Forfait taxation

Expenditure-based taxation

In most cantons in Switzerland, foreigners immigrating to Switzerland for the first time or returning to Switzerland after at least ten years have the option of forfait taxation. This system opens up attractive planning possibilities. Our experts can help you to identify a suitable domicile and to conduct the necessary negotiations with the tax authorities.

What's this all about?
Forfait taxation (or expenditure-based taxation) enables taxpayers to establish the assessment basis for income and wealth tax with the tax authorities in advance (on a forfait basis). The taxpayer benefits from a lower administrative workload as well as planning security.

Conditions
The federal government regulates the minimum standards that the cantons have to adhere to. According to these standards, an application for forfait taxation can be made if the persons subject to tax:
- are not Swiss citizens;
- are immigrating to Switzerland for the first time or are returning to Switzerland after at least ten years;
- have no gainful employment in Switzerland.

In the case of married couples, both partners must meet these conditions.

Duration of forfait taxation
Individuals can avail themselves of forfait taxation for an unlimited period, provided the relevant conditions are met. As soon as a taxpayer acquires Swiss citizenship or becomes gainfully employed in Switzerland, the right to forfait taxation expires. Taxpayers who have agreed on forfait taxation have the option each year to decide whether they wish to be subject to ordinary taxation for this tax period.

Assessment basis
In principle, the tax is calculated on the basis of the taxpayer's annual living costs in Switzerland and abroad during the assessment period. Since January 1, 2016, however, the direct federal tax amount has been assessed at least on the basis of the highest of the following amounts:
- For taxpayers with their own household: Seven times the taxpayer's annual rent or home rental value.
- For all other taxpayers: Three times the annual full-board cost of board and lodging in the place where they are staying.
- A minimum of CHF 400,000 for direct federal taxation. The cantons are likewise obliged to establish a minimum assessment basis.

The assessment basis should be agreed individually with the tax authority responsible through a tax ruling. The tax is calculated on the basis of ordinary tax rates.

Control calculation
The determining income and assets in the control calculation are the total income received from Swiss sources during the tax period and all property located in Switzerland owned by the taxpayer and by the persons they represent in tax matters, at their value on December 31.
- Income and wealth from immovable property located in Switzerland, movable property located in Switzerland, and movable capital assets invested in Switzerland, including income from mortgage-backed receivables.
- Income from copyrights, patents, and similar rights realized in Switzerland.
- Pensions derived from Swiss sources.

- Income and assets from foreign sources: Income for which the taxpayer claims full or partial relief from foreign taxes owing to a double-taxation agreement concluded by Switzerland.

Only the following deductions may be made from these gross amounts:
- The costs of maintaining or managing immovable property located in Switzerland and the costs of the normal management of securities and assets, the income of which is taxed.
- The deduction of capital debts and debit interest is excluded.

If the assessment basis of the control calculation is higher than the living maintenance costs calculated according to the above principles, the values of the former should be used.

Modified forfait taxation
In principle, individuals who pay forfait tax rather than ordinary income tax have no entitlement to tax credits of non-recoverable foreign withholding taxes. One exception to this principle relates to the double-taxation agreements (DTAs) with Austria, Belgium, Canada, Germany, Italy, Norway and the United States. Natural persons who benefit from forfait taxation but who pay the full tax on all income from these contracting states at the same rate as on their overall income can claim tax credits for the income originating in these states.

What else must be taken into account?
- The cantons are obliged to take the taxpayer's wealth situation into account as part of forfait taxation.
- In principle, there is no right to tax credits of non-recoverable foreign withholding taxes pursuant to DTAs. Exception: Modified forfait taxation.
- If the taxpayer waives the right to tax credits despite the modified forfait taxation, net income can be declared.
- Forfait taxation has so far been abolished in the cantons of Appenzell Ausserrhoden, both Basel cantons, Schaffhausen and Zurich. A number of cantons have decided to tighten their forfait taxation regimes.

Transitional provisions between January 1, 2016 and December 31, 2020
Taxpayers who availed themselves of the forfait taxation option prior to January 1, 2016 have been able to benefit from the provisions of the old law for a maximum of five years. After December 31, 2020, the current legal provisions will also apply to these taxpayers.

Contact us
We would be happy to arrange a personal consultation. Please contact your advisor or schedule a personal consultation at:
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