

Tax Notes for Foreign Employees in Switzerland

There are some tax errors often made by foreign employees residing in Switzerland. Here is a simplified, general guideline to facilitate understanding of a complex issue. Each personal situation is unique and requires a full tax study and opinion.

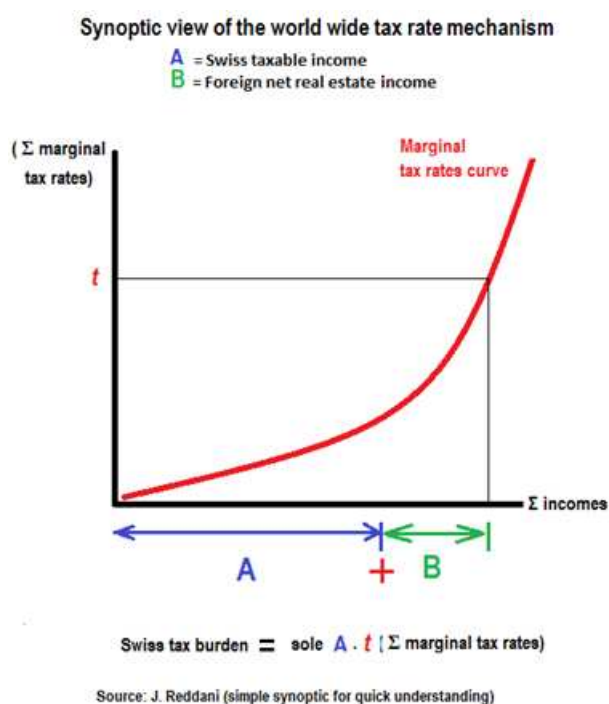
Taxes in Switzerland are complex both in determining taxable income and because income is subject to tax at three levels: federal, cantonal and communal (municipal). In addition, a wealth tax is imposed by the canton and the commune.

Paying tax at source does not mean that all tax obligations have been fulfilled and the tax payer is compliant with Swiss law. This common misconception can lead to potential troubles with tax authorities.

B-Permit Holders and Tax

Foreigners coming to live and work in Switzerland normally receive a B-permit on arrival. The B-permit is generally valid for five years (for EU nationals) after which the individual may qualify for a C-permit.

All B-permit holders are taxed at source. Employers withhold tax directly from salaries on the basis of the wage paid to the employee adjusted for family circumstances (such as marital status and children). Taxable income from all other sources is not included in the employer's withholding calculation.



The primary principle in Swiss tax law is that everyone must pay taxes according to their global economic capacities. In other words Swiss tax rates are based on worldwide income and wealth. The marginal tax rate curve (see diagram) illustrates this fundamental tax principle.

Swiss tax responsibilities

Any **salary earned** in the Swiss place of residence is taxable in Switzerland.

Foreign income (credit interest on bank accounts, bond coupons, share dividends and so on) may be taxed at source (withholding tax) by the local bank outside Switzerland. However this income must also be declared in Switzerland and is taxed in Switzerland.

To avoid double taxation, the foreign tax at source/withholding tax can, in general, be partially claimed back in the Swiss tax return and through specific forms relating to the CDI (Convention of Double Taxation).

Real estate follows the *in situ* rule; that is, it is taxable in the place where it is physically located. But it must also be declared in Switzerland. For example a person paying UK taxes on a house in the UK is still obligated to declare it in

Switzerland. A house in another country is taxable in that country, but must also be included in the Swiss tax calculation in order to reach the correct determination of a tax payer's Swiss marginal tax rates. If the property is not declared, the Swiss tax fine can be high - far greater than the tax burden.

Declaring Worldwide Income

Even if tax is paid at source, a resident tax payer in Switzerland must declare their worldwide income and wealth to the Swiss tax authorities if they meet certain conditions.

For example they have:

- **Wealth** above a set amount for a single person (rate varies depending on the canton of residence)
- **Income** above a set amount for a single person (rate varies depending on the canton of residence)
- **Real estate** owned in or outside of Switzerland

A tax payer who meets any of the above conditions, moves from being taxed at source to a "*sourcier mixte*" situation. In this case, the employer still withholds tax at source but at the end of the year the tax payer must complete a proper tax return as does any Swiss citizen or C-permit holder. The tax withheld at source is treated as a prepayment on the final tax burden that is calculated with the tax declaration and assessed by the authorities. The tax payer is left with a tax credit, or remaining tax to pay above the tax withheld at source.

Tax credit and tax reduction can be achieved with accurate and judicious tax advice on Swiss tax law and the opportunities regarding life insurance, pension funds buyback, real estate mortgage debts, income and deductible house maintenance (globally and in Switzerland).



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