



The purchase of real estate	
in Switzerland	2
Restrictions for the acquisition of real estate in Switzerland	4
Tax implications of taking up residency and inheritance tax	5
Purchase of holiday home by non-residents	6
Purchase of commercial property	7
Financing and structuring of purchase of real estate	8
Procedure for the purchase of real estate in Switzerland	9
Buying property in Switzerland	10
Contact	12

THE PURCHASE OF REAL ESTATE IN SWITZERLAND

Clients consider buying real estate in Switzerland for numerous reasons: lifestyle, quality of life, holiday purposes, a permanent home, education, relocation for business reasons, investment and security.

This document has been compiled as a guide for potential purchasers of property in Switzerland. It does not seek to provide or replace legal advice which you should obtain, nor is it intended to have any contractual effect.



All of the various reasons for the purchase of real estate have very different consequences, not only from a tax and legal point of view, but also regarding succession, financial structuring and asset allocation. In addition, the costs for the acquisition, the holding and the sale are different depending on each specific case.

The political, legal and economic stability of Switzerland as well as the stable Swiss Franc (CHF), are the main reasons for a strong and long term investment in Swiss property. This is supported by the very high quality of life that Switzerland has to offer with low crime rates, outstanding construction, superior education and excellent medical facilities.

The procedure to acquire, hold and sell real estate and its taxation are primarily regulated by cantonal and communal laws.

The following information, prepared for us by Transforma Consulting is a general introduction to this complicated legal system. In practice, each individual transaction must be analysed according to local laws and regulations and expert advice must be sought.



2. RESTRICTIONS FOR THE ACQUISITION OF REAL ESTATE IN SWITZERLAND

According to the federal law regarding the acquisition of real estate by persons abroad (also referred to as 'Lex Koller'), the purchase of residential real estate is restricted in Switzerland for foreign citizens. Based on the bilateral agreements between the EU and Switzerland, Swiss law facilitates the purchase of residential real estate for EU citizens. In a nutshell, real estate can be purchased under the following conditions:

Prohibited	Residential real estate purchase outside the designated holiday zones, by non-Swiss citizen without residence
Quota system	Holiday home purchase by person without residence permit
No restrictions	Residential real estate purchase by EU/EFTA citizen with residence permit (permits B and C)
One property as principal residence	Residential real estate purchase by non-EU citizen with residence (permit B)
No restrictions	Residential real estate purchase by non-EU-citizen with permanent residence permit (permit C)
No restrictions	Commercial real estate

3. TAX **IMPLICATIONS** OF TAKING UP **RESIDENCY AND INHERITANCE TAX**

3.1 Difference between EU and non-EU citizenship for the residence permit

As mentioned in part 2 of this guide, there are no restrictions for the purchase of residential real estate in Switzerland by EU citizens (permits B or C). Non-EU citizens need to wait for a permanent residence status (permit C) to purchase residential real estate other than their principal residence.

3.2 Purchase and sale of real estate as a resident person

With the exception of Zürich and Schwyz, all cantons levy a transfer tax on the purchase price or the tax value of the property. In most cantons the purchaser is liable for the transfer tax, whereas in some cantons 50% tax is paid by both parties or by one party according to the purchase contract. The transfer tax rate is calculated differently in each canton and varies in general between approximately 0.5% and 3%.

In addition, most cantons levy a land register fee of a few tenths of a per cent, reaching 1% in exceptional cases. In some cantons, the notary charges for his services according to the time spent, and in others, fees are based on a percentage of a few tenths of a per cent of the purchase price.

Traditionally, all real estate agency fees are paid by the seller unless agreed in advance or if a buyer signs a search mandate to provide a bespoke search service.

3.3 Tax implications of taking up residency

In general, one of the consequences of a permit B is that the person is considered to be a tax resident in Switzerland according to Swiss laws.

According to Swiss tax law, worldwide income and worldwide wealth are taxable in Switzerland and have to be declared. As taxes are levied on a federal, cantonal and communal level, the tax rates vary in each commune and are progressive.



