



Switzerland

Introduction

An individual's liability to taxation in Switzerland is based on the concept of residence. An individual resident in Switzerland is taxed on the individual's worldwide income and wealth. Nonresidents are subject to taxation on certain categories of income from Swiss sources.

Switzerland has 26 cantons, and the tax rates, as well as tax law and practice, can vary from canton to canton.

Contact

Peter Burnham

KPMG in Switzerland

Partner

T: +41 44 249 2226

E: pburnham@kpmg.com

Key messages

Extended business travelers could be taxed on employment income relating to their Swiss workdays unless exempt by treaty.

Income tax

Liability for income tax

A person's liability for Swiss tax is determined by residence status.

Residence is defined as the place where a person stays with the intention of settling permanently and which, therefore, provides the center of personal and business interests.

A person also will be considered resident if remains in Switzerland for a continuous period of more than 90 days (with no gainful activity) or 30 days (with gainful activity, i.e., employment) in a calendar year. In practice, however, it is likely that most business travelers to Switzerland will be considered as nonresidents or treaty exempt.

For nonresidents, the income relating to Swiss duties, in most cases, is subject to a final withholding tax (except where an exemption from withholding tax was filed). The withholding tax is calculated monthly based on the gross monthly salary (including any benefits), with the actual rate dependent on level of income, marital status, number of dependants, canton, and if church tax is applicable. Each of Switzerland's 26 cantons has a different withholding tax tariff. For business travelers to Switzerland, the withholding tax tariff from the canton where they are registered or the canton where the employer is based is normally applicable.

Individuals living in countries bordering Switzerland may be taxed differently under special tax treaty provisions applicable to cross-border workers. Each situation would have to be looked at individually.

Tax trigger points

Technically, there is no threshold/minimum number of days that exempts a nonresident employee from Swiss withholding tax. Each case needs to be considered separately based on facts and circumstances.

To the extent that the individual qualifies for relief in terms of the dependent personal services article of the applicable double tax treaty, there will be no tax liability. The treaty exemption will most likely not apply if the Swiss entity is the individual's economic/effective employer.

Types of taxable income

For extended business travelers, the types of income that are generally taxed are employment income, as well as any other benefits paid to or on behalf of the individual. In some cases, however, the travel costs to Switzerland, as well as Swiss accommodation costs, can be exempt from Swiss taxation.

Tax rates

Tax rates vary from canton to canton but are progressive and depend on individual personal circumstances (such as marital status, number of dependants, church membership).

Social security

Liability for social security

Extended business travelers who are EU/EEA citizens employed by an employer located in an EU/EEA member state, in most cases, can remain subject to their home countries' social security schemes. This exemption is based on the EU/EEA/Swiss rules with respect to posting and/or simultaneous employment.

Other extended business travelers, in some cases, may stay in their home countries' social security systems and obtain exemptions from paying Swiss social security based on the provisions of social security treaties signed between their home countries and Switzerland. Switzerland has concluded social security treaties with more than 30 countries.

If no continued home country social security coverage and no subsequent exemption from social security contributions are available, an extended business traveler could be subject to Swiss social security as set out below.

Individuals having a gainful activity in Switzerland are required to contribute to the mandatory old age and disability insurance scheme. Employers must also contribute. The contribution is 10.3 percent of total remuneration (unlimited), of which 5.15 percent is charged to the employee and 5.15 percent to the employer. Individuals also are subject to mandatory unemployment insurance. The contributions are 2.2 percent of remuneration up to an annual salary of 126,000 Swiss francs (CHF). In addition, there is a solidarity surcharge of 1.0 percent on income between CHF126,000 and CHF315,000.

Retirement and disability pensions are compulsory for individuals with annual earnings between CHF20,880 and CHF83,520. The employer's contributions must be at least equal to those of the employee. Rates vary according to age. Most pension plans give additional pension coverage in excess of these minimum requirements. Individuals also are subject to mandatory occupational and nonoccupational accident insurance premiums. Each individual has to obtain Swiss health insurance, which is not linked to the employer.

Compliance obligations

Employee compliance obligations

For residents: In most cantons, the tax returns are due by March 31 following the tax year-end, which is the calendar year. An extension can be filed to extend the deadline until June 30 and, in some cantons, an extension is available until November 30. Tax returns must be filed by residents only (mandatory joint filing). In case the individual is subject to withholding tax (no Swiss national or no C-Permit holder), the individual has only to file a return if the annualized gross income exceeds CHF120,000. (This is the figure for Canton Zurich, but limits can vary between cantons. Geneva, for example, has a limit of CHF500,000).

For persons below the threshold, there is, however, an option to file a voluntary withholding tax adjustment request (to claim special deductions or adjustment of the withholding tax tariff). This request has to be filed by March 31 following the tax year. (No extension is possible.)

Nonresidents normally do not have (nor are they allowed) to file a return and/or source tax adjustment if the income was subject to withholding tax.

Employer reporting and withholding requirements

Withholding tax on employment income is covered under the withholding tax (Quellensteuer) system. On a monthly or quarterly basis, the employer is obliged to report to the authorities the gross salary as well as the deducted withholding tax.

Other

Work permit/visa requirements

When the bilateral treaty between Switzerland and the EU came into force in 2002, the laws on work and residency permits changed considerably. There are now two distinct categories of foreigners living and working in Switzerland: EU citizens, who in many ways have similar rights to Swiss citizens, and non-EU citizens, for whom it is still difficult to obtain work and/or residency permits.

EU nationals from countries who have recently been admitted to the EU should seek advice from appropriate authorities as they may not have the same work and residency rights as those nationals from original EU countries.

Double taxation treaties

Switzerland has entered into double taxation treaties with more than 90 countries to prevent double taxation and allow cooperation between Switzerland and overseas tax authorities in enforcing their respective tax laws.

Permanent establishment implications

There is the potential that a permanent establishment could be created as a result of extended business travel, but this would be dependent on the type of services performed and the level of authority the employee has.

Indirect taxes

Switzerland levies value-added tax at a standard rate of 8 percent. Certain products are exempt from this tax (such as healthcare, social security, insurance, and export of goods); others are taxed at a reduced rate of 2.5 percent. Finally, any overnight stays at a hotel and other accommodation will be taxed at a rate of 3.8 percent.

Transfer pricing

With respect to transfer pricing, Switzerland has embraced the internationally and widely recognized arm's-length principle. Transfer pricing issues could arise if, for example, an employee provides a service for the benefit of a company in one jurisdiction while the respective costs are borne by an entity in a different jurisdiction. The possible consequences and remedies for such situations depend on the nature and complexity of the services performed.

Local data privacy requirements

Switzerland has data privacy laws.

Exchange control

Switzerland has no currency restrictions.

Nondeductible costs for extended business travelers

As the withholding tax is calculated on the gross salary, any other employee social security contributions/pension contributions, etc., will not be allowed as a deduction.

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