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Why relocate to Switzerland? Lump-sum taxation for private persons

Many of our relocation clients ask us the following questions:

1. What is the lump-sum taxation in Switzerland?

A foreign national who moves to Switzerland has the right to pay income tax in Switzerland based on the special simplified assessment procedure instead of ordinary income and wealth tax declaration. In this case the tax is calculated on the basis of the estimated annual living expenses incurred by the taxpayer and dependent persons every year. This method of determining the tax base is generally referred to as “expenditure-based taxation”, “lump-sum taxation” or “forfait fiscal”.

Lump-sum method of taxation is available in all cantons of Switzerland with the exception of cantons of Zurich, Schaffhausen, Appenzell Ausserrhoden, Basel Landschaft and Basel Stadt. Very popular cantons are Zug, Schwyz, Ticino, Graubünden, Bern.

2. Who is eligible for lump-sum taxation?

Individuals have the right to apply the expenditure-based taxation if they:

- ✓ *Are not Swiss nationals;*
- ✓ *relocate to Switzerland for the first time, and*
- ✓ *will not be engaged in any gainful activity in Switzerland*

It is important to note that such individuals should give up the tax residence abroad and become Swiss tax residents subject to worldwide taxation in Switzerland.

3. What are the advantages of the lump-sum taxation?

Lump-sum taxation gives a number of advantages to foreign high-net worth individuals relocating to Switzerland. Firstly, it significantly simplifies tax assessment in Switzerland. Secondly, it allows to exclude non-Swiss assets and income from them from taxation and reporting in Switzerland. Thirdly, it provides certainty with respect to the level of tax burden in Switzerland for several years.

4. How to apply for lump-sum taxation?

The lump-sum regime should be applied from the moment of arriving to Switzerland or before the first tax obligation arises in Switzerland, at the latest. This is done by a written request to the relevant cantonal tax authorities. The regime is agreed by a taxpayer and the tax authorities of the relevant canton in a ruling that is generally valid 5 years (unless there is a change in circumstances). After 5 years the ruling may be renewed, the process for renewal is similar to the application for the initial ruling. There is no limit on the maximum number of years for lump-sum taxation as long as conditions are met. A taxpayer can always change to normal taxation.



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5. What is the minimum tax and how is it calculated?

Under the lump-sum regime, the amount of tax is calculated on the basis of the annual cost of living, but it may not be less than the minimum tax. The minimum tax is determined as the highest of the following amounts:

- a) CHF 421 700 (from 1 January 2023);
- b) 7 x rental value of the owned property or 3 x annual pension price for board and lodging for rented property;
- c) gross income from assets in Switzerland (including, inter alia, from immovable and movable property in Switzerland and from capital invested in Switzerland).

Point (c) above is commonly referred to as “the control calculation”.

6. What is capital invested in Switzerland?

For taxpayers applying the lump-sum taxation regime, assets and investment income and gains from non-Swiss sources are not included in the control calculation. Income from capital invested in Switzerland exists when the source of the income is located in Switzerland. The following is generally deemed to be the Swiss-located source of income:

- ✓ debt securities for which the issuer is resident or domiciled in Switzerland;
- ✓ equity securities for which the issuer is domiciled or has its registered office in Switzerland.

The place where the respective debt or equity securities are held in custody, or the corresponding currency are not decisive in this context.

It is recommended that your wealth should be reviewed and restructured, if necessary, before you move to Switzerland.

7. How do the lump-sum rules apply to foreign trusts?

Generally, distributions from foreign trusts should not be included into the control calculations of Swiss beneficiaries taxed based on the lump-sum rules as this should be considered as non-Swiss source income.

Care should be taken with foreign trusts where Swiss lump-sum payers is both the settlor and a beneficiary. Under the current practice, these trusts may be treated as transparent for Swiss tax purposes if the settlor retains significant control over the trusts or their assets. For such trusts, there is a risk that the assets and the income from the assets in the trust would continue to be attributed to the settlor. If there are assets and investment income from Swiss sources, they would be included in the control calculation for lump-sum tax purposes.

As all trusts are different, it is recommended that each trust structure is reviewed and its taxation under the lump-sum rules is agreed with the Swiss tax authorities in a ruling.



LINDEMANNLAW can help you in the process of relocation to Switzerland. We can assess your personal circumstances and assist with immigration and tax matters in Switzerland. On your behalf, we can apply for residence permits and submit application for the lump-sum taxation to the Swiss tax authorities.

Please feel free to contact us for more information, we are happy to help.