



# WEALTH PLANNING SUISSE

UNE PUBLICATION WEALTH PLANNING

## LUMP SUM TAXATION - TAXATION ACCORDING TO EXPENSES IN SWITZERLAND

The Swiss political system is organized on 3 levels: municipal, cantonal and federal levels. The Swiss Confederation is divided into 26 cantons and more than 2'200 municipalities. In addition to the federal tax system, each canton has its own tax system. As a result, depending on the place of residence, the differences in personal taxation can be very significant.

Individuals residing in Switzerland are taxed on their worldwide income and wealth, regardless of the source and location of that income or wealth (except for non-Swiss real estate income and wealth). Foreign individuals who wish to reside in Switzerland can benefit from the lump-sum taxation system (discretionary and on request).

It is therefore essential to seek advice to find the appropriate domicile and/or negotiate with the tax authorities in advance.

### WHAT IS EXPENSE-BASED TAXATION?

Expense-based taxation (or "lump-sum taxation") allows **foreign individuals** who apply for this system to **determine in advance** with the tax authorities and through strictly codified negotiations, **the basis for calculating their income and wealth tax**.

A lump-sum taxation ensures them:

- The confidentiality of their assets abroad (no declaration of their income and wealth outside Switzerland);
- Simplified tax procedures;
- A predictability of both the foreign national's annual "income & wealth" tax burden, and its evolution over time (simple application of inflation rates to the negotiated flat-rate bases).

### CONDITIONS REQUIRED TO BE ELIGIBLE FOR THIS REGIME

The Confederation decides on the minimum standards that must be respected by the cantons (art. 14 LIFD / art. 6 ff LHID).

Individuals are entitled to be taxed on the basis of expenses ("lump sum taxation") instead of paying an annual ordinary income/wealth tax (worldwide income and wealth) if they meet the following cumulative conditions:

- a) they do not have Swiss nationality;

b) they are settling in Switzerland for the first time or after an absence of at least ten years;

c) they are not employed in Switzerland / they are not working from Switzerland

Spouses living in a common household must both meet all the above-mentioned conditions.

## « LUMP SUM TAXATION » - NATIONALITY AND RESIDENCE PERMIT

EU citizen vs. citizen of a non-EU country:

a) EU citizens have the right to a residence permit (EU "B" permit)

b) Non-EU citizens can only obtain a residence permit if there is a fiscal interest for Switzerland. This means that the lump-sum basis for this category of nationals are somewhat higher.

## LUCRATIVE ACTIVITY AND EXPENSE-BASED TAXATION

The lump-sum taxation system is specifically **designed for financially independent persons who do not perform any lucrative activity on Swiss territory.**

However, lump-sum taxpayers are allowed to carry out a professional activity outside Switzerland.

NB: In today's connected world, it is not always easy to determine where the work is really performed and there is a presumption that it is performed at the client's home. Our clients are encouraged to pay particular attention to this aspect.

## BASIS OF CALCULATION

Generally speaking, the taxation is calculated based on the costs related to the taxpayer's worldwide annual lifestyle and those of the people for whom he or she is responsible during the calculation period.

The minimum taxable expense for federal tax purposes is the highest of the following three amounts:

- 7 x the annual rent or rental value of the building occupied by the taxpayer ;
- 3 x the annual cost of board and lodging at the place of residence;
- a minimum of CHF 400,000 for direct federal tax. The cantons are also required to set a minimum calculation basis.

The cantons are also required to set a minimum calculation basis that takes into account the foreign national's assets.

The basis of calculation must be agreed individually with the competent tax authority via a tax ruling. The tax is calculated according to the ordinary tax rates.

### FEDERAL / CANTONAL LEVEL

- Min CHF 400'000.- (2022)
- 7x rental value or 3x pension value

For cantonal rates/practices, see the websites of the respective authorities.

