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N E W S L E T T E R

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The ten most serious disadvantages of the Swiss levy system

Dear Ladies and Gentlemen,

Switzerland is still a reasonably attractive location from a tax point of view. However, in the area of middle and higher incomes (third quartile) some levy disadvantages turn up which, in extreme situations, could lead to a tax burden of around 50%. To start with, social security contributions will be analysed, and where they are no longer social security contributions because they do not entail services in return, this means these amounts are due without preconditions and thus constitute a pure tax. Following that, specific taxation types and taxation factors are assessed which, in comparison with practices abroad, are exceptional.

1. Unlimited OASI contributions
The maximum pensionable income is CHF 84,600. On a salary of CHF 250,000 the OASI contribution is CHF 25’625. The insurance premium for an annuity benefit is CHF 8,671. The remaining contribution of CHF 16,953 has no benefit, nor a personal advantage. Thus, it constitutes a pure tax. The tax burden is 6.225% of the income, and this in addition to the income tax for the federal government and for the canton, which amounts to around 30%. Thus, we have a total of around 37% in levies.

The OASI contributions can, without further ado, be regarded as a prosperity tax.

2. UI contributions not entitled to benefit
The insurance forming ceiling for unemployment insurance (UI) is set at CHF 148,200.
The contribution rate for UI is 2.20% with an income of up to CHF 148,200. For incomes above CHF 148,200 the contribution rate is 1.0%. Thus, an income of CHF 250,000 means a UI contribution of CHF 4,278 (CHF 3,260 + CHF 1,018).

Various bodies and organisations are not entitled to draw unemployment benefits as de facto they are regarded as self-employed. However, this happens only with regard to any possible unemployment benefit. Nevertheless, the UI premium is due.

Thus, the insurance premium for an annuity benefit is CHF 0. The share of the tax can be up to 2.2%, and that on top of income tax for federal government and cantons, amounting to about 30%. Including OASI this will be a total of around 40% in levies!

The UI contributions can therefore also be regarded as a prosperity tax.

3. Wealth tax, a rarity in this world
Many countries have taxes on real estate. However, a general tax on personal wealth is quite rare.

No taxes on personal wealth are imposed in the following countries: Germany, Belgium, Bulgaria, Denmark, Estonia, Finland, United Kingdom, Ireland, Italy, Croatia, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Austria, Romania, Spain, Sweden, Poland, Slovakia, Slovenia, Czech Republic, Hungary, Cyprus, Monaco, Australia, Canada and the USA.

These countries do impose tax on wealth: France, Norway, Switzerland, Greece, Japan and Turkey. To some extent certain assets are exempt.

In Switzerland, wealth tax is progressive and may reach one percent. The general wealth tax also leads to a check on income, something which would be quite unusual in other countries. The equation goes as follows: taxable assets of the previous year plus taxable income minus general cost of living equals the new status of wealth. Every year, this equation is checked by each and every tax official, and may lead to a tax inspection that is not applied in the vast majority of countries. Those who are resident here happen to be subject to the most stringent tax inspection in the world.

4. 50% tax burden
Most of the European nations have a limit for social security levies at around 60,000 to 70,000 Euro. Although social security contributions are higher on a percentage basis than in Switzerland, they are limited. If, in comparison with other countries, the unlimited Swiss social security contributions and the wealth tax are added to income tax, since these are levied against income, then the burden of levies reaches 45-50% of the income. Thus, for the well-off with a higher income, Switzerland is one of the most expensive countries in the world for taxes.

5. Hypothetical income for real estate property
The much-discussed rental value (on owner-occupied property) is an additional burden for owners of real estate. In other countries, such taxation would be unusual, and it would be possible, without any problem, to dispense with it. Although mortgage rates can be deducted from income, the deduction is limited.

6. Marriage penalty
For married couples with double incomes the progressive organisation of taxes leads to an expensive and progressive tax burden. Married couples may be entitled to deduct contributions from their income, and there is a special tax tariff for married couples. Nevertheless, the tax disadvantage remains.

Most countries either tax each spouse separately (individual taxation), or they grant married couples a choice.

7. Unfit tax justice
The odds in tax proceedings are 10/1 against the taxpayer.

During the tax assessment procedure, the potential success is as follows:

- Assessment based on tax declaration: 95% chance of approval in favour of the taxpayer

It is the exact opposite in appeal procedures:

- Objections: 5-10% chance of an approval
- Tax Commission: 15-20% chance of an approval
- Court of Appeal: 5-10% chance of an approval
- Federal Supreme Court: 10% chance of an approval

In 2015 the Federal Supreme Court dealt with 7,853 complaints. Fifty years ago, it was 1,732 complaints, with the same number of judges. Whereas previously the quota for dismissals was 23%, it was 38% in 2015. It seems that the Federal Supreme Court is not doing its duty as a court, by reducing the volume of cases via a massive increase of its quota of dismissals, and this at the expense of proper judicial activities. Thus, one must ask whether the Federal Supreme Court exists for the citizen or the state.

If over 90% of all legal remedies are rejected, then there will is clearly serious judicial ineffectiveness.

8. No group tax law
Switzerland does not have any group tax law. Each legal entity is assessed separately. An entrepreneur who owns three companies and generates a profit of CHF 100,000 in one company and losses of CHF 50,000 in each of the other two companies does not generate any profit consolidated, but still has to pay a tax on the profit of CHF 100,000. Other countries do have a group tax law, and the companies are taxed together as one entity. Based on such a starting position, the entrepreneur would not be paying any tax on profit in countries which permit tax grouping.

9. Capital tax for legal entities
It is not enough that we, as private persons, have to pay wealth tax for both our assets and the stock corporation that we own. No, even the corporations themselves are obliged to pay a capital tax on their capital. The Federal Government has recognised this double taxation and consequently abolished the capital tax. However, the cantons, unfortunately, have not taken this step, yet.

10. Prohibitive taxation on profits made on real estate
Purchase and sale of real estate property are particularly cumbersome from a tax point of view. In particular, short-term profits generated within five years via capital gains through selling real estate are taxed at up to 60%. Those who are self-employed will need to add 10% OASI, creating a levy burden of 70%.

If in one canton a profit CHF 100,000 is generated, and in another canton a loss of CHF 100,000, then levies of up to CHF 70,000 are still due, even though no overall profit has been generated. Certain loss offsets are possible, but only up to a certain limit. In the meantime, loss off-setting usually does not exist, as generally loss carried forward on taxes on property is not granted. Consequently, in certain cities attractive projects for the conversion of real estate into condominiums have not been realised.

Concluding remark
In other European countries, the taxpayer is neither significantly better or worse off than in Switzerland. The Swiss Confederation certainly offers certain tax advantages; however, overall the Swiss tax system is anything but attractive for middle or upper earners, and taxation constitutes the largest outgoing of the normal household budget. Unfortunately, our political representatives have not succeeded in explaining the truth about taxes. Switzerland is still regarded, in my opinion wrongfully, as a tax paradise by foreign countries.

Kind regards
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