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Important Obligations for Expatriates Taxed at Source in Switzerland

Jamal Reddani of Fiduciaire Reddani SA discusses the requirement to declare your worldwide assets in Switzerland, deadlines for self-assessment, and how the tax-at-source system works for expatriates...

When expatriates arrive to live in Switzerland because of a new job, they usually receive a B or L residency permit, at least in the case of EU citizens. Under Swiss tax law, B and L permit holders are normally taxed at source.

The obligation to withhold tax at source belongs to the employer who, for privacy reasons, cannot know about any of your assets or other sources of income. Thus, the employer bases their tax calculations on your wages from working for them, makes provisions for child allowances (if any), and adjusts the amount according to different tables, depending on your situation: married, number of children, etcetera. Your employer ignores your other potential sources of income.

The Worldwide Tax Principle

The Swiss tax system is based on the fundamental principle of a worldwide tax basis. This means that tax is paid according to one global economic capacity, regardless of both the source of the income and the localisation of the wealth. All the elements of your worldwide wealth and income are taken into account under Swiss law to determine the applicable tax rate.

- For further details on this, see the Information Page "**Tax Notes for Foreign Employees in Switzerland**"

Tax at Source and International Sources of Income and Wealth

Unfortunately, expatriates living in Switzerland usually overlook a crucial obligation that hides in a discreet Swiss tax article: the obligation to declare the other taxable elements of wealth and income beyond your Swiss salary. After all, who would spontaneously, after landing in another country with a different language, look for a sentence lost in an abstruse tax code? Unfortunately, whether we accept it or not, "ignorance is no defence against the law". Unless you have no taxable assets, your sole income is the Swiss salary already taxed at source, and your income does not exceed a certain level set by each canton, you must follow the obligation to declare your worldwide assets and ensure that you are in compliance with the law.

Deadlines for Declaration

Since it's your obligation to declare the taxable wealth and other incomes unconnected to your Swiss employment, you have to ensure that you are fulfilling your obligation on time. Some cantons may send you a form to determine whether you have to file a normal tax return or a simplified one, but some do not. It is, therefore, your responsibility to start the process on time. In Geneva, for example, the deadline is linked to the date of the tax-at-source certificate given by the employer. By contrast, until mid-2012, the canton of Vaud sometimes accepted late declarations, even though the 31st of March was officially the deadline to announce taxable wealth and other incomes from the previous year. All good things come to an end. Any declaration submitted after the deadline of the 31st of March will be refused, with countless potential consequences.

When the deadline is reached, the tax at source assessment enters into force. That means that the only the tax at source which your employer withheld and paid to the tax authorities is legally considered.

The declaration qualifies you as a "*sourcier mixte*". This means that you have to file a normal tax return, which will consider all of your other incomes and assets as well as your taxed-at-source salary. The tax paid at source is deducted from the new tax burden. The result may be either additional tax, or overpaid tax that is reimbursed to you.

An Example of Potential Dangers

One (unfortunately common) example of the consequences of non-declaration is explored below:

- A UK manager moved to Switzerland for a new position with a net salary of CHF 250K
- He received a B permit, works in Geneva and lives in Vaud
- He is divorced and pays an alimony of CHF 27K to his former spouse in the UK, who looks after his 3 children
- He performed substantial maintenance to the value of CHF 45K on his UK house, bought at CHF 800K with a mortgage of CHF 550K at 4 percent, and rented it out at CHF 24K when he had to leave the country
- His bank accounts and shares are worth CHF 350K with a return on investment of CHF 5.25K
- When he opened his bank account in Switzerland, he was advised to subscribe to a third pillar pension of CHF 6.682K to save on tax
- Later during the year, he was invited to do some buy back with his pension fund of CHF 30K

The consequences of not meeting the deadline or neglecting the compulsory obligation are numerous. Had he missed the deadline, our manager would not have been able to declare:

- His UK net real estate income (rental minus cost) which affects his Swiss tax rates
- His bank accounts and shares, which had to be declared and taxed in Switzerland

But he also missed the substantial tax deductions for:

- The alimony paid to his former wife
- Third pillar insurance

- The buyback performed with his pension fund

The tax at source withheld from his salary by his employer would be CHF 79,100. The real tax he would be obliged to pay if the declaration had been done on time would be CHF 42,800. In the scenario in which he did not declare his worldwide assets and income, the unnecessarily overpaid tax would have been to the value of CHF 36,300.

Last but not least, even if the tax authorities had refused to consider the case because of a late or absent declaration, they would still, in theory, have the right to begin administrative action for tax avoidance.

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