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Considering relocation

The key issues that need to be addresses when relocating high-net-worth individuals to Switzerland.

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When looking at relocation options it is not surprising that Switzerland ranks among the top five choices for many high-net-worth individuals (HNWIs).[1] This article aims to raise the awareness of some key points to be considered when HNWIs and their families decide to relocate to Switzerland.

Choosing the right canton and school

Although every one of the 26 cantons has its own respective attractiveness, it is certainly important that the HNWIs choose carefully according to their preferences and needs. For example, a HNWI may have an affinity for the German language and speak it fluently. If he or she also likes the surroundings of the Swiss German speaking region, with a view on the Lake of Zug respectively of Zurich, then the Canton of Zug or Schwyz is certainly a more than viable choice. Both cantons have good infrastructure and are logistically fairly close to the Zurich International Airport. They also have excellent international schooling services, offering the children of HNWIs the opportunity to mingle with numerous communities. Therefore, if children are involved, finding the appropriate schools for them should be treated as a priority when choosing the canton for the family's future residency. Many schools have waiting lists, the selection requires time and the closer the family lives to the respective schools, the better.

Lump-sum taxation

In Switzerland there are two levels of taxation for income tax: federal and cantonal level and for both you can request and obtain a lump-sum taxation. Therefore, another bonus of the above-mentioned cantons is the above taxation regime, whereby the HNWIs must abstain from conducting professional or other gainful activities in Switzerland. Under the lump-sum tax regime, the income tax basis is computed based on the higher of the following: (i) the annual living expenses of the taxpayer and his or her family, living in the same household or (ii) the Swiss source income. Included in the latter is also foreign source income, for which the benefits of a Swiss double tax treaty are fully or partially claimed.[2] The annual living expenses cannot be smaller than five times the yearly rent expenditures for the apartment or the house where the taxpayer is residing. Currently, the Canton Zug requires a minimal taxable income of CHF300,000 and a minimal net wealth of CHF6 million whereas for the Canton Schwyz the minimal taxable income should be at least CHF500,000 and the corresponding net wealth at least CHF10 million. Under the current law, a taxpayer being eligible for the lump-sum tax regime may opt to be taxed under the regular scheme of taxation every year. In the Canton of Schwyz the lump-sum taxation is currently under discussion and indications are such that the minimum annual expenses could be raised from five to seven times the yearly rent paid in future, in order to equalise the tax load among the taxpayers. The Canton of Zurich recently took another route: it abolished the lump-sum tax regime as per 1 January 2010 to eliminate this fiscal inequality among the taxpayers. To date, Switzerland has around 4,200 lump-sum taxpayers, generating a fiscal income for the Swiss Government of around CHF400 million.[3]

There is no inheritance tax on a federal level in Switzerland, only at a cantonal level, and even an individual who is not under a lump-sum taxation regime can benefit from a very low rate of inheritance and gift tax.

Residency permits

Based on the bilateral treaties between Switzerland and the EU Member States, EU nationals are entitled to take up residency in Switzerland provided they have sufficient funds to cover their living costs and have basic health care coverage in Switzerland. However, the situation is different if the HWNI is a non-EU/EFTA member state citizen.

In the latter case, according to article 32 of the Swiss Decree on Admittance, Residence and Employment (VZAE) the authorities may accord a residence permit to a non-EU/EFTA member if there is a substantial cantonal fiscal interest in doing so. Of course, various cantons have different interpretations of the relevance of a fiscal interest. In addition to the fiscal interest, the authorities will question the origin, the source of wealth and income of the applicant. Furthermore, the authorities will verify the reasons related to the relocation (plausibility). Where possible, it is recommended to negotiate the grant of the lump-sum taxation regime applicable before taking up residency in Switzerland.

House hunting

In general, prestigious housing facilities are scarce in Switzerland. Therefore, a good real estate broker is essential when teaming up for a house hunt. In the Canton of Zug and Schwyz the situation is particularly acute because many affluent individuals have already relocated to these cantons and have bought or rented many of the super-prime residences. Contrary to forecasts made by Swiss economists, property prices have remained high during the crisis and in certain high-end areas the prices have increased or are currently increasing. Therefore, it is not uncommon for villas in hot spot areas in the Canton of Zug and Canton Schwyz to have a market value with double digit million amounts. In some cases, sales have a considerable resemblance to auctions, where the best bidding party gets the property, which in most cases is at a price higher than the true value of the property. A future sale may be difficult for the owner, especially if the real estate market undergoes a downward correction. Therefore, this strategy should be avoided unless the property has an intrinsic value for the bidder.

