Overview of Individual Taxation in Switzerland

1. Territoriality / Competent Authority

Swiss income taxes are in general regulated by federal tax law (FTL) and 26 cantonal tax laws. However, all cantonal tax laws are required to comply with the general principles as stated in the Federal Tax Harmonization Law (THL), but the amount of deductions and the tax rates are at the discretion of the cantons. Additionally, in most cantons communal taxes are levied as a percentage of cantonal taxes, and each commune independently determines its own quota. Consequently, the tax burden could widely vary depending on the canton and commune of residence. Thus, please see our sample calculation for Zurich, Zug, Lucerne, Lausanne and Geneva below (cp. Paragraph 11.) as well as the respective examples in the following explanations.

From an administrative point of view, the cantonal/communal authorities are responsible for enforcing federal, cantonal and communal income taxes for individuals.

2. Tax Residency

All individuals resident in Switzerland are taxed on their worldwide income and wealth, excluding income from business activities carried out abroad, foreign permanent establishments and real estate situated abroad (unlimited tax liability). Individuals are also regarded as Swiss resident, if

- the individual stays in Switzerland with the intention to exercise gainful activities for a consecutive period (ignoring short absences) of at least 30 days, or if;
- the individual stays in Switzerland with no intention to exercise gainful activities for a consecutive period (ignoring short absences) of at least 90 days.

Non-residents are only taxed on Swiss-sourced income and wealth (limited tax liability), if

- they receive income by physically working in Switzerland or are member of the board of directors or the management board of a Swiss company;
- they are creditor or beneficiary of claims secured by a mortgage on real estate in Switzerland or have real estate in Switzerland;
- they receive pensions and similar income from former public law employment;
- they generate income allocated to a fixed place of business in Switzerland.

3. Determination of Taxable Income

Generally, the worldwide income is subject to Swiss income tax and is based on the principle of family taxation, i.e. the income of the spouse and dependent children is all included in one tax return/assessment. The taxable income in Switzerland exemplary comprises the following components: employment and self-employment income, income from movable assets (e.g. interest and dividend income), income from immovable property (e.g. rental income), income from pension schemes and the like as well as other income not especially excluded by cantonal or federal law (see below).

Employment Income

Any kind of remuneration is subject to tax at the time received or when an irrevocable entitlement is obtained. Thereby it does not matter where the income comes from (Swiss or foreign employer). The employment income includes equity-based compensations schemes which are (depending on facts and circumstances) taxed at grant or at sale/exercise. Blocking periods may lead to a discount on the taxable income.

Business Income

The owners of individual enterprises and of general and limited partnerships are regarded as self employed. Taxable is the net business profit. The determination of the profit in principle follows Swiss accounting rules.

Income from Movable Assets

The income from movable assets such as dividend, interest and royalty is generally taxed together with the other income. Dividend income from qualifying participations is not fully subject to income tax; the deduction granted is usually 30% but could be higher. The income from movable assets does not include capital gains as they are exempt.

Income from Immovable Property

Rental income from real estate in Switzerland is taxed together with the other income. In addition, a deemed rental income is assumed if the real estate is used by the owner itself.

Income from Pension Schemes

Annuities, pensions and seniority allowances from Swiss pension funds are subject to income tax. The same holds true for spouse and child alimonies (with the ability for deduction for the paying party). Capital payments from pension funds are also subject to income tax but usually at a lower rate.

Other Income

The term “other income” mainly includes all income that replaces employment income (e.g. payments from the unemployment insurance and the like), prizes in lotteries and pools of over CHF 1,000, various kinds of compensations, etc.

4. Exemptions

A Swiss resident individual is basically taxed on worldwide income. However, no tax is to be paid on income from foreign businesses and foreign permanent establishments and on foreign real estate. However, the respective income is taken into consideration to determine the (progressive) tax rates.

As mentioned above, there are certain items which are not subject to tax on federal and cantonal level, such as:

- Financial means from inheritance, gifts and matrimonial property rights (these may be subject to gift or inheritance tax);
- Compensation for damages and private or governmental social welfare payments.

Furthermore, private capital gains on movable assets are in general tax exempt provided the respective individual's activity does not qualify as a business activity.

In contrast capital gains from real estate are subject to cantonal real estate capital gains tax (see below).

5. Deductions

Employment Expenses

Generally, expenses related to the earning of income (e.g. professional expenses) are deductible from gross income. These are for example commuting costs (often limited), additional costs for meals at the place of work (lump-sum), general business related expenses (actual or lump-sum), and costs related to further education (actual costs up to a certain maximum amount, e.g. CHF 12,000 on federal level and in the Cantons of Zurich, Zug, Lucerne, Vaud and Geneva). If there are two incomes, double earner deductions may be also applicable. The deductions can be claimed at federal level and are further individually governed on cantonal level, i.e. the types of deductions as well as the maximum amount differ significantly.

