

## This fact sheet provides an overview of the **Swiss** tax system and planning opportunities ...

... in connection with expatriates taking up employment in Switzerland. They will be subject to Swiss comprehensive rules and employment visa requirements. Grant Thornton Consulting AG's Expatriate Tax team can help expatriates and their employers in dealing with the Swiss tax and employment visa requirements.

In particular Grant Thornton Consulting AG can assist expatriates and their employers in identifying Swiss tax planning opportunities and provide compliance services regarding the Swiss tax filing requirements.

### **INTRODUCTION**

#### **Pre-arrival Procedures**

The employer is required to apply for a residency and work permit prior to taking up employment in Switzerland. It is therefore important that the expatriate's employment contract and benefit package is structured in a tax efficient manner before filing the application.

#### **Employment Visas**

##### **Employment of non EU/EFTA citizens**

Switzerland imposes very strict regulations on foreign workers. Each year, the federal authorities review the numbers of work permits that may be issued. In particular, the applicant employer must demonstrate that in spite of all his efforts he was unable to find a suitable person on the Swiss or EU/EFTA labour market.

However these conditions are waived for the executives or qualified specialists of internationally operating firms within the

scope of an intercompany transfer and for executives or highly qualified specialists who are indispensable for important research projects, or essential for the fulfilment of extraordinary assignments.

##### **Employment of EU/EFTA citizens**

One of the numerous agreements signed between Switzerland and EU is the Agreement on free movement of persons (including recognition of professional diplomas), entered into force on 1<sup>st</sup> June 2002. Similar rules are applicable since the same date with Iceland, Norway, Liechtenstein (EFTA countries).

As from 1<sup>st</sup> June 2004, the priority of Swiss employees and the check on wage and working conditions were lifted and, as from 1<sup>st</sup> June 2007, the quota system is abolished, as regards the 15 western EU and EFTA countries, as well as Malta and Cyprus. For the citizens of these countries, the permit is delivered upon mere presentation of the employment contract.

For the citizens of eastern EU countries, certain restrictions still apply, until 30<sup>th</sup> April 2011 at the latest (priority of local and western EU/EFTA labour market, check on compliance with working conditions, quotas).

##### **Tax Year and Tax Return Deadline**

The Swiss tax year runs from 1 January to 31 December.

Swiss taxpayers as well as foreign holders of a permanent residency permit (C permit granted after five or ten years of residence depending on the nationality) are required to file an annual tax return. For foreign

holders of a B-permit (duration of one year for non EU/EFTA citizens, five years for EU/EFTA citizens) or a L-permit (duration of less than one year), the wage source tax on salary is collected at source and paid by the employer (see below).

The personal tax return should normally be filed as of 1<sup>st</sup> March following the end of the tax year concerned.

## **BASIS OF TAXATION**

### **Residence and Domicile**

Individuals are basically subject to tax (worldwide income and wealth except for foreign business and immovable property) when they are resident in Switzerland for tax purposes. They are tax resident based on Swiss domestic law

- either because they are "domiciled" in this country (intention of remaining on a long term basis),
- or because they are "resident", i.e. they remain in Switzerland, without any significant interruption for at least 30 days with a gainful activity (at least 90 days without a gainful activity).

### **Income from Employment**

Assessable employment income includes all wages, salaries, overtime pay, bonuses, gratuities, perquisites, benefits etc.

There is also a requirement for the expatriate's employer to deduct and retain the tax at source from the assessable employment income.

The taxation at source applies to most expatriates moving to Switzerland. The basic principle is that expatriates are subject to wage source tax if they do not have a C permit. However, they must in addition file an ordinary tax return if their annual salary exceeds a certain amount (usually CHF 120'000, however CHF 500'000 in Geneva) or if they have other sources of taxable income.

### **Source of Employment**

As mentioned above, where duties are performed in Switzerland, any remuneration received in respect of these duties is subject to Swiss income tax regardless of the expatriate's tax residence status (subject to the relevant Double Taxation Agreement).

### **Benefit In Kind**

In general where the benefit is enjoyed in Switzerland, a Swiss income tax charge will arise. Therefore, housing, meal allowances, provision of a car and relocation allowances will be considered for income tax purposes in addition to the individual's salary.

### **Relief for Foreign Taxes**

Where no Double Taxation Agreement applies, double taxation on foreign source income is in principle alleviated by means of the deduction method (foreign tax deducted from the taxable income).

Where a Double Taxation Agreement exists, double taxation is in principle eliminated in accordance with the exemption method.

