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## LUMP SUM TAXATION IN SWITZERLAND, CANTON TICINO

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### 1. Introduction

Individuals with a high net wealth and important foreign source income, who want to make Switzerland, and particularly Canton Ticino, their country of residence, have the option of being taxed with a **simplified lump sum taxation system or expenditure-based system**, computed on the worldwide living expenditures (also called lump sum or expenditure based taxation) rather than on effective worldwide income and assets.

We find the **legal basis** in the Cantonal Tax Law and in the Direct Federal Tax Law as well as in the Circular no. 44 issued on 24 July 2018, which replaces the previous Circular No. 9 of 1993.

In order to qualify for being admitted to such a tax regime, the following **conditions** must be met:

- The applicants cannot be Swiss citizens: those who have dual citizenship are not considered foreigners and, therefore, cannot opt for the lump sum taxation, but will be subject to Swiss ordinary taxation. Neither is lump sum taxation allowed for couples where one spouse is a Swiss citizen (both spouses, therefore, must be foreign nationals);
- Age limit: for citizens of EU / EFTA States, there is no age limit; conversely, a minimum age limit of 55 years is set for citizens of non-EU / EFTA countries: please read [Relocation to Switzerland/ Canton Ticino for NON EU citizen](#);
- Making Switzerland their country of residence for the first time or after an absence of at least 10 years<sup>1</sup>;
- The applicants must not engage in any gainful activity in Switzerland, or in the broadest sense, an entrepreneurial activity. This requirement applies to both spouses.

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<sup>1</sup> Please note that the holder of a border commuter (*frontalieri*) G permit who intends to transform his or her G permit into a B residence permit, has the right to request to be taxed under the lump sum tax scheme, since as a commuter (*frontaliere*) he or she was not subject to Swiss unlimited taxes.

## 2. Determination of presumed income to be subject to taxation

As a **tax base** for the taxation of the presumed income of the taxpayer, in principle the **annual expenses incurred for subsistence and that of family members living in the same household**, on a worldwide basis, are considered.

The amount of presumed income to be taxed may also be determined by other parameters set out below.

The tax authority bases the definition of the presumed taxable income on the **higher value** resulting from the following parameters:

- minimum taxable income basis at federal level: CHF 435'000 for EU/EFTA citizens while for citizens of non-EU/EFTA states more information is here available [Relocation to Switzerland/ Canton Ticino for NON EU/EFTA citizens](#);
- For taxpayers who have their own household, an amount equal to seven times the annual rent or the full rental value of their home, as determined by the tax authority.
- For other taxpayers: an amount equal to three times the amount of their annual pension, for board and lodging at the place of residence.
- Sum of the annual expenditure as listed in the appropriate form (introduced by all cantons with the 2022 tax year).

The minimum income assessment basis in Canton Ticino for tax year 2026 is CHF 435'000 for EU/EFTA citizens. Cantons impose their own minimum expenses thresholds which can vary significantly.

Yearly adjustment to the national consumer price index: the taxable income basis may be adjusted, for each fiscal period, at least to the variation in the national consumer price index to the extent provided for in Article 39 of the cantonal tax law respectively article 39 of the Federal tax law. For tax year 2026, the national consumer index increase is 0.068%.

The tax calculation (respectively the tax rates) follows the taxable income as determined above.

## 3. Measures to ensure the benefit for lump sum taxation for children in a generational transition

The Ticino tax authorities have recently introduced a practice that allows, under specific conditions, an increase of CHF 54'300 (indexed) of the taxable income amount of parents for each child still in education. This measure ensures that children, after completing their studies, will also benefit from the same expenditure-based taxation as their parents.

The application of such practice for taxpayers availing themselves of the expenditure-based taxation entails an important added value for families that have permanently settled in Ticino with children still studying (or intend to implement a migration to Switzerland-Ticino) and with a prospect of succession or even anticipation to them of family wealth, which are inheritance and donation tax exempted being beneficiaries their direct descendants.

By securing the benefits of lump sum taxation for the children, provided they remain in Switzerland after completing their studies, family assets and income are protected during the generational transition.

Without the lump sum taxation, children inheriting assets would face a high tax burden under the ordinary tax regime, which could be avoided with the lump sum taxation scheme.

#### 4. Wealth taxation

In addition to the tax applied on income, lump sum taxpayers are also subject to cantonal wealth tax. Each Canton has established a minimum taxable wealth base which is defined under cantonal tax law. . It is important to understand that wealth tax is not based on a taxable worldwide asset.

In Canton Ticino, the minimum wealth tax base is five times the taxable income as agreed with the tax authority and calculated based on the criteria mentioned above (the minimum taxable wealth for Canton Ticino is therefore CHF 2'175'000, corresponding to 5 times the minimum taxable income of CHF 435'000).

The minimum total tax burden referred to in points 2 and 3 for the tax year 2026 amounts to approximately CHF 148'000 for married couples in the municipality of Lugano and approximately CHF 152'000 for unmarried taxpayers.

#### 5. The annual fiscal “control computation”

The tax amount resulting from the taxable income and wealth base thus determined must be subject annually to the so-called "**control calculation**", where it is compared with the income and wealth tax that would be due on the following items:

- Swiss sourced income from movable and financial assets as well as income (or imputed income) from real estate sites in Switzerland.
- Amount of assets qualified as “Swiss assets” whether attributable to movable/financial assets or real estate properties located in Switzerland.
- Foreign-sourced income (such as for example, dividends, interests, royalties) for which one claims for a partial or total exemption of foreign taxes at source by virtue of a Double Tax Treaty.

