515 | 15.22% | 30'440 | 18.65% | 46'625 | 21.22% | 63'660 | 33.10% | 331'000 |
| BE | Bern | 9.42% | 9'420 | 14.28% | 21'420 | 18.88% | 37'760 | 22.50% | 56'250 | 24.95% | 74'850 | 35.01% | 350'100 |
| LU | Luzern | 7.70% | 7'700 | 11.91% | 17'865 | 15.97% | 31'940 | 18.90% | 47'250 | 21.07% | 63'210 | 28.13% | 281'300 |
| UR | Altdorf (UR) | 7.48% | 7'480 | 10.51% | 15'765 | 13.62% | 27'240 | 15.99% | 39'975 | 17.56% | 52'680 | 23.03% | 230'300 |
| SZ | Schwyz | 4.64% | 4'640 | 8.08% | 12'120 | 11.47% | 22'940 | 14.00% | 35'000 | 15.67% | 47'010 | 21.13% | 211'300 |
| OW | Sarnen | 7.99% | 7'990 | 10.64% | 15'960 | 13.40% | 26'800 | 15.50% | 38'750 | 16.90% | 50'700 | 21.77% | 217'700 |
| NW | Stans | 7.47% | 7'470 | 10.91% | 16'365 | 14.20% | 28'400 | 16.76% | 41'900 | 18.53% | 55'590 | 24.34% | 243'400 |
| GL | Glarus | 7.51% | 7'510 | 11.67% | 17'505 | 15.40% | 30'800 | 18.29% | 45'725 | 20.25% | 60'750 | 28.93% | 289'300 |
| ZG | Zug | 2.60% | 2'600 | 4.95% | 7'425 | 8.19% | 16'380 | 11.70% | 29'250 | 14.29% | 42'870 | 20.09% | 200'900 |
| FR | Fribourg | 7.60% | 7'600 | 13.41% | 20'115 | 18.06% | 36'120 | 21.47% | 53'675 | 24.11% | 72'330 | 31.72% | 317'200 |
| SO | Solothurn | 9.75% | 9'750 | 14.62% | 21'930 | 18.97% | 37'940 | 22.30% | 55'750 | 24.75% | 74'250 | 32.60% | 326'000 |
| BS | Basel | 8.40% | 8'400 | 15.13% | 22'695 | 20.68% | 41'360 | 23.79% | 59'475 | 24.16% | 72'480 | 32.56% | 325'600 |
| BL | Liestal | 6.98% | 6'980 | 13.26% | 19'890 | 18.31% | 36'620 | 22.13% | 55'325 | 24.79% | 74'370 | 34.99% | 349'900 |
| SH | Schaffhausen | 7.33% | 7'330 | 11.61% | 17'415 | 16.33% | 32'660 | 19.82% | 49'550 | 22.13% | 66'390 | 29.36% | 293'600 |
| AR | Herisau | 8.41% | 8'410 | 13.14% | 19'710 | 17.13% | 34'260 | 20.08% | 50'200 | 22.06% | 66'180 | 27.88% | 278'800 |
| AI | Appenzell | 6.73% | 6'730 | 10.50% | 15'750 | 13.94% | 27'880 | 16.61% | 41'525 | 18.37% | 55'110 | 23.50% | 235'000 |
| SG | St. Gallen | 6.93% | 6'930 | 12.43% | 18'645 | 17.16% | 34'320 | 20.57% | 51'425 | 22.88% | 68'640 | 30.08% | 300'800 |
| GR | Chur | 5.84% | 5'840 | 10.55% | 15'825 | 15.02% | 30'040 | 18.23% | 45'575 | 20.49% | 61'470 | 28.65% | 286'500 |
| AG | Aarau | 6.69% | 6'690 | 11.23% | 16'845 | 15.45% | 30'900 | 18.54% | 46'350 | 20.73% | 62'190 | 29.30% | 293'000 |
| TG | Frauenfeld | 7.21% | 7'210 | 11.89% | 17'835 | 16.04% | 32'080 | 19.12% | 47'800 | 21.29% | 63'870 | 30.41% | 304'100 |
| TI | Bellinzona | 4.62% | 4'620 | 10.90% | 16'350 | 16.16% | 32'320 | 20.03% | 50'075 | 22.83% | 68'490 | 33.48% | 334'800 |
| VD | Lausanne | 9.89% | 9'890 | 13.80% | 20'700 | 17.81% | 35'620 | 20.97% | 52'425 | 23.82% | 71'460 | 36.57% | 365'700 |
| VS | Sion | 5.83% | 5'830 | 10.37% | 15'555 | 16.14% | 32'280 | 20.06% | 50'150 | 22.56% | 67'680 | 31.11% | 311'100 |
| NE | Neuchâtel | 10.76% | 10'760 | 16.83% | 25'245 | 21.67% | 43'340 | 25.24% | 63'100 | 27.86% | 83'580 | 34.51% | 345'100 |
| GE | Genève | 3.91% | 3'910 | 10.99% | 16'485 | 16.43% | 32'860 | 20.29% | 50'725 | 22.86% | 68'580 | 34.26% | 342'600 |
| JU | Delémont | 10.56% | 10'560 | 15.91% | 23'865 | 20.21% | 40'420 | 23.51% | 58'775 | 26.30% | 78'900 | 36.34% | 363'400 |