Work permits

As most of the HNWIs can live from the income and capital gains generated from their assets and benefit from a lump-sum taxation, e.g. Canton Zug, as long as they do not exercise any professional activity on Swiss territory, there is no need for them to apply for a work permit, unless they decide to switch to ordinary taxation and exercise a professional activity on Swiss soil (please also refer to the above).

Additional fiscal benefits

In specific cases, it is worth mentioning that there are also numerous Qualifying Expatriates[4] who meet the HNWI criteria stated above. Although expatriates are Swiss residents taxed under the ordinary system, as they are exercising a professional activity on Swiss territory, they have special tax benefits on moving and lodging expenses (normally a lump-sum of CHF 18,000 pa, unless effective costs are proven), school fees and representation allowances, as agreed with the authorities.[5]

Coming back to the example stated earlier above, the Canton of Schwyz does not levy any inheritance taxes. This may be of importance when reviewing existing structures in relation to tax and estate planning. For example, in the Canton of Schwyz, unrelated third parties in relation to the donor would not be subject to an inheritance tax and therefore donations can be made directly without resorting to expensive succession planning instruments within the ambit of the law. In most cantons, but not in the Canton of Vaud and Neuchâtel, inheritances and gifts to spouses, as well as direct heirs, are tax exempt.

Selecting the relocation advisors

Finally, one of the key steps in the relocation process is identifying the most suitable relocation advisors for the HNWI. This can be an advisor who specialises in this field and who is employed by a financial institution in Switzerland, a local or foreign relocation company or a law firm. Depending on what the HNWI prefers, a group of advisors can either be coordinated by one head advisor, who would also be in direct contact with the HNWI, or the HNWI can contact these advisors individually, or even a mix of the above approaches can be used. All approaches have their advantages and disadvantages. For example, a single coordinating advisor is more efficient because he or she has a global overview of the relocation process status, compared to one of the more specialised advisors who may not have such an overview. A team of advisors should be small (around three to four advisors) in order to keep momentum and each one of them needs to master their allocated tasks, which include at least fiscal, legal, administrative and logistical aspects. Forming a team takes time and therefore this point should be considered carefully. With the team being in place, a relocation plan can be devised and implemented. As discussed above, one of the first steps should include choosing the right canton and, where applicable, the school for the children.

Conclusion

Relocating HNWIs to Switzerland is a multi-tasking process which requires fiscal, legal, administrative and logistical expertise. Therefore, the choice of the best relocating partners and timing is essential.

Over the next five years the influx of non-Swiss individuals and their assets into Switzerland will introduce a new era of change, with more art galleries, international schools and an increasing amount of international world cultures. Switzerland will remain attractive because of its quality of life and security, which is what HNWIs are looking for. These high-end properties are already a scarce resource with a correspondingly high price. Considering the above, Switzerland is currently on an upward trend and it certainly looks like it is the right moment for HNWIs to at least reflect on securing their place in that country.

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1. *1In this article high-net-worth individuals are considered as being individuals with a total asset base starting at EUR 20million up to EUR 50million.*
2. *2Art. 14 DBG, Ziff. 3, Abs. f (Besteuerung nach Aufwand)*
3. *3Tax authorities of the Canton of Zurich, 2009.*
4. *4Qualifying Expatriate is: an (i) executive or (ii) specialist or (iii) independent person working in Switzerland temporarily for a maximum of five years (also refer to 'Elements of Individual Taxation in Switzerland' by Professor et Mâitre Xavier Oberson, a presentation held at New York University on 6 April 2005).*
5. *5'Elements of Individual Taxation in Switzerland' by Professor et Mâitre Xavier Oberson, a presentation held at New York University on 6 April 2005; also refer to the Federal Ordinance of 2001 (Oexpat).*

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