

Is Switzerland still attractive to foreigners?

Right for Residence (or Agreement on the free movements of persons), Lump-sum taxation, Banking secret - what is at the bottom of the latest headlines regarding Switzerland?

by Ueli Schnorf, owner of Wetag Consulting – Locarno, 29th of July 2009

Switzerland is arguably the world's oldest and most successful democracy, and regardless of what your opinion may be of it, there can be no denying the success that has been achieved by a small land locked, mostly mountainous country with no raw materials, no colonies and no agricultural land space. This developed over the centuries through individual fight for freedom and local control. The resistance to outside authority, has helped bring together the different regional and linguistic backgrounds. Switzerland's modern constitution of 1848, of a federalist approach is based on the idea that the state is organised so that matters are dealt with at the lowest possible level. The advantage being that decisions are made by those affected, but the disadvantage is that general changes are difficult to implement.

Despite this unique system of government and lack of resources, Switzerland has managed to become the richest country in the world within 200 years, with the highest quality of life and the happiest people (as annual worldwide surveys confirm). It is not surprising that most Swiss consider their countries' state institution as be superior to most other governments. This means they tend to disregard advice of how to improve their state institutions or criticisms from representatives of inferior systems.

Switzerland has moved from a country of emigrants to having the highest proportion of immigrants in the industrialised world (2008: 21.1%). Beginning in the 1830s, the favourable legal framework led to rapid industrial development, which in turn led to significant levels of immigration. Initially Germans, Italians or people from southern Europe, then later followed by people from Hungary and the Czech Republic. In the 1970s, there followed immigrants from Sri Lanka and in the 80s and early 90s from Ex-Yugoslavia. Currently most immigration is from Germany. Integration has occurred relatively quickly, in



most cases within one generation. Generally, ethnically closed off districts are not found, in contrast to neighbouring countries of France, Germany and England.

Considering the history of successful integration, it is understandable that Switzerland is reluctant to accept external advice (eg. From the EU) regarding the regulation of the relationship of different nationalities. Regardless, many Swiss claim to be afraid of being overrun by foreign influences, which they worry will lead to racial disharmony as has occurred in neighbouring countries. In fact Switzerland was 'overrun by foreigners' long ago and has remained peaceful and well functioning.

In 2002 an agreement was established with the EU on the free movement of persons which has been implemented on a stepped approach and since 2007, every EU citizen is guaranteed the right of permanent residence in Switzerland. Excluding the right to vote, EU citizens are treated equally to Swiss in most other areas of life. This is on the condition of having already found a job or that a job will be found within 6 months; have sufficient financial resources and being of good character. In the last few years, tens of thousands of Germans have moved to Switzerland in order to live and work. To have your main residence in Switzerland, gives you the right to unlimited purchase of property (but does not extend to the letting of property and property speculation/investment).

Non-EU members do not have an automatic right to permanent residence (PR). Every request for PR for is a long procedure, and is judged on a case-by-case basis and must be found to be 'in the interest of Switzerland'.

The 'extended freedom of movement' vote that took place in February 2009 referred to the question of whether all new EU member states or if only EU members as of 2002 should have the law applied as was originally implemented. Right-winged political parties were concerned that the more impoverished new EU members of Bulgaria and Romania would 'rush' to Switzerland to take advantage of our favourable social welfare system. The media used this situation internationally to accuse Switzerland of Xenophobia. Despite this, Swiss citizens voted in favour of extending the agreement to include all new EU member states. The canton of Ticino was the only canton to vote against proposal with a significant majority against. This may be because of Ticino's close proximity to Italy, where already heated debate occurs on the issue of Bulgarian and Romanian Gypsies. Regardless of the new agreement, regulations require all foreigners intending to purchase a vacation home, to

have permission, with the size of the property limited for the use of vacation in appropriate holiday areas.