The lowest maximum income tax rates are at approximately 20%, the highest at around 42%. In addition to the worldwide income, a deemed rental value of the Swiss real estate will be taxed as income in Switzerland. On the other hand, maintenance costs and mortgage interests are fully deductible from the taxable income.

Worldwide movable assets and real estate in Switzerland are subject to cantonal and communal wealth taxes. Wealth tax is levied on net assets, consequently mortgages and other loans are deducted from the tax value of assets. Net assets are taxed at progressive rates which reach a maximum between approximately 0.1%-1% depending on the cantonal and communal tax rates.

3.4 Lump sum

For non-Swiss citizens without any gainful activity in Switzerland, a large number of cantons provide for a taxation according to the rental value (typically multiplying the annual rental value by 7) of the Swiss property as well as the living costs and does not consider a client's worldwide income. Furthermore, tax authorities require a minimum tax burden of at least CHF 120,000 to grant lump sum taxation in the case of real estate with a relatively low tax value. This so called lump sum taxation

(Pauschalbesteuerung, forfait fiscal, tassazione globale) has been confirmed by initiatives on a federal level in 2014. The new minimal taxable income is CHF 400,000 for the federal taxes.

3.5 Succession for Swiss residents

As long as the Swiss residence is considered a principal residence by Swiss international tax and private law rules, succession will be subject to Swiss rules and taxes. Under Swiss inheritance law, forced heirship rules are applicable in relation to relatives. Swiss international private law allows foreigners to 'opt-out' if the last will and testaments falls under another governing law.

Gift and inheritance taxes are currently only levied on a cantonal and communal level. In most cantons there is no taxation between spouses as well as direct descendants. While some cantonal tax laws do not levy any gift and/or inheritance tax, others impose gift and inheritance taxes up to approximately 40% for non-related persons.

4. PURCHASE OF HOLIDAY HOME BY NON-RESIDENTS

4.1 Conditions

According to Lex Koller, the purchase of a holiday home is subject to the following conditions:

- Authorisation of the purchase by the relevant authorities
- Only within a tourist commune (Village)
- Within the annual permit quota for each canton/commune (Village)
- Personal use only. The owner may only rent the property periodically, not permanently
- Maximum of 200 sq m of official living area (up to 250 sq m can sometimes be approved)
- Maximum of 1,000 sq m of land (up to 1,500 sq m can sometimes be approved)

In the whole of Switzerland, only 1,500 holiday home purchase authorisations are granted to non-residents each year. The Swiss government allocates the regional quotas according to the number of tourism facilities and new developments as well as the proportion of land. The cantons Valais, Grisons, Berne, Ticino and Vaud receive an allocation between 140 and 330 authorisations each, the other cantons receive less than 100.

If the purchaser/vendor acquired the property as a 'person abroad' under the quota system, no new authorisation will be necessary and the purchase does not fall under the current quota.

4.2 Tax implications of the purchase

The tax consequences for the purchase and sale of a residential property are explained in point 3.2.

4.3 Tax implications of the holding of a holiday home

In Switzerland each property's value is estimated on a regular basis by the communal or cantonal authorities to determine a deemed rental value for the income tax and a tax value for the wealth tax.

As part of owning real estate in



Switzerland the owner becomes personally liable for income and wealth taxes in connection with the property. Usually, holiday homes are taxed based on the deemed rental value and tax value at the rates applicable to worldwide income and wealth. For the sake of simplicity, the tax authorities may agree to apply maximum tax rates without declaration of worldwide income and wealth. The tax rates are the same as those for Swiss tax residents (see point 3.3). Some cantons also impose a lump sum tax for holiday homes. In general, mortgage interest and maintenance costs are not deductible.

4.4 Tax implications of the sale

In some cantons a sale is only allowed after a minimum holding period (typically 5 years). The capital gain is taxed on a cantonal and in some cantons on a communal level as well. The tax rates are progressive depending on the amount of realised capital gain and

on the holding period, varying from approximately 10%-50%.