An employee's social security contributions are deductible from gross employment in-come. Contributions to foreign social security systems may be deductible as well. Usually, the employer's share of the social security contributions (including payment into the pension scheme) is not seen as taxable income and is thus tax-free for the individual (for further information on the Swiss social security system please see separate publication).

Expenses of Self-Employment / Business Expenses

In principal, all commercially justified costs and expenses relating to the business can be deducted, it may include:

- Cost of goods sold;
- Rental expenses or portion of rent on privately rented property;
- Car expenses and other business expenses (e.g. travelling, stationery, communication, etc.);
- Depreciation and amortization.

Losses can be offset against other income and eventually carried forward.

General Deductions

Following deductions can be claimed:

- Spouse and child alimony paid;
- Charitable contributions, certain insurance premiums and medical expenses not covered by health insurance (all with certain thresholds or within certain limits);
- Daycare expenses;
- Interest charges on mortgages and other borrowings (limited to the total investment income including deemed or actual rental income plus CHF 50,000);
- The costs of maintenance of real estate: repair costs and re-placement costs (without value-increasing portion), property insurances (e.g. fire-, or natural hazard insurance), third party costs for property management.

Social Deductions

Social deductions are granted based on the individual's circumstances, e.g. deductions for married couples, for single parent families, for children, for persons in need etc. Conditions and limitations are defined by federal law as well as by cantonal law and may therefore vary substantially.

Expatriates Tax Deductions

Certain special tax deductions apply to expatriates (expats). However, as of January 2016, the respective regulations became more restrictive. Expats are now defined as executives and specialists temporary assigned to Switzerland for a maximum period of five years. Therefore no deduction is possible if the employee is on a permanent contract or if the employer pays for the additional costs. Consequently, the special treatment ends as soon as the temporary assignment is changed into a timely unlimited contract or after five years of residence in Switzerland, whichever is earlier.

Expat deductions may include:

- Necessary costs for travel between the place of residence abroad and Switzerland;
- Reasonable costs for accommodation in Switzerland if she/he maintains a permanent house or apartment in the home country for own;
- Costs directly related to the move to Switzerland and back to the home country;
- Travel expenses to and from Switzerland for the taxpayer and his/her family at the beginning and at the end of the employment in Switzerland, respectively;
- Schooling expenses for the taxpayer's children for a foreign-language private school, if public schools do not offer schooling in the respective language;
- Under circumstances a lump-sum deduction instead of the above itemized deductions is to be applied, it amounts to about CHF 1,500 per month.

6. Relief for Foreign Taxes

Switzerland has a broad network of income (and wealth) tax treaties. The double tax treaty (DTT) with the United States (US) only covers income taxes.

Switzerland generally applies the exemption method with progression for qualified foreignsourced income and not a tax credit method. However, when investment income derives from a country with which Switzerland has concluded a tax treaty, a tax credit is available for the non refundable part of withholding taxes on dividends, interest and royalties.

This holds also true for the so called "Additional Withholding Tax USA". Swiss paying agents, who have the status of a "Qualified Intermediary", have under certain conditions to withheld taxes on dividends and interests received on behalf of the Switzerland-based US clients. This additional withholding tax amounts to 15% or 25% on dividends and 30% on interest, which is excluded from national US withholding tax. This additional withholding tax USA will be either refunded or credited against the Swiss tax.

7. Lump-Sum Taxation

Foreign nationals resident in Switzerland can be taxed on a lump-sum basis if they are not gainfully employed in Switzerland. This taxation is based on the taxpayer's actual annual living expenses, i.e. the tax is calculated on the basis of the total annual cost of living expended by the taxpayer in Switzerland and abroad for him/herself and the dependents living in Switzerland. At present, on federal level and in most cantons, the expenses in question have to amount to at least seven times the rental value of the taxpayer's home or the rent paid or at minimum 400,000 Swiss francs. The law also provides for an additional minimum calculation, according to which the tax may not be lower than the tax on specified gross elements of income and wealth according to the regular tax in Switzerland. It includes all income from Swiss sources as well as income for which the taxpayer claims relief from foreign taxation in accordance with a double taxation agreement concluded by Switzerland.

Lump-sum taxation has been abolished in various cantons by referendum (as per 1 January 2016: Zurich, Schaffhausen, Appenzell Ausserrhoden, Basel Landschaft and Basel Stadt).

