

NEWSLETTER No. 8 – Q3 2014

Gift Tax, Wealth Tax, Property Tax and Dog Tax – Cantonal Taxes All

As noted by the Swiss Federal Tax Administration, “The jurisdiction to levy customs duties was passed over from the cantons to the Confederation in 1848, the year the Swiss federal state was founded. The authority to levy income and net wealth taxes remained however with the cantons. Until the First World War, the revenue derived from customs duties was sufficient to cover the expenses of the Confederation. Later on, as the federal government needed additional financial means, direct taxes, hitherto the domain of the cantons, were levied by the Confederation. In the beginning, the net wealth tax used to be the main source of revenue for the cantons. Taxation of earned income was a complementary source of funding. Since then, the emphasis has shifted towards a comprehensive income tax with a supplementary wealth tax.”

As a result, many taxes are still levied at cantonal level only. These include inheritance and gift tax (similar to estate duty), wealth tax, and property tax and yes, even dog tax. The purpose of this newsletter is to focus on gift tax and wealth tax, a subsequent newsletter will focus on property taxes.

INHERITANCE AND GIFT TAX

In all cantons, the transfer of wealth by inheritance to the spouse is tax free and in most cantons, the same applies for direct offspring and sometimes even for direct antecedents. The right to tax lies with the canton of the deceased’s last domicile, with the exception of immovable property, which is taxed at the place where it is situated. The recipients of the estate are liable for the tax. Transfers of wealth among living persons are subject to the gift tax. As a general rule, the definition of «gift» according to Swiss civil law is applied. Gift tax on movable property is levied by the canton where the donor is domiciled at the time of the donation. Gift tax on immovable property is levied by the canton where the property is located. Inheritance and gift tax rates are mostly progressive and are usually based on the degree of relationship between the deceased or donor and the beneficiary and/or the amount received by the beneficiary. In all cantons, spouses are exempt from inheritance and gift taxes; most cantons also exempt direct descendants. To take a practical example, a taxpayer resident in Geneva who gifts CHF 1 million to his wife would pay no tax but to a stranger would pay over 50%.

WEALTH TAX

In general, a taxpayer in a canton has to declare his total property which is subject to the wealth tax. Total property comprises all of the taxpayer's assets and rights that have a cash value. Taxable property includes in particular Swiss real estate, movable capital assets, redeemable life and annuity insurances and business assets. The tax base for the wealth tax is net wealth, that is, gross wealth reduced by the sum of the tax-payer’s documented debt. The value of net wealth for assessment purposes is based on a given day, in Geneva on 31 December each year; the rates are generally progressive and vary across the different cantons from approximately 0.15% to 0.95%. To take a practical example, a taxpayer resident in Geneva with net assets (after deductions) of CHF 1 million would pay wealth tax of approximately CHF 6,000 per annum.

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