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Relocation for HNWIs to Switzerland

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SWITZERLAND

Relocation for HNWIs to Switzerland

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Several recent developments have motivated a number of high net worth individuals (HNWIs) in the UK to think seriously about relocation. The latest event nourishing these thoughts is the new 'super tax' on bank bonuses, which will inevitably cause UK bankers to consider a move. Also in the fund sector, due to tougher regimes in the UK and to recent, more welcoming regulations in Switzerland, people are thinking about a move. Last but not least, the recent tax changes in the UK affecting non-domiciled individuals have caused wealthy persons to look for a new tax-friendlier environment.

A survey of prime central London residential homes by property consultants Knight Frank revealed that approximately 7 percent of non-domiciled persons and 2 percent of HNWIs have already moved away from the UK since the tax announcements. A further 31 percent of non-domiciled and 25 percent of HNWIs are planning or actively considering a move. According to the survey, the most popular locations for these individuals are Switzerland and Monaco.

The reasons to choose Switzerland as a new

Social and political stability, a safe environment, good public schools and the central location in the heart of Europe with excellent air and other connections to the world make Switzerland a very convenient place to be.

home base may be manifold. According to Mercer's yearly rating of the cities with the highest quality of living, Zurich and Geneva are always among the top five in the world. Social and political stability, a safe environment, good public schools and the central location in the heart of Europe with excellent air and other connections to the world make Switzerland a very convenient place to be. In addition, the tax system offers a number of significant advantages. Not only are the low ordinary tax rates attractive, but also the zero taxation on capital gains on the sale of shares, the possible lump-sum tax regime and the absence of inheritance and gift tax for direct siblings and spouses. Switzerland has also significantly grown in the area of philanthropy, which is of increasing interest for HNWIs.

Taxation in Switzerland

Overview: An individual with domicile or residence in Switzerland has to pay taxes on his or her worldwide income (salary, yield of assets, pensions, etc.) and wealth. Some further taxes may be levied, such as inheritance or gift tax, and tax on real estate gains.

Taxes are levied on a federal, cantonal and municipal level, with significant autonomy for all of these levels to determine tax rates. Due to this federal tax system, the canton or even the community in which a person is living can make a major difference to his or her tax bill. Generally speaking, the Cantons of Zug and Schwyz are the most attractive tax locations, with ordinary maximum tax rates at 23 and 24 percent respectively.

No taxes on capital gains: Even if a HNWI does not qualify for the attractive lump-sum taxation described below, it might still be very attractive to relocate to Switzerland in the case that he or she plans to sell shares since capital gains on such sales are in most cases tax-exempt.

Swiss lump-sum tax regime: Certain persons can benefit from the so-called lump-sum tax regime, which is comparable to the former UK non-domiciled tax regime. According to recent calculations made for several individuals, the tax burden under both regimes is comparable.

The major difference between the Swiss lump-sum tax regime and the Swiss ordinary

tax regime lies in the taxation basis. While in the case of the lump-sum taxation taxes are calculated on the basis of the living expenses in Switzerland, in the ordinary system they are based on worldwide income.

This lump-sum taxation is essentially reserved for foreign individuals who take up residence in Switzerland for the first time or after an absence of at least 10 years and who do not exercise any gainful or professional activity in Switzerland.

The minimum tax base in the case of a lump-sum taxation corresponds to five times the annual rent paid by the taxpayer or, in the case that he owns the house or apartment, of the deemed rent. The basis for net wealth taxes usually corresponds to 20 times the notional net income. Certain cantons have fixed minimum levels for the lump-sum taxation.

In order to benefit from a lump-sum taxation regime, the foreigner must obtain a residence permit in Switzerland before taking up domicile. Foreign individuals who are citizens of an EU or EFTA state only need to prove that they have sufficient financial means to take up residence in Switzerland, always provided they are not engaged in gainful activity here. Other nationals should be at least 55 years of age in order to apply for residence with lump-sum status in Switzerland.

Inheritance and gift taxes: In most cantons, taxes are levied on inheritances and on gifts. Persons who benefit from a lump-sum taxation are also subject to such taxes. This aspect can become relevant in connection with trusts or similar structures. It is advisable to clear aspects of the tax treatment of such entities with the Swiss authorities before taking up domicile here. Switzerland, however, is attractive as almost all cantons exempt the spouse and children of the donor or deceased person from gift and inheritance tax.

Excellent possibilities for philanthropy in Switzerland

During recent years philanthropy has experienced worldwide growth. In Switzerland, the charitable foundation sector has grown significantly. In 2007 it accounted for over 12,000 foundations. According to recent estimates of the Swiss Federal Supervisory Authority, the assets of charitable foundations amount to ap- ▶▶

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proximately CHF 30bn with annual payouts totaling around CHF 1bn.

With the surge of new foundations in Switzerland, the workforce and expertise in this field has also increased significantly.

A charitable foundation relies on its good reputation. Switzerland offers an excellent basis for this. Its reputation as a location for foundations is based on a clear but still liberal legal framework with the state supervision as a cornerstone. In order to maintain Switzerland's leading position as a place for foundations, the

legislator has introduced further provisions encouraging and attracting charitable foundations.

The main innovations introduced by amendments to the law on foundations are the following: (i) introduction of a compulsory audit for all foundations; (ii) obligation for all foundations to keep accounts; (iii) more flexibility to change the purpose of a foundation; (iv) lower thresholds to obtain tax deductibility; and (v) clear obligations on behalf of the board to take measures in the case of excessive debts

and insolvency.

As an international banking and financial centre, Switzerland has the infrastructure and the expertise to accommodate all the needs of foundations.

The Swiss legal system requires high standards for the corporate governance of foundations and also for their transparency, which may result in somewhat higher costs but which has the clear advantage of preserving the reputation of Switzerland as a prime venue for charitable organisations. ■



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