8. Tax Rates

Income tax rates are progressive at the federal level and in most of the cantons. In 2015, the federal income tax varied from a bracket of 0.77% (for single tax payers) and 1% (for married taxpayers) to the maximum rate of 11.5%. For individuals with a taxable income below CHF 14,500 and couples with a taxable income below CHF 28,300 no federal tax is levied. On cantonal level, tax rates vary heavily with a maximum rate in Zurich of approximately 39.7%, compared to 22.8% in Zug of, 31.1% in Lucerne, 41.5% in Lausanne and to 45.5% in Geneva (depending upon taxed as single or jointly). Some cantons have also introduced a flat rate taxation (Canton Obwalden, effective as from 1 January 2008 and Canton Uri effective as from 1 January 2009).

9. Tax Return and Assessment Procedure

Tax Period

In Switzerland, the tax year corresponds to the calendar year.

Tax Returns

The tax returns generally have to be filed in the canton where the tax payer is/has been resident at the end of the respective tax period. The official filing dates vary from canton to canton, e.g. canton Zurich 31 March, canton Zug 30 April, canton Lucerne 31 March, canton Lausanne 15 March and canton Geneva 31 March of the following calendar year but extensions are normally granted upon request. For married couples a joint tax return is to be filed.

Foreign employees with a stay permit but without a residency permit are subject to wage withholding tax. Under circumstances (e.g. with a annual gross salary of CHF 120,000 or more or for income not subject to wage withholding tax, etc.) they additionally have to file a tax return.

Payment of Tax

Resident individuals are paying their taxes based on the figures declared in the tax return filed. Cantonal and communal taxes are usually paid on a provisional basis based on prior-year figures throughout the respective tax year (cp. below) whereas the federal taxes are to be paid by 31 March of the year following the respective tax year.

Canton	No. of installments	Due dates	Early payment interest	Late payment interest
Zurich	3	1/6,1/9,1/12 + 30 days	0.5% until 30th September	0.5% since 1st October of the respective tax year until the receipt of the final tax invoice; 4.5% after 30 days upon the receipt of the final tax invoice
Zug	1	30/11 + 30 days	0%	0%
Lucerne	1	31/12 + 30 days	0.3%	0.3% after due date; 5% after 30 days upon the receipt of the final tax invoice
Lausanne	12	1st of each month with general due date 31/3	0.25%	3%
Geneva	10	End of the months February until November, payable at the 10th of the following month	0.5%	3%

Tax Audit

Upon receipt of a tax return the competent cantonal tax authority starts a formal tax assessment process. The tax authority may ask for additional information or documents if required. Finally, a formal tax assessment will be issued to the taxpayer, in which the taxable factors are noted. The tax assessment comes into legal force if no objection is filed within 30 days after receipt of the tax assessment. Based hereon the final tax bills will be issued.

Statute of Limitations

In general, the right to assess terminates after 5 years of each tax period. Under circumstances, the tax authorities can reopen a final assessment during the ten years following the tax period. This is possible in cases where tax authorities receive new facts or evidence they were not aware of at the time of the assessment.

10. Other Taxes

Withholding Tax

Swiss withholding tax is levied on interest and dividend income from Swiss sources, on prizes from Swiss lotteries and on certain insurance payments. The withholding tax must be deducted by the debtor from the amount due to the recipient.

In cases where the recipient is a Swiss resident, a refund of the tax withheld can be obtained, if the relevant income is properly declared for the purpose of the income taxation. This tax is designed to encourage domestic taxpayers to declare their investment income. For non-resident taxpayers the withholding tax represents a final tax burden. A partial or total refund is granted only based on a double tax treaty concluded between Switzerland and the country of residence of the recipient of the income.

Value-Added Tax (VAT)

VAT is only levied on federal level, basically on all goods and services. However, there is a list of exemptions, such as medical treatment, education, rent and lease of real estate, etc. The general VAT rate is 8% with a reduced rate of 2.5% on goods for basic needs respectively 3.8% on services related to lodging.

Wealth Tax

Wealth tax is levied in all cantons and municipalities comprising all of the taxpayer's assets and rights that have a cash value. These assets and rights are usually assessed at market value. Taxable assets include in particular real estate, movable capital assets, cars, redeemable life and annuity insurances and business assets. The tax base for the wealth tax is the net wealth, that is, gross wealth reduced by the sum of the taxpayer's documented debt. In addition, social deductions can be made from net wealth. These vary from canton to canton as the tax rates do, which are generally progressive. The exemplary wealth tax burden of married individuals without children in the respective cantons/communes for a taxable property of CHF 5m is as follows:

Zurich	approx. 4.7 ‰
Zug	approx. 2.7‰
Lucerne	approx. 2.6‰
Lausanne	approx. 7.6‰
Geneva	approx. 8.7‰

Inheritance and Gift Tax

Inheritance and gift tax is levied at cantonal and communal level in almost all cantons. Only the canton of Schwyz does neither levy inheritance nor gift taxes and in the canton Lucerne there is no gift tax.

