

## NEWSLETTER No. 9 – Q4 2014

### Property Capital Gains Tax

For those familiar with the United Kingdom tax system, capital gains on financial assets are normally taxed whereas capital gains on personal property assets are, in general, untaxed. Switzerland is exactly the opposite – there are taxes on capital gains on the disposal of personal property but in general there are not taxes on the capital gains on the disposal of financial assets. To add some complexity, capital gains tax is levied by individual cantonal authorities and thus the tax varies from canton to canton depending on where the property is situated. In this newsletter we shall use Geneva and its tax rates as examples to demonstrate the capital gains tax rates involved in one particular canton.

#### BUYING PROPERTY

Although property can be purchased through a company, most people would buy a property in Switzerland in their own name. Assuming that a property is purchased in Geneva canton for an amount of CHF 1 million, the purchaser would also pay stamp duty of 3% as well as land register fees of 0.25% as well as notary fees. All these costs, together with any capital improvements spent after the date of acquisition, form the cost base when calculating the gain on sale of a property. In your annual tax declaration, the amount of any capital improvements should be noted to ensure they are correctly taken into account when subsequently selling the property.

During the period of ownership, the owner has to pay an annual tax of 0.1% of the acquisition price of the property. This amount is included in the annual tax assessment but unlike stamp duty, does not form part of the acquisition cost of the property.

#### SELLING PROPERTY

When selling a property the net proceeds from the sale (after deducting sales commissions to brokers etc.) are used as the base from which are deducted the acquisition costs. Assuming that the above property was sold for CHF 1.3 million net of expenses this would be the figure used to deduct the acquisition costs. If we assume that the total acquisition costs including capital improvements amounted to CHF 1.1 million, the capital gain would be CHF 200,000.

The tax rate applied to this capital gain would depend upon the amount of time that the property has been owned. The capital gains tax rates on property in Geneva vary between 50% if the property is owned for less than two years to 0% if the property has been owned over 25 years (the equivalent rates in the Canton of Vaud are 30% and 7% respectively). Thus in our example, if the property had been owned for one year, the tax rate to be applied would be 50% and the tax bill would be CHF 100,000. If owned for over 10 years the tax rate drops to 10% and the tax bill would be CHF 10,000.

In the event that the total proceeds of selling the property are reinvested in another property in Switzerland within a period of two years, there is rollover relief on the capital gain into the new property. Indeed the rolled over capital gain continues to benefit from additional relief during the ownership of the second property which can reduce or even eliminate the capital gains tax on the gain through reduction of the capital gains tax rate.

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