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ORDINARY TAXATION OF INDIVIDUALS IN SWITZERLAND, CANTON TICINO

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1. Introduction

It is well known that Switzerland, compared to other countries, offers an interesting ordinary tax regime, thanks to the progressively reduced income and wealth tax rates applying to both income and wealth. By comparison with EU member countries, Switzerland, is well positioned with a maximum income tax rate on personal income of individuals (income in excess of half a million euros) of ca 41% in Canton Ticino.

Enjoying a wide fiscal autonomy, the Cantons determine individually the tax rates applicable to income and wealth. 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 26 cantons, is also reflected in the field of taxation.

Concretely, 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 wealth;
- **the Municipalities (Comuni):** which collect the municipal income and wealth tax, based on a municipal multiplier applied on the total of the Cantonal tax.

In order to establish where a natural person will be taxed, his/her domicile must be individuated. A natural person's domicile is the place 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' meaning the place where the taxpayer predominantly maintains family, personal, social and economic relations.

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

This means that the income and wealth of spouses as well as registered partners who live together both legally and in the same household, will be aggregated, whatever the matrimonial regime is. 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 objective to tax the individual based on what is determined as being his or her economic capacity.

For the determination of the total gross income, what is taken into consideration is the entirety of the taxpayer's income, independent of the source (whether from Switzerland or abroad and whether derived from self-employment or employment income, income from capital etc.) since Switzerland applies the 'worldwide taxation' principle.

In addition to taxable income, there is also exempted income such as, for example, income related to real estate property or permanent establishments located abroad (only considered for the correct determination of the applicable tax rate), as well as the increase in wealth deriving 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 dividend income, Switzerland and all Cantons apply a favourable taxation. 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 corporation.

From gross dividend income, the expenses incurred in attaining such dividend, are tax deductible.

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. Canton Ticino is amongst the cantons with the most generous deduction for a children.

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

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

Tax year: 2020							
Civil status: single or married							
Comune: Lugano (multiplier 77%)							
Canton: coefficient 97%							
Net income (after deductions)	CHF 100'000		CHF 200'000		CHF 500'000		
Family situation	Single	Married	Single	Married	Single	Married	
Comunal tax	7'008.95	5'308.55	17'207.05	15'423.55	50'877.00	49'511.75	
Cantonal tax	8'829.45	6'687.37	21'676.40	19'429.70	64'091.80	62'371.95	
Direct Federal tax	2'874.00	1'968.00	13'561.60	12'562.00	53'161.50	51'562.00	
Total taxes	18'712.40	13'963.92	52'445.05	47'415.25	168'130.30	163'445.70	
Effective tax rate	18.71%	13.96%	26.22%	23.71%	33.63%	32.69%	

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 cantonal level, a special tax called TUI (tax on real estate capital gain) is levied on the capital gain realised from the disposal of real estate.

The tax rates depend from 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. Tax at source

Foreign workers who have a domicile or fiscal residence in Switzerland (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.

To Italian commuters residing in the so-called border area in Italy, the agreement dated October 3rd, 1974, between Switzerland and Italy is still applied; the new agreement for commuters has been initialised but is not yet in force.

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 the income tax on salary and compensations according to ordinary taxation and is deducted on a monthly basis from the salary.

The tax base is determined by the gross income without taking into account any deduction, as these are already considered in the applicable tax rate.

Any person resident in Switzerland with a permit B or L has the legal duty to register with the cantonal tax administration and declare each and any other income and each and any taxable asset according to the ordinary taxation (supplementary ordinary taxation). Tax at source only covers the income tax on salary.

6. Wealth tax

Wealth tax in Switzerland is of minor importance compared to income tax. Such tax is levied by cantons and municipalities (*comune*) (always using the municipal multiplier) simultaneously to income tax but not on federal level.

The tax is payable by persons having unlimited tax liability in Switzerland (there is a tie of personal nature due to domicile or residence in a particular place) on their overall wealth, which includes all assets and rights of which beneficial ownership or usufruct in. It includes therefore each and any mobile asset (bankable assets, participations, etc), wherever located and real estate properties, limited to properties located in Switzerland.

It is also due by persons with limited tax liability, who while having a domicile outside the Canton or Switzerland, have a tie of economic nature deriving from possession of real estate property 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).

In Canton Ticino, wealth tax rates from tax year 2020 onwards are **progressive** from 1‰ to 3 ‰ for net taxable assets up to CHF 1'380'000 and **flat** of 2.5 ‰ for wealth exceeding CHF 1.380'000.

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

Tax year: 2020							
Civil status: Single/ Married							
Comune: Lugano (multiplier 77%)							
Canton: coefficient 97%							
Net taxable wealth CHF (net of deductions)	Single and married		Single and married		Single and married		
Assets in Switzerland	150'000.00		500'000.00		4'000'000.00		
Total assets (Switzerland and worldwide)	500'000.00		1'000'000.00		12'000'000.00		
Total wealth tax	475.00		2'009.70		17'400.00		
tax rate applicable (per mille)	1.82 ‰		2.31 ‰		2.5 ‰		

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.

For further information on the above, please do not hesitate to contact us

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