Movable assets located in Switzerland and Swiss sourced income means more precisely:

- Swiss movable assets of any kind, bank accounts opened in Switzerland in any currency, securities of Swiss issuers or domestic borrowers, including loans secured by real estate lien, and related income.
- Metals and precious stones deposited in Switzerland (for example in safe deposit boxes);
- copyrights, patents and similar intangible rights exercised in Switzerland, together with related income.
- Swiss-sourced retirement benefits, annuities, and pensions.

## 6. The modified lump sum taxation

For some countries (Canada, Germany, Belgium, Austria, Italy, Norway and the USA), with which Switzerland has concluded Double Tax Treaties, taxpayers subject to tax on expenditure **are not entitled to claim for its conventional benefits**.

This because under these Conventions, a person is not considered resident for tax purposes if he or she is not ordinarily subject to tax on all income that the Convention with the above-mentioned states, assigns to Switzerland.

In a case where the taxpayer has at his or her disposal, income sourced from one or more of the above-mentioned countries, he or she would be advised to opt for the said “**modified**” lump sum taxation.

In such a case, the taxpayer will be able to:

- Avail himself/herself of the total or partial exemption of foreign tax levied at its source or its reimbursement by the states mentioned above;
- Benefit from a tax credit computation (provided certain conditions are met) for the remaining unrecoverable foreign tax withheld.

By opting for the ‘modified’ lump sum taxation regime, therefore, the taxpayer agrees that he or she will be taxable, beyond his or her assets and income that have a Swiss source, on all income elements from the respective state mentioned above, at the maximum ordinary tax rate on his or her total income. In this way, he or she will be entitled to claim the relief of the Double Tax Treaties with recognition of his or her tax residence in Switzerland.

This appears to be excluded from conventional relations with France and Italy and their respective internal rules of implementation that are designed to deny Swiss tax residence if no proof is given of effective residence and hence the shifting of the vital center of personal and economic interests to Switzerland.

## 7. Taxes and social charges not covered by the regime of taxation on expenditure

The lump sum tax **does not relieve** the taxpayer from Cantonal taxes such as:

- Inheritance or gift taxes;
- TUI (tax on real estate gains);
- Cantonal property tax.

The taxpayer is also subject, in case he or she has not reached the retirement age of 65 years, to the payment of social security contributions (contributions for old age and survivors’ benefits) and must have a private health cover.

For individuals with limited work activities abroad (exceeding 25%) within the EU/EFTA region, the applicable social security conventions between Switzerland and EU/EFTA states (Regulation (EC) No. 883/2004 and Regulation (EC) No. 987/2009) allow the taxpayer to be insured under the social security system of the foreign state. To avoid double contributions to both countries, the taxpayer can apply for an A1 certificate in the foreign state and submit it to the Swiss authorities to be exempt from Swiss social security (OASI) contributions.

By meeting these conditions, the taxpayer can simultaneously engage in a (limited) work abroad, avoid substantial social security burdens in Switzerland and still benefit from the expenditure-based taxation regime.

Regarding compulsory health cover, under the above-mentioned European social security regulations, when an individual (and the family members) resides in Switzerland but works in an EU/EFTA country, he or she is typically covered by the health insurance system of that foreign state.

In such cases, if certain conditions are met, it is possible to apply for an S1 certificate from the relevant foreign authorities. This certificate allows the individual to remain enrolled in their existing health insurance abroad and receive an exemption from compulsory Swiss health insurance, provided they present the certificate to the Swiss authorities.

This arrangement enables a lump sum taxpayer to access the necessary medical treatments in Switzerland through the local healthcare system, while avoiding the need to take out Swiss health insurance and pay the associated premiums.

## 8. Switching to ordinary taxation

Foreign nationals have the **option**, if he or she meets the conditions mentioned above, to be taxed with the lump sum taxation regime or the ordinary procedure. **That choice must be expressed clearly on his or her arrival in Switzerland, Canton Ticino.**

Different tax consequences will arise according to the option chosen and these must be taken into consideration. Opting for the expenditure-based taxation, he or she can switch at any time to ordinary taxation, but the reverse is not possible. The taxpayer will remain subject to the same ordinary taxation treatment if he or she remains a tax subject in Switzerland.

The question arises therefore as to what are the reasons that would push a foreigner to opt for one taxation regime rather than another.

**Lump sum taxation may be a positive choice** where:

- The fiscal burden turns out to be less than the one that would be assessed with ordinary taxation.
- There is no or little Swiss-sourced income compared with the sum of the “worldwide” assets and income therefrom,
- There is important income from a foreign source and there are considerable assets located abroad. This also applies to the ‘modified’ lump sum tax regime where such income and the assets are not referred to treaty countries (Canada, France, Germany, Belgium, Austria, Italy, Norway and the US).
- The taxpayer wants to make use of a simplified tax return.

Conversely, choosing **ordinary taxation may be a valid alternative** where:

- The tax burden on all worldwide assets and income therefrom is fairly minor.
- The taxpayer is able to claim unlimited tax credits (the so-called global tax calculation) for withholding tax levied by foreign states.
- The application, without exclusions, of the conventional reliefs as provided by the Tax Treaties, procures a tax saving.

- The taxpayer wants to acquire Swiss citizenship (in any case, he or she would lose the benefits of the tax on expenditure regime);
- One wants to start a gainful or entrepreneurial activity in Switzerland.

Switzerland offers tax-planning opportunities to foreigners and lump sum taxation is one of the most advantageous regimes which makes Switzerland a very attractive place for residence, in particular for wealthy individuals.

An accurate asset and income analysis is necessary before the tax regime is chosen within the migration process as well in case the taxpayer desires to switch to ordinary taxation.

**For further information on the above subject, please contact us** and for more detailed information on Switzerland, Canton Ticino tax and legal environment see our web site [www.steimle-consulting.ch](http://www.steimle-consulting.ch),

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