Source : Federal Administration

To complete the picture, ordinary (i.e. single persons') overall maximum individual income tax rates (which are usually applicable to income portions exceeding approximately CHF 300'000 at the cantonal and CHF 750'000 at the federal level) vary between 19 percent (Canton of Schwyz) and 46 percent (Canton of Geneva).

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 0.12%. The maximum individual wealth taxes levied in all cantons which vary between 0.14 (Canton of Nidwalden) and nearly one percent (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 2010 (cantonal & communal & church tax) | | | | | | | | | | | | | |
| | | % | CHF | % | CHF | % | CHF | % | CHF | % | CHF | % | CHF |
| ZH | Zürich | 0.00% | 0 | 0.03% | 66 | 0.12% | 575 | 0.21% | 2'060 | 0.52% | 25'750 | 0.60% | 60'300 |
| BE | Bern | 0.00% | 0 | 0.25% | 504 | 0.35% | 1'755 | 0.45% | 4'500 | 0.61% | 30'550 | 0.62% | 62'100 |
| LU | Luzern | 0.00% | 0 | 0.13% | 262 | 0.21% | 1'050 | 0.24% | 2'360 | 0.26% | 12'850 | 0.26% | 26'000 |
| UR | Altdorf (UR) | 0.00% | 0 | 0.05% | 102 | 0.18% | 875 | 0.22% | 2'160 | 0.25% | 12'450 | 0.25% | 25'300 |
| SZ | Schwyz | 0.00% | 0 | 0.00% | 0 | 0.11% | 530 | 0.14% | 1'410 | 0.17% | 8'450 | 0.17% | 17'300 |
| OW | Sarnen | 0.08% | 76 | 0.11% | 226 | 0.14% | 680 | 0.14% | 1'430 | 0.15% | 7'450 | 0.15% | 15'000 |
| NW | Stans | 0.04% | 41 | 0.09% | 176 | 0.12% | 585 | 0.13% | 1'260 | 0.13% | 6'700 | 0.14% | 13'500 |
| GL | Glarus | 0.00% | 0 | 0.10% | 190 | 0.27% | 1'335 | 0.32% | 3'240 | 0.37% | 18'500 | 0.38% | 37'500 |
| ZG | Zug | 0.00% | 0 | 0.00% | 0 | 0.07% | 325 | 0.17% | 1'650 | 0.27% | 13'500 | 0.28% | 28'300 |
| FR | Fribourg | 0.00% | 0 | 0.47% | 938 | 0.55% | 2'760 | 0.67% | 6'710 | 0.69% | 34'550 | 0.69% | 69'100 |
| SO | Solothurn | 0.00% | 0 | 0.15% | 306 | 0.29% | 1'470 | 0.33% | 3'310 | 0.36% | 18'000 | 0.36% | 36'400 |
| BS | Basel | 0.00% | 0 | 0.23% | 450 | 0.36% | 1'800 | 0.52% | 5'150 | 0.79% | 39'550 | 0.80% | 79'600 |
| BL | Liestal | 0.00% | 0 | 0.07% | 138 | 0.37% | 1'830 | 0.65% | 6'490 | 0.79% | 39'450 | 0.80% | 80'100 |
| SH | Schaffhausen | 0.00% | 0 | 0.11% | 224 | 0.27% | 1'340 | 0.45% | 4'460 | 0.50% | 25'150 | 0.51% | 50'800 |
| AR | Herisau | 0.00% | 0 | 0.10% | 196 | 0.28% | 1'405 | 0.36% | 3'550 | 0.41% | 20'700 | 0.42% | 42'200 |
| AI | Appenzell | 0.00% | 0 | 0.14% | 288 | 0.23% | 1'150 | 0.26% | 2'590 | 0.28% | 14'100 | 0.29% | 28'500 |
| SG | St. Gallen | 0.00% | 0 | 0.12% | 230 | 0.32% | 1'605 | 0.39% | 3'900 | 0.45% | 22'250 | 0.45% | 45'200 |
| GR | Chur | 0.09% | 88 | 0.17% | 336 | 0.29% | 1'430 | 0.33% | 3'320 | 0.35% | 17'400 | 0.35% | 35'000 |
| AG | Aarau | 0.00% | 0 | 0.03% | 56 | 0.21% | 1'035 | 0.31% | 3'100 | 0.46% | 23'050 | 0.48% | 48'100 |
| TG | Frauenfeld | 0.00% | 0 | 0.00% | 0 | 0.19% | 940 | 0.25% | 2'510 | 0.30% | 15'050 | 0.31% | 30'700 |
| TI | Bellinzona | 0.00% | 0 | 0.00% | 0 | 0.30% | 1'495 | 0.42% | 4'200 | 0.61% | 30'650 | 0.65% | 65'100 |
| VD | Lausanne | 0.00% | 0 | 0.32% | 642 | 0.53% | 2'630 | 0.65% | 6'510 | 0.77% | 38'300 | 0.78% | 78'100 |
| VS | Sion | 0.13% | 128 | 0.28% | 568 | 0.41% | 2'065 | 0.50% | 5'010 | 0.63% | 31'600 | 0.64% | 63'600 |
| NE | Neuchâtel | 0.05% | 48 | 0.31% | 624 | 0.52% | 2'610 | 0.69% | 6'910 | 0.69% | 34'550 | 0.69% | 69'100 |
| GE | Genève | 0.00% | 0 | 0.06% | 120 | 0.30% | 1'495 | 0.49% | 4'870 | 0.87% | 43'500 | 0.94% | 93'900 |
| JU | Delémont | 0.00% | 0 | 0.21% | 414 | 0.31% | 1'560 | 0.41% | 4'050 | 0.55% | 27'650 | 0.58% | 57'500 |

