Switzerland votes in favour of lump sum taxation

Switzerland has voted to keep its lump sum tax regime, a favourable tax regime for foreign nationals

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On 30 November 2014, approximately 60 per cent of the Swiss population refused to abolish the lump sum taxation system. The popular initiative aimed to modify the Swiss constitution to prevent tax privileges for private individuals, and ban lump sum taxation on a federal and cantonal level.

Lump sum taxation – who benefits?

Switzerland has a longstanding tradition of taxation on the basis of the lump sum tax regime. It has approximately 5,500 lump sum taxpayers who pay circa CHF700 million tax in Switzerland, without taking into account the indirect income and the consequences on local employment.

Federal tax laws, as well as cantonal and municipal tax laws in most cantons, provide for a special lump sum tax regime for foreigners who come to live in Switzerland for the first time (or after an absence of ten years) and who will not be gainfully employed in Switzerland. Under the lump sum taxation system income tax and net wealth tax are not levied on the basis of the taxpayer's real income and net wealth, but on amounts of income and net wealth, which are related to the level of expenses and the lifestyle of the taxpayer. Lump sum taxpayers do not have to declare their worldwide income and assets.

In order to increase the acceptance of the special tax system by its ordinary tax residents, the Swiss federal council has proposed increasing the minimum lump sum amounts. The proposal has been approved by the Swiss parliament. The new law will enter into force by 2016, with a grandfathering period of five years applicable to all existing lump sum taxpayers.

Since 2009, five of the 26 Swiss cantons (Zurich, Schaffhausen, Appenzell-Ausserrhoden, Basel-Land and Basel-City) have abolished the Swiss lump sum tax regime. While, six cantons (Bern, Lucerne, St Gall, Thurgau, Nidwalden, Glarus and Geneva) have recently reinforced their lump-sum tax regimes.

Conclusion

The vote of 30 November 2014 showed that the Swiss government, Swiss parliament and the majority of the Swiss population wanted to maintain the lump sum tax regime. This has kept Switzerland competitive from a tax point of view with other jurisdictions such as England, Portugal and Belgium etc.

Many wealthy foreigners who were considering moving to Switzerland and applying for lump sum taxation were waiting for the result of the vote. Now that the lump sum tax system is stable from a legal point of view, wealthy immigrants can continue moving to Switzerland and benefiting from the lump sum taxation system on a federal level and in 21 Swiss cantons, particularly Vaud, Valais, Ticino and Geneva – the cantons with the largest number of lump sum taxpayers.

The vote has removed a lot of uncertainty and keeps Switzerland attractive for private individuals and their families.