Inheritance tax is due on a person's worldwide assets with few exemptions. Cantons levy inheritance and gift tax if the deceased or the donor has been a resident of the respective canton, or if real estate located in the canton is transferred.

In all cantons, spouses are exempt from inheritance and gift taxes, and most cantons also exempt direct descendants from such taxes. Again, the tax burden varies from canton to canton and depends on the amount as well as the degree of blood relationship between the deceased and the heir. Inheritance and gift taxes have to be paid by the heir or recipient of the gift.

Real Estate Capital Gain Tax

A capital gain on real estate sold by an individual is not subject to tax on federal level, unless the real estate belongs to the business assets. On cantonal and communal level real estate capital gains are subject to tax. The tax rates are progressive and there are surcharges for short and discounts for long holding periods. Thus, high profits achieved over a short holding period could be taxed at a rate higher than 50%. No tax is levied if the gain is reinvested but only if the real estate is the main residency of the tax payer.

Real Estate Transfer Taxes

Real estate transfer tax is levied in Switzerland by the cantons and/or the communes and is normally payable by the purchaser of a property. Real estate transfer tax is always payable in the canton or commune in question when a property changes hands. The exemplary transfer tax rates in relation to the property value are as follows (please note that reliefs may be available for restructurings, transactions between relatives etc.):

Zurich	abolished since 2005
Zug	based on administrative effort (CHF 180 per hour spent)
Lucerne	1.5%
Lausanne	3.3%
Geneva	3%

Property Taxes

Property taxes are cantonal or communal taxes on land and buildings. It is payable by individuals and legal entities who are recorded in the land register as the owners or users (usufructuaries) of a property.

Generally, the tax is calculated on the full taxable value of the property, i.e. without taking account of any related debts or mortgages. The property is taxed at its location irrespective of where the owner lives.

Several cantons have decided not to levy this tax (e.g. Zurich, Zug, Lucerne). The remaining cantons apply a variety of systems (the rates are around 1-2‰).

Personal Tax

Approximately half of the cantons levy a personal tax applied per head. Please refer to the table below for the respective tax amount examples:

Zurich	CHF 24 (48 for joint filing)
Zug	CHF 0
Lucerne	CHF 50 flat

Lausanne	CHF 0
Geneva	CHF 25

Sample Tax Calculations

The following is based on the tax laws of the canton of Zurich, Zug, Lucerne, Lausanne, and Geneva as well as on Federal tax.

Example 1:

A single tax payer resident in the canton and city of Zurich, without children, no religious denomination and a gross salary income of CHF 150,000 would pay the following income taxes (gross to net sample calculation):

	Swiss Federal Tax 2016	**Swiss CCT Zurich 2016**
- Employment income	150,000	150,000
- Yield on assets	-	-
- Other income	-	-
Total income	**150,000**	**150,000**
Deductions in CHF		
- AHV/IV/EO premium[1]	7,688	7,688
- ALV premium[2]	1,648	1,648
- Non work related accident insurance[3]	2,025	2,025
- Pension fund contributions[4]	11,595	11,595
- Insurance deduction (lump sum)	1,700	2,600
- Pillar 3a	6,768	6,768
- Work-related expenses (lump sum)[5]	3,811	3,811
- Travel allowance (lump sum)	700	700
- Additional expenses for meals (lump sum)	3,200	3,200
- Debt interest	-	-
- Property maintenance cost	-	-
- Second earner deduction	-	-
- Child deduction	-	-
- Personal deduction	-	-
Total deductions	39,135	40,035

Taxable income (rounded)	110,865	109,965
Total tax expenses		
Direct federal tax (rounded)[6]	3'745	-
Cantonal and communal tax in CHF (rounded)[6]	-	15,880
Total taxes	19,625	

[1] AHV/IV/EO in the amount of 5.125% of the gross income. The pension belongs to the so-called first pillar, i.e. it is mandatory.

[2] Swiss unemployment insurance in the amount of 1.1% of the gross income up to CHF 148,200 and 1% of the exceeding amount.

[3] Non-work related accident insurance in the average amount of 1.35% (average gross premium 2013) of the gross income. Certain ceilings may apply.

