

January 2020

ORDINARY TAXATION OF INDIVIDUALS IN SWITZERLAND, CANTON TICINO

1. Introduction
2. Income tax
3. Taxation of capital gains derived from private assets
4. Tax on real estate capital gains
5. Withholding tax
6. Wealth tax
7. Gift tax and inheritance tax
8. Taxation of Trusts

1. Introduction

It is well known that Switzerland, when compared to other countries, offers individuals advantageous taxes, owing to the progressive reduced tax rates that apply to individual tax brackets. By comparison with EU member countries, Switzerland, and more precisely, Canton Ticino, is positioned in the top few places with a maximum tax rate on the personal income of individuals (income in excess of half a million euros) of not more than 41%. Enjoying a wide fiscal autonomy, the Cantons determine for themselves the tax rates applicable to income. Canton Ticino, when compared to other cantons, is placed in a middle position but appears to be highly competitive when compared to most foreign countries, whether neighbouring or not.

The configuration of Switzerland as a federal state, divided into cantons on the one hand and the Confederation on the other, is also reflected in the field of taxation.

On a tangible level therefore, the taxes are levied by:

- **the Confederation:** which collects the direct federal tax on income (DFT);
- **the Cantons:** which collect the Cantonal tax (CT) on income and also levy a tax on wealth.
- **the municipalities (Comuni):** which collect the municipal income tax and the tax on wealth, based on a municipal multiplier that is applied on the total of the Cantonal tax.

It is important therefore, in order to establish where a person will be taxed, to know where his domicile is or where a person is living with the intention of remaining there permanently.

If, in some cases, doubt exists as to the determination of domicile, the rule that is applied is that of the 'centre of vital interests and personal relationships' where what is looked at is where the taxpayer maintains family, personal, social and economic relations.

It should be emphasised that, in contrast to other countries, in Switzerland there is the principle of family taxation where married couples constitute an economic unit.

This means that the income and wealth of spouses as well as registered partners who are living together both legally and in the same household, will be aggregated, whatever the matrimonial regime. This also has implications on the tax rates, which are lower than those applied to single persons, for equal income.

Direct taxes levied on individuals resident in Switzerland, are:

2. Income tax

This is the best known tax that the individual is burdened with and has as its objective to tax the individual based on what is determined as being his or her economic capacity.

For the determination of income, what is taken into consideration is the entirety of his or her proceeds, independent of their source (whether from Switzerland or abroad and whether derived from self-employment or employment income etc.) since Switzerland applies the 'worldwide taxation' principle.

In addition to taxable income, there is also exempt income such as, for example, the income related to real estate property or permanent establishments located abroad that are only considered so as to determine the applicable tax rate, as well as the increase in wealth that is derived from private insurance policies of capital subject to redemption (life insurance), and the increase in property and estate resulting from inheritance, legacies, donations or liquidation of a matrimonial estate.

For dividends, there exists a favourable imposition. Dividends are partially exempt respectively imposed on 70% of the gross dividend attributable to qualifying participations (at least 10 % of the share capital) in a Swiss or foreign corporations.

From gross income, it is usually possible to deduct the expenses that were incurred in attaining it.

General deductions are also allowed (eg. deductions for insurance contributions, for premiums and for contributions towards the Swiss social security and savings system such as AVS/AI/IPG/AD, second pillar contributions being compulsory savings for those having an employment, for interest on private passive debts up to a certain determined amount, deductions for the lucrative activities of both spouses etc.) as well as social deductions (for children, for spouses, for needy dependents) linked to the family.

The Ticino, for instance, is one of the cantons with the most generous deduction for a child.

As already stated, the income is taxed at the Confederate, Cantonal and municipal (Comune) level, applying rates that are progressive as far as taxable income is concerned. At first instance, this may seem an onerous tax burden.

To dispel this notion, one should consider the following examples (indicative only and not binding on the tax authorities) that show the tax liability of the taxpayer on the basis of different net taxable income:

Tax year: 2019

Status: Single / Married

Municipality: Lugano (multiplier: 78%)

Net income CHF (After deductions)	100.000,00		200.000,00		500.000,00	
	Single	Married	Single	Married	Single	Married
Cantonal tax CHF	9.102,51	6.894,25	22.346,76	20.030,51	66.074,17	64.301,08
Municipal (Comunal) tax CHF	7.099,95	5.377,50	17.430,50	15.623,85	51.537,10	50.154,80
Direct Federal tax CHF	2.874,00	1.968,00	13.561,60	12.562,20	53.161,60	51.562,00
Total tax CHF	19.076,45	14.239,70	53.338,90	48.216,65	170.772,60	166.017,80
Rate %	19,0765%	14,2397%	26,6695 %	24,1083%	34,1546%	33,2036%

3. Taxation of capital gains derived from private assets

In Switzerland, the capital gains earned on the sale of private mobile assets such as stocks, paintings etc., are completely exempt from direct federal income tax and Cantonal and municipal income taxes. There is the condition that the profits realised do not come from an activity performed in a professional or business capacity (See Circular no. 36/2012 AFC).

4. Tax on real estate capital gains

Even the sale of private real estate property is exempt from taxation in so far as direct federal income tax is concerned. At the Cantonal level, a special tax called TUI (tax on real estate capital gain) is levied on the capital gain realised from the sale of real estate.

The rates depend on the duration of possession and vary from 31% for possession of less than a year, up to 4% where the property was held for more than 30 years.