Switzerland's low taxation system makes it very attractive in Europe. Both the fiscal proportion (part of tax revenues plus social security contributions of GDP) as well as the ratio of public spending (part of public expenditures of GDP) is the lowest in Europe. Moderate rates of income tax (marginal tax rate for most Cantons is less than 40% and kicks in at very high income only), wealth tax is relatively low (about 0.5% per year) and capital gains tax and inheritance tax have been abolished in most regions. Taxes are divided between federal tax (about 20%), cantonal tax (about 40%) and communal tax (about 40%). Cantons and communities compete to have the lowest tax rates, resulting in tax being only half in 'tax conscious' regions. Swiss citizens and foreigners who move to Switzerland benefit from this competition if they choose to live in a region with lower tax rates.

Wealthy foreigners, who choose Switzerland for their main residence and do not perform any working activity here, are authorised to apply for a cantonal regulated lump-sum tax. The lump sum tax replaces all regular taxes and consists of a single payment per year. It is calculated on an individual basis (a minimum amount exists), using the applicant's age and estimated cost of living. Latter it is calculated by considering the tax value of the purchased or rented property. If living circumstances do not change, the tax remains the same for each year. In Ticino, the annual fixed amount of tax starts at approx. 35,000 Swiss Francs (relevant to a hypothetical income of 155,000 Swiss Francs) and could reach at least 600,000 Swiss Francs (for an income of 1.5million CHF). Other cantons, like Vaud, have even lower nominal tax rates of 25,000 CHF. Currently in Switzerland approx. 4,300 people take advantage of the lump sum tax living mostly in Vaud (1,100); Valais (860); Geneva (600); Ticino (523) and the Grisons (250). The cumulative tax payment of foreigners is low (400 million CHF), being less than 1% of the overall tax revenue.

A referendum was held in Zurich on the 8 February 2009 and the public voted to abandon the lump-sum tax system for Canton Zurich. Since Zurich is by far Switzerland's largest and economically strongest Canton, but has very few foreigners, and therefore

negligible lump sum tax, there is very little financial effect felt because foreigners would move to another canton or country and take their tax payments with them. However other traditional lump sum tax cantons are rather more concerned to keep their wealthy foreigners.



Switzerland's banking secrecy laws recently made headlines around the world. Swiss and foreign banks alike that operate in Switzerland have a legal obligation to keep customer data confidential (a law introduced in 1934 to protect German savings from Nazi prosecutions). This law does not however apply to criminals and no protection is offered. Swiss legislation distinguishes between 'tax evasion' where a fine is issued if tax declarations are not made or only partly completed and 'tax fraud' (criminal activities identical to forgery or false declarations). In the first instance, banks were not obligated to render legal assistance, whereas they always had and still have the obligation for 'duty of disclosure' and legal assistance in the latter case. This legislation is appropriate for Switzerland and relevant research has consistently shown that Swiss citizens are better at paying their taxes, than citizens of other European countries. The reasons for this being that citizens are content with how their country is being governed and that tax revenue is used appropriately. Of course, foreigners benefit as well when investing their money in Switzerland. Recent numbers of the Swiss Bankers' Association in 2009 indicate that 56.5% of private wealth managed in Switzerland, comes from abroad and 43.5% from within Switzerland. Revenue earned from wealth management corresponds with approximately one third of banks total revenue, while two thirds is being generated by other banking activities. Banking contributes approximately 11% to Swiss GDP.

Governments of the US and some EU countries have been concerned that a considerable amount of their citizens' are hiding money to avoid paying domestic tax in their home countries. Consequently, considerable pressure has been applied to Switzerland in an effort to force changes to legislation. On the 13 March 2009, the Swiss Federal Council announced that banks will be obliged to provide legal assistance even in the case of tax evasion. Similar events have been reported from other like offshore banking countries such as Singapore, Luxembourg and Liechtenstein. The Swiss Federal Council did not manage well

the communication of this to either its citizens nor to the international public, and felt the backlash of public anger for being forced to give in to foreign demands. The global media reported the 'fall of Swiss banking secret'. The media however did not report the facts correctly, that being that banks must continue to keep customer data confidential and that if not being prosecuted, no information will be given to a third party. People investing their money in Switzerland, will not see many changes.



There are two ways to beat the attraction of a neighbouring country, you either trip them up or you choose to make your own country more attractive. As long as the other countries continue to ignore the latter – **Let's go to Switzerland!**