Memorandum / Tax Flash

From Patricia Guerra, lic.iur. LL.M. | Barbara Stillhart-Zimmermann, lic.oec.HSG, Certified Tax Expert
Date Zurich, 31 October 2012

Subject **Lump Sum Taxation in Switzerland:**
The Initiative to Abolish Lump Sum Taxation – Submission of Signatures

1. Background of the Initiative

The proposal has the title "An End to Tax Privileges for Millionaires" and the aim is to abolish lump sum taxation in Switzerland at federal and cantonal level.

According to the initiative, new constitutional article would be introduced, with the following wording "Tax privileges for natural persons are prohibited. The taxation according to the expenses is forbidden." The initiative provides a transitional period of three years for the Swiss Federation to issue the corresponding implementing laws.

2. Submission of Necessary Signatures

The deadline for the collection of signatures expired on October 19, 2012. In order for the initiative to be valid, 100,000 signatures are required. The responsible party proposing the initiative announced that 120,000 signatures were collected and thereof 103,000 would be certified.

So far, no further information has been published. Based on past initiatives it will most likely take the Federal Chancellery approximately one month to verify that at least 100,000 signatures are valid. Since only 103,000 signatures were submitted, the Federal Chancellery shall have to undertake the verification process in a careful manner, which may increase the time needed for the process.

3. And now?

It is likely that Swiss citizens will be asked to vote on the matter. Beforehand the Federal Council will provide the National Council and the Council of States with comments and a recommendation either to accept the text of the initiative or to prepare a counter proposal. The cabinet will then set a date for the nationwide ballot following debates in parliament. The ballot will most likely take place in two to three years. In order to be accepted, the initiative (and/or the counter proposal) will necessitate obtaining the vote of the majority of the people entitled to vote and the majority of the cantons. From 26 cantons, the people of at least five (Geneva, Grisons, Wallis, Vaud and Ticino) may most likely vote against the initiative as lump sum taxation is an important part of their economy. The outcome is open.

For persons benefiting from lump sum taxation in Switzerland, it might be a good time to start preparing for the future and thinking about alternatives, if the admission of the initiative for the ballot is confirmed. One that should not be disregarded is ordinary taxation in Switzerland with proper tax planning.

Beyond the advantages that Switzerland offers in general with regards to living standard and infrastructure, security, stable legal and political system and beauty of nature, Swiss income taxation offers very attractive tax advantages, such as the following:

– Switzerland generally does not levy taxes on capital gains. This would be an advantage in the event of the sale of shares or participations as capital gains on such sales are in most cases (not for securities dealer's) tax-exempt.

– Cantons like Schwyz or Zug are attractive tax locations within Switzerland and offer ordinary maximum tax rates as low as 19% and wealth tax rates as low as 0.1%.

– Income from participations with a shareholding of at least 10% benefits from a reduced income tax rate. In Schwyz for example, such income is only subject to an income tax rate of 9%.

Last but not least, it could also be possible that the cantons and communities with a significant number of lump sum tax payers (such as St. Moritz) reduce their ordinary tax rates in order to stay attractive, in case the lump sum tax regime would be abolished.