4.5 Succession of a holiday home

As authorisation to acquire real estate as a non-resident person is granted to the property and not the person, no new authorisation according to Lex Koller should be necessary for donation or inheritance, as long as the recipient is not already an owner of a holiday home in Switzerland.

The inheritance from a deceased person who was resident abroad does not generally fall under Swiss inheritance law. However, for the change of property ownership property Swiss laws may apply. In addition, real



estate in Switzerland is subject to the cantonal inheritance tax (subject to each individual's circumstances, please seek advice).

4.6 Restrictions for building new holiday homes since 1st January 2013

In March 2012, a referendum (so called Franz Weber initiative) was accepted by the Swiss population to limit the building of new holiday homes in tourist regions to a maximum of 20% of the constructible area of a commune.

Currently more than 500 tourist communes exceed this limit. As a consequence, no new building permits are being authorised unless for use by

permanent residents. This will potentially increase the value of holiday residences due to a future shortage of availability within the next 5 years.

5. PURCHASE OF COMMERCIAL **PROPERTY**

The purchase of commercial real estate is not subject to restrictions for foreigners, therefore no residence permit or purchase authorisation is required. The property may be used for the owner's business or can be rented out to generate revenue. Commercial real estate may also be purchased solely as an investment.

Major Touristic Areas in Switzerland

French Part

- Chateaux-d'Oex
- Crans Montana
- Les Diablerets
- Montreux/Vevey
- Neuchâtel
- Verbier
- Villars
- Veysonnaz

German Part

- Adelboden
- Andermatten
- Arosa
- Davos
- Engelberg
- Flims/Laax
- Grindelwald
- Gstaad
- **Klosters**
- Lenk
- Lenzerheide
- Leukerbad
- Meiringen
- Pontresina
- Samedan
- Scuol
- St. Moritz
- Weggis
- Wengen
- Zermatt
- Zuoz

Italian Part*

- Ascona
- Locarno
- Lugano
- Morcote

*Non-resident purchase available throughout this region. Please contact for any specific location.

The costs and procedures for the purchase of a commercial property are quite similar to those of residential real estate. An indirect investment through a Swiss or foreign company, trust or foundation structure is possible and in some cases recommendable for tax. legal or succession planning purposes.



6. FINANCING AND STRUCTURING OF PURCHASE OF REAL ESTATE

6.1 Assets or loan

Financing the acquisition by cash purchase is one possibility. Swiss banks usually grant mortgages of up to 80% of the property value based on their own valuation. For luxury real estate and holiday homes, mortgage financing up to 60% is usually available. The interest level in Switzerland is one of the lowest in Europe.

6.2 Purchase through a structure like a Swiss Company, a foreign entity or a Trust/Foundation

Holiday homes may only be acquired directly by the beneficial owner. A married couple is allowed to acquire only one holiday home in Switzerland.

A purchase of a holiday home by children is authorised, provided that they are over 18 years old and are using their own assets.

Residential real estate for a principal residence is usually purchased directly by the permit B or C holders. In certain cases, a Swiss or foreign entity can be used as legal owner of the property but the permit B or C holder has to be the main beneficial owner. Purchase through a trust or a foundation is possible as long as the beneficial owner of the structure is entitled to own real estate in Switzerland.

Commercial or residential real estate as investments are frequently acquired using a Swiss or a foreign legal entity. The choice of the structure and its iurisdiction depends mainly on the residence of the beneficial owner, the financing and the time frame of the investment.





7. PROCEDURE FOR THE PURCHASE OF REAL ESTATE IN SWITZERLAND

7.1 Steps of the purchase

As a first step a buyer should analyse whether a property can be purchased as a holiday home or only as a principal residence with a residence permit. (see section 4).

For the acquisition of a holiday home an application for the purchase needs to be filed with the relevant authorities. Depending if there is remaining quota in the current year, authorisation will be granted within a few months or, if not, possibly in the subsequent year.

The purchase of a property for taking up residence may only be finalised after issuance of the residence permit.

Should a holiday home authorisation or a residence permit be applied for, a letter of intent or a preliminary purchase agreement between the