[4] Estimated amount of 7.73% of the gross income (pension funds statistics 2013) calculated in % of the insured gross income (max. amount insurable is CHF 842,400). The respective amounts are calculated by the competent pension fund. This is also a mandatory pension included in the second pillar and covers the retirement benefits and the risks of death and disability.

[5] 3% of net income min. CHF 2,000 p.a., max. CHF 4,000 p.a.

[6] Tax calculation according to tax calculators of Swiss Federal Tax Administration (available online at: http://www.estv2.admin.ch/d/dienstleistungen/steuerrechner/steuerrechner.htm) and Zürich cantonal tax administration (available online at: http://www.steueramt.zh.ch/internet/finanzdirektion/ksta/de/steuerberechnung/npers/staats_und_gemeindesteuern.html).

Given the same data and provided a residence in other cantons/communes, the following income taxes would be due:

Canton/Community	FT	CCT	Total
Zug	CHF 3,745	CHF 10,157	CHF 13,902
Lucerne	CHF 3,745	CHF 16,279	CHF 20,024
Lausanne	CHF 3,745	CHF 23,884	CHF 27,647
Geneva	CHF 3,745	CHF 27,813	CHF 31,558

The differences are the result of the fact that different deductions and different tax rates are applicable on the cantonal/communal level in the respective cantons.

Example 2:

A married tax payer resident in the canton and city of Zurich, with two children, no religious denomination and a gross salary income of CHF 150,000 would pay the following income taxes in the canton of Zurich in the city of Zürich (gross to net sample calculation):

	Swiss Federal Tax 2016	**Swiss CCT Zurich 2016**
- Employment income	150,000	150,000
- Yield on assets	-	-
- Other income	-	-
Total income	150,000	150,000
Deductions in CHF		
- AHV/IV/EO premium[1]	7,688	7,688
- ALV premium[2]	1,648	1,648
- Non work related accident insurance[3]	2,025	2,025
- Pension fund contributions[4]	11,595	11,595
- Insurance deduction (lump sum)	4,900	7,800
- Pillar 3a	6,768	6,768
- Work-related expenses (lump sum)[5]	3,811	3,811
- Travel allowance (lump sum)	700	700
- Additional expenses for meals (lump sum)	3,200	3,200
- Debt interest	-	-
- Property maintenance cost	-	-
- Second earner deduction	-	-
- Child deduction	13,000	18,000
- Personal deduction	2,600	-
Total deductions	57,935	63,235
Taxable income (rounded)	92,065	86,765
Total tax expenses		
Direct federal tax (rounded)[6]	1,066	-
Cantonal and communal tax in CHF (rounded)[6]	-	8,580
Total taxes	9,646	

1 AHV/IV/EO in the amount of 5.125% of the gross income. The pension belongs to the so-called first pillar, i.e.it is mandatory.
2 Swiss unemployment insurance in the amount of 1.1% of the gross income up to CHF 148,200 and 1.0% of the exceeding amount.
3 Non-work related accident insurance in the average amount of 1.35% (average gross premium 2013) of the gross income. Certain ceilings may apply.
4 Estimated amount of 7.73% of the gross income (pension funds statistics 2013) calculated in % of the insured gross income (max. amount insurable is CHF 842,400). The respective amounts are calculated by the competent pension fund. This is also a mandatory pension included in the second pillar and covers the retirement benefits and the risks of death and disability.
5 3% of net income min. CHF 2,000 p.a., max. CHF 4,000 p.a.
6 Tax calculation according to tax calculators of Swiss Federal Tax Administration (available online at: http://www.estv2.admin.ch/d/dienstleistungen/steuerrechner/steuerrechner.htm) and Zürich cantonal tax administration (available online at: http://www.steueramt.zh.ch/internet/finanzdirektion/ksta/de/steuerberechnung/npers/staats_und_gemeindesteuern.html).

Given the same data and provided a residence in other cantons/communes, the following income taxes would be due:

Canton/Community	FT	CCT	Total
Zug	CHF 1,066	CHF 3,177	CHF 4,183
Lucerne	CHF 1,066	CHF 10,405	CHF 11,471
Lausanne	CHF 1,066	CHF 14’891	CHF 15’957
Geneva	CHF 1,066	CHF 6,021	CHF 7,087

The differences are the result of the fact that different deductions and different tax rates are applicable on the cantonal/communal level in the respective cantons.

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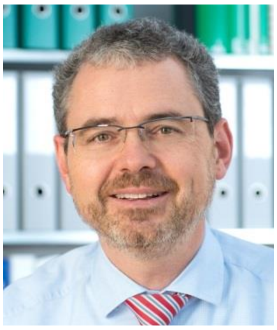

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