5. Withholding tax

Foreign workers who have a domicile or fiscal residence in a canton (permits B or L); those domiciled abroad (outside the border area) who pursue a lucrative activity in Switzerland (permit G), as well as commuters who are domiciled in the border area in Italy and are in possession of a G permit, are all subject to withholding tax.

It must be pointed out that the latter are the subject of an agreement reached between Switzerland and Italy regarding taxes on border (*frontalieri*) workers that was concluded on 3 October 1974.

Subject to tax at source is the salary and all the compensations paid or credited to the taxpayer for his lucrative activity, such as bonuses and awards based on old age etc. The tax at source therefore replaces cantonal and municipal (*comunale*) tax and is deducted on a monthly basis from the salary.

The tax base is determined by the gross income without taking into account any deductions. What is taken into account, clearly, are the levels of tax rates which are lower than those applicable in the ordinary taxation regime.

The law also provides that if certain conditions occur, taxpayers with a domicile or fiscal residence in Switzerland, will benefit from the ordinary taxation regime which can be:

- *Complementary to the withholding regime*: to this are subject all of the taxpayer's other taxable income and wealth (from for instance an independent activity, lottery or competition winnings, annuities, rent from real estate etc.) as well as revenue from the taxpayer's total wealth. In this case, the taxpayer must submit a tax return.
- *Substitute to the withholding tax*: taxpayers exceeding individually income of CHF 120'000 from lucrative activity, are required to submit an ordinary tax return declaring the total of worldwide income and wealth. Such taxpayers are taxed like domiciled tax payers (C-permit).

6. Wealth tax

As the main tax in all the cantons being the income tax, the wealth tax has a subsidiary role. It is levied by cantons and municipalities (*comune*) (always using the municipal multiplier) simultaneously to income tax but vice versa, it is not levied by the Confederation.

The tax is payable by people who have an unlimited tax liability in Switzerland (there is a tie of a personal nature due to domicile or residence in a particular place) on their overall wealth, which includes all goods and rights that they own or have an usufruct in. It includes therefore, all securities, wherever located and real estate, limited to properties located in Switzerland.

It is also due by people with limited tax liability, who while having a domicile outside the Canton, have all the same a tie of an economic nature derived from their possession of real estate or corporate substance. The 'substance' is measured at market value and the tax basis will be determined net of deductions (deductions of debts and social deductions).

Following the introduction of the new wealth tax rates applicable as from 01.01.2018, for the tax years 2018 and 2019 a **cantonal proportional rate (flat)** of 3.0 ‰ is applied **on wealth exceeding CHF 3.48 million** (for taxable wealth lower than CHF 3.48 mio, the tax

rates remain progressive), respectively from **2020 onwards**, a cantonal proportional rate (*flat*) of 2.5 ‰ for wealth exceeding CHF 1.38 million.

To the cantonal wealth tax must be added the municipal tax by applying the municipal multiplier to the cantonal tax.

7. Gift and inheritance taxes

As mentioned before, financial gifts and inheritances are not considered as income but they have a tax of their own. What is relevant, however, is that in most of Switzerland, such generosity and devolutions *mortis causa* are irrelevant from a fiscal point of view (and therefore not taxed) if they occur in a direct line (between descendants-ascendants or spouses). In so far as gifts and inheritances at an international level are concerned, we refer to the articles 'EU succession regulations' and 'fiscal successions with Italy' that are accessible in the present section of this website.

What we have considered up to now applies to those who opt for the ordinary tax regime. Next to that, it is necessary to mention the special tax regime that applies to the lump sum taxation eligible only to foreign non Swiss nationals, to which one should refer to the relevant article that can be found on the present version of this website.

8. Taxation of trusts

Following a fervent legislative process, there has been a recognition by Switzerland of the concept of a trust. The Tax Administration of Canton Ticino has implemented fully the principles according to which the settlor or the beneficiaries (if they are liable to tax as Swiss fiscal residents) must be subject to taxes in Switzerland for that which concerns the assets and the income of a trust, based on the principle of the fiscal transparency of the trust. The administrative practice has further contributed to establishing the activities of trustees in Switzerland, and in Canton Ticino, in particular.

Only the fees charged by trustees have been recognised as being taxable; the assets in the trust and related income are exempted in Canton Ticino. What is in fact taken into consideration is not the location of the assets that make up the estate of the trust, but the fiscal residence of the settlor and / or the beneficiaries based on the fact that it is a revocable or irrevocable trust and discretionary or 'fixed interest'.

The principle on which a settlor who is physically resident in Switzerland, continues to have tax liability both on his 'wealth' and the income of the assets of an irrevocable and discretionary trust or a revocable trust, do NOT apply if the settlor is instead resident abroad at the moment in which the irrevocable trust is settled, even if he subsequently moved to Switzerland.

On the other hand, in the case of the establishment by a Swiss resident settlor of an irrevocable 'fixed interest' trust with beneficiaries who are identified as being direct descendants and have a fiscal residence abroad at the time of distribution, this may be an interesting successive tax planning tool.

The contents of the present document cannot be taken as being the expression of an opinion. They are of an exclusively informative and updating character. The reader who wants to use the said information should consult a professional advisor so as to assure compliance with legal and tax obligations in his or her country of residence. **Steimle & Partners Sagl** declines any responsibility for any eventual damage, whether direct, indirect, incidental or consequential linked to an action or omission tied to the use of the information contained in the present document. We remain available for a closer examination of any of the topics mentioned above.