To be noted :


Abolition: Zurich (ZH), Appenzell Rhodes-Extérieures (AR), Bâle-Ville (BS)

Limitation to the year of arrival: Bâle-Campagne (BL), Schaffhouse (SH)

## CALCULATION MODE: IN CASCADE

a) THEORETICAL BASIS : Annual expenses of the taxpayer (**calculation of Living expenses - see TABLE 1**)

b) MINIMUM:  IFD : CHF 400'000.- (tax: CHF 38'500)\*

 VD : CHF 415'000.- (tax: CHF 103'500)\*

*\* ex. commune of Montreux, married couple, estimate, 2024*

OR if higher:

7 x annual rent or rental value (CHF 57'000 to stay within the minimum)

OR If higher:

3 x the annual pension for accommodation and food

OR If higher, the tax on:

the sum of the Swiss source income received during the tax period plus the total assets in Switzerland owned by the taxpayer and the persons he represents (value on December 31) (**control calculation - TABLE 2**)

**The taxpayer is liable for the highest of the tax determined on the basis of the control calculation and the tax calculated on the taxable expenses.**

### TABLE 1

The following elements are to be taken into account:

- Food and clothing expenses
- Housing expenses
- Taxes and contributions
- Personnel costs
- Maintenance and child support
- Expenses for education
- Travel and leisure expenses
- Maintenance of domestic animals (saddle horses, etc.)
- Maintenance and use of vehicles **of all kinds (planes, cars, boats, etc.)**

### TABLE 2

The following elements are to be taken into account:

- Income from real estate assets located in CH
- Income from movable assets located in CH
- Income from movable investments in CH, including claims secured by real estate pledges
- Income from royalties, patents and other rights in Switzerland
- Income from pensions and retirement benefits from CH source
- Income and assets from foreign sources for which the taxpayer requests the application of a DTA concluded by Switzerland (partial or total relief from foreign taxes)

Only the following **deductions** can be made from these gross amounts:

- maintenance and administration costs of real estate assets located in Switzerland as well as costs arising from the ordinary administration of securities and assets whose performances are taxed;
- the deduction of debts and interest expenses is excluded.

## APPLICATION OF DOUBLE TAXATION AGREEMENTS (DTA)

From the Swiss point of view, a lump-sum taxpayer is considered as a resident in the sense of the DTAs. He/She can therefore benefit from the advantages of the DTAs.

Particular attention must be paid to France (stricter rules on tax treatment).

## THE SO-CALLED MODIFIED EXPENDITURE-BASED TAXATION

**Persons subject to lump-sum taxation in lieu of ordinary income taxation may not, in principle, claim a lump-sum credit for non-recoverable foreign withholding taxes.**

Individuals who benefit from lump-sum taxation

- › but who pay taxes in full on all income from the following seven countries: Austria, Belgium, Canada, Germany, Italy, Norway and the United States;
- › and who are taxed at the global income rate;

are entitled to a lump-sum tax credit for income from these states.

## ESTATE AND GIFT TAXES (AT CANTONAL LEVEL)

Gift and inheritance taxes are not included in the lump-sum taxation system, which means that "Lump-sum Taxpayers" are subject to these two taxes as well as to social security contributions.

## SOCIAL COSTS ("AVS")

The "Lump-sum Taxpayers" are subject to social contributions (AVS etc.) for non-working people (max. CHF 25'150 pp/pa. in 2024)

There is a system of coordination of social contributions according to agreement with the EU.

## DURATION OF LUMP SUM TAXATION

The lump-sum taxation can be requested for an unlimited period of time and last as long as the required conditions are met.

The right to lump-sum taxation ceases as soon as the taxpayer acquires Swiss nationality or begins to work in Switzerland.

## TRANSITION TO STANDARD TAXATION

*"A taxpayer who abandons the expense-based taxation in order to be taxed under the ordinary tax cannot, as a general rule, be taxed again under the expense-based taxation mode". (Excerpt from the relevant federal circular).*

## ADMINISTRATIVE PROCEDURES

- › **Negotiation of the "lump-sum" with the tax authorities prior to arrival (tax ruling)**
- › In general, the notional income (the basis for the lump-sum taxation) is revised every two to five years and may be subject to indexation.
- › **Immigration : application for a resident permit**
- › **"AVS" Affiliation : if applicable**
- › **Health insurance**
- › **Annual taxation :** a specific declaration form for lump-sum taxation to be completed

## **Contacts**

Edmond de Rothschild's international Wealth Planning network is at your disposal for any further information you may require

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