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LUMP SUM TAXPAYERS: HOW TO ENSURE THAT THEIR DESCENDANTS, STILL STUDYING, WILL BENEFIT FROM THE SAME FUTURE ADVANTAGEOUS TAX REGIME IN THE EVENT OF A GENERATIONAL TRANSFER OF FAMILY WEALTH

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1. Introduction

In recent years, expenditure-based taxation (also known as **lump sum taxation**) has gained significant popularity among new wealthy foreign taxpayers who decide to relocate to Switzerland, particularly to the Canton of Ticino. For a more detailed analysis of this topic, please refer to the article on our website: [Lump sum taxation](#).

The Ticino tax authorities have recently introduced a practice that allows, under specific conditions, an increase of CHF 50'000 (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. In this article, we will explain the reasons, requirements and application of this practice.

2. Requirements and procedure for increasing the taxable income of lump sum taxpayers with children still studying

Taxpayers who benefit from lump sum taxation regime can agree with the Ticino tax authorities to increase their annual taxable income by CHF 50'000 (indexed) for each child in education. This applies from the child's 18th birthday until the completion of their studies, or at the latest until their 28th birthday. The direct descendant will also be able to apply for the lump sum taxation once the academic studies are completed, while during the study period it will be taxed ordinarily, by providing the appropriate documentation to prove enrolment in the school/university institution.

Like their parents, children benefiting from the lump sum taxation regime must meet certain requirements to benefit after their studies of the advantageous tax regime. These requirements are as follows:

- Foreign citizenship.
- No employment activity in Switzerland from the age of 18 (exceptions for internships or short-term jobs during studies will be evaluated upon request by the relevant authorities).

In this regard, Swiss authorities allow for limited employment or self-employment activity abroad out of Switzerland (ranging from 25% to 40%). However, it is essential that the individual resides in Switzerland for more than 6 months per year maintaining their vital centre of interest in Switzerland. The Swiss tax authorities need to be informed about their foreign activities, specifying the company they work for and the number of days per year they will need to spend abroad for work.

The condition requiring to be in Switzerland for the first time or after a break of at least 10 years to take advantage of the lump sum taxation would not apply to the children in education as they have usually moved to Switzerland together with their parents, who have already fulfilled the above condition.

Should the direct descendant decide to continue with the ordinary tax regime once his or her studies are completed, the increased tax burden suffered by the parents caused by the rise in the taxable income for each child still studying would be lost as it is not refundable.

3. Conclusions

Considering the prerequisites mentioned above, the application of the practice illustrated here 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.

We recommend seeking advice from your tax consultant in the implementation of what is outlined here.

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

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