However, the credit method is used as regards dividends, interest and, sometimes, royalties derived by Swiss residents from another contracting country: the foreign tax at source is credited against Swiss taxes, being understood that the credit may not be higher than the amount of Swiss taxes on such income. A so-called lump tax credit mechanism has been enacted for this purpose.

### **Deductions against Income**

Certain expenses can be provided by an employer free of income tax where they qualify as wholly, exclusively and necessarily incurred in the performance of the employment duties.

Personal tax deductions apply to Swiss tax residents which are based on their personal tax circumstances.

Expatriates are entitled to special deductible expenses (moving expenses, reasonable housing costs in Switzerland if a permanent residence is kept in the country of origin, schooling expenses in the mother tongue). These deductions are only admitted provided they are not reimbursed by the employer.

## PLANNING

Where a foreign employment continues to exist and parts of the expatriate's duties are performed outside of Switzerland, any employment income received in respect of the foreign duties will be treated in accordance with the Double Taxation Agreement.

## INCOME TAX RATES & SOCIAL SECURITY

### Income Tax Rates

Swiss tax residents are subject to federal, cantonal and communal taxes. The taxable income is subject to a progressive scale. The tax rate is determined on the basis of the worldwide income and wealth.

For a single person with no children, the global rate calculated on a gross income of CHF 150'000 could vary between 13 and 25%, depending on the place of residence.

For a married person with no children, the global rate calculated on a gross income of CHF 150'000 could vary between 11 and 20%, depending on the place of residence.

### Social Security Taxes

The Swiss social security system is based on the so-called "three pillars":

- The 1<sup>st</sup> pillar: Old Age and Survivor's Insurance (AVS/AHV) and Invalidity Insurance (AI/IV), with the objective to meet the retirees', survivors' and invalids' basic needs. Individuals with gainful employment in Switzerland are required to contribute to them. Total contribution is 10.3% of the total employee remuneration. Half of it is paid by the employer and the other half by the employee (5.15%).

- The 2<sup>nd</sup> pillar: Company's pension plan, with the objective to maintain the standard of living after retirement. Individuals with gainful employment in Switzerland are required to contribute to them. Total contribution varies according to the age of the person and the scheme chosen by the company. The cost for a minimal pension plan amounts to about 20% of the total employee remuneration. At least half of it is paid by the employer and the remaining part by the employee.
- The 3<sup>rd</sup> pillar: Private pension funds, with the objective to build up a private capital, encouraged by tax exemptions, but left to everyone's individual responsibility.

Individuals with gainful employment in Switzerland are also required to contribute to the Unemployment Insurance (ALV/AC). Total contribution is 2.2% of the employee remuneration, capped at CHF 126'000 per year. Half of it is paid by the employer and the other half by the employee (1.1%). For the part of the salary exceeding 126'000 up to 315'000, the applicable rate is 1%. The part of the salary exceeding 315'000 is not subject to Unemployment Insurance contributions.

However, if certain conditions are met, expatriates generally remain affiliated to the social security system of their own country (for EU/EFTA citizens, Forms 101 and 102 or Form A1).

## STOCK OPTIONS

Ordinary tradable options are taxed at the time they are granted (taxable income corresponds to the difference between the acquisition price and the market value). When the option is later sold or exercised, the capital gain resulting therefrom is usually not taxable.

Restricted options are basically taxable at the time of the grant. However, the market value is reduced according to the number of years the options are blocked (maximum reduction about 25 % for five years).

Options that are granted in connection with certain conditions and that are only irrevocably granted in case these conditions are fulfilled are taxed at the time of vesting. If the value of the options may not be quantified, they are taxed at the time of exercise.

## MISCELLANEOUS

### Investment Income

Investment income such as interest, dividends etc. is subject to Swiss income tax, but in accordance with the Double Taxation Agreement.

### Capital Gains

Capital gains on movable private (not business) property are exempted from income tax. Capital gains on immovable property are generally subject to a separate tax.

### Wealth Tax

Wealth tax on the cantonal and communal level is assessed on net assets. The rates, subject to a progressive scale, exceed rarely 1%.

### Inheritance & Gift Tax

They are levied (only at the cantonal and communal levels) if the deceased/donor is Swiss resident (also on immovable properties situated in Switzerland). The rates are progressive and depend on the degree of relationship between the deceased/donor and the heir/donee. However, no tax is levied between spouses and, in many cantons, between parents and descendants. Moreover, the respective Double Taxation Agreements must be considered in an international inheritance context.

### Tax Planning

Most tax planning involves the structuring of employment arrangements. Grant Thornton Consulting AG's Tax team can advise expatriates on these and related opportunities.

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