Source : Federal Administration

Tax assessment of individuals

Ordinary Tax Assessment :

Swiss citizens and aliens with a permanent residence permit C 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 aliens resident in Switzerland, e.g. if real estate is owned in the canton.



Withholding of Tax at Source :

Alien employees (without permit C) have the fiscal amount deducted directly from their salary every month. The rates are lower than the rates of the assessed income taxes, because they apply to gross income. All typical deductions and allowances are standardized and directly included in the tariffs.

Subsequent Ordinary Tax Assessment :

Alien employees resident in Switzerland and having a gross salary exceeding CHF 120'000 per year 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 and Correction of Withholding Tax:

Alien employees resident in Switzerland whose gross salary does not exceed CHF 120'000 per year but who have additional sources of income or additional assets (e.g. income from movable or immovable property) are also obliged to file a tax return, but only for the additional income or assets. At the same time they may claim additional deductions, which exceed or complement the typical deductions and allowances included in the withholding tax tariffs.

At the end, both tax systems (i.e. ordinary tax assessment and withholding of tax at source in combination with complementary tax assessment and correction of withholding tax) should end up in comparable tax bills, but the withholding tax can be higher or lower than the assessed tax, depending on each individual case.

Expatriate deductions :

Expatriates may claim certain additional deductions according to specific cantonal and federal laws. Expatriates are individuals **temporarily** working in Switzerland for no more than 5 years (timely limited working contract). Examples of specific deductions are: costs for housing, moving, travelling and school of minor children, if not paid by the employer. This 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.

Expenditure based taxation or lump-sum taxation :

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. The regular tax rates are applied in calculating the tax amount, however.

The basic prerequisite for lump-sum taxation is that the persons concerned must 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 after at least ten years outside the country. Foreigners enjoy this right indefinitely, while it is limited to the first year of residence for Swiss citizens returning from abroad.

Initiatives to abolish lump-sum taxation at the cantonal level were recently adopted by the voters in the cantons of Zurich, Schaffhausen and Appenzell Ausserrhoden. A tightening of the regime was adopted the cantons of St. Gallen and Luzern (taxable income of at least CHF 600'000, taxable wealth of at least CHF 12'000'000) as well as in the canton of Thurgau (minimum cantonal and municipal taxes due of CHF 150'000).

Corporate income tax and tax on equity

Unlimited and limited tax liability :

Legal entities having either their registered office or their actual administration in Switzerland are subject to unlimited tax liability. Limited tax liability applies to foreign corporations having a permanent establishment or owning real estate in Switzerland.



Income and equity tax :

Corporations are subject to corporate income tax and in addition also to a tax levied on equity (paid-up capital and reserves) at the cantonal and municipal level.

Holding companies :

Earnings derived by Swiss corporations from domestic and foreign holdings enjoy a favourable tax treatment (tax relief on qualifying participation income) for federal and cantonal taxes.

In addition, all cantons (but not the federation) apply a holding privilege for pure holding companies. This results in a nearly complete exemption from tax at the cantonal and municipal level (including other than participation income). In general the requirements are: Holding activity (no active business) ; either 2/3 of the total assets must consist of participations or 2/3 of the total income must consist of income from participations.

Domiciliary companies :

A domiciliary company is a company (or cooperative or foundation) having only administrative activities in Switzerland (e.g. headquarters of multinationals). All (or at least the major part of) its commercial activities must be performed abroad. All cantons grant a specific tax status to such companies. The federal tax, however, is not reduced. A pure domiciliary company may be nearly exempt from tax. Details should be negotiated in advance.

Tax holidays :

Cantonal tax legislations provide for tax relief vis-à-vis newly incorporated enterprises under certain conditions. Important conditions are: Investments and creation of jobs; innovative strategy ; focus on international markets; importance for the local/national economy. It is recommended to speak with local economic development agencies about tax exemption before creating a company.

Tax burden:

The federal **corporate income tax rate** is 8.5% flat. 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 due by 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 say 30% (of which 8,5% federal tax), the effective rate would only be about 23% (of which 7.8% 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 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 0.1% and 0.5%. Cantons, however, since 2009 are allowed to credit annual equity tax against corporate income tax to the effect that profitable corporations do not owe annual equity taxes.

Other taxes

Other taxes in Switzerland include:

VAT or value-added tax :

The Value Added Tax is a general consumption tax. It is levied on all phases of production and distribution as well as on the import of goods, domestic service industries, and the acquisition of services supplied from abroad. The tax amounts to 8 % for every taxable sale (standard rate). On certain categories of goods (e.g. food, medicine, printed matter) a reduced rate of 2.5 % is applied. A special rate of 3.8 % applies on hotel and lodging industry.

Withholding tax:

The withholding tax of 35 percent is tax collected at source, levied on income derived from movable property (especially on interest and dividends), on prizes from lotteries and on certain insurance payments.

The withholding tax must be deducted by the debtor from the amount due to the recipient. In cases where the recipient is a Swiss resident and the beneficial owner of the income, a refund of the tax withheld can be obtained, if income and capital are properly declared for the purpose of direct taxation. The aim of this concept is to combat tax evasion.

For non-resident taxpayers the withholding tax represents a final tax burden. A partial or total refund is granted only if a double taxation agreement has been concluded between Switzerland and the country of residence of the beneficial owner of the income.

Capital gains tax:

On Swiss real estate, to be applied only at cantonal level (such gains are not liable at the federal level). The rate of tax depends on the length of ownership of the property; the longer the ownership, the lower the tax rate. Except for real estate, there is generally no capital gains tax on private capital such as stocks and bonds.

Stamp duty :

Tax liability arises as a result of specific legal transactions, such as the issuance of shares or the transfer of securities or the payments of premiums on certain insurance policies.

Inheritance and gift taxes :

With the sole exception of the canton of Schwyz, all cantons levy an inheritance tax. The canton of Lucerne waives the right to levy a gift tax. Gifts made during the last five years before the death of the decedent are however included in the calculation of the inheritance tax.

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. The rates of tax are usually progressive depending on the degree of relationship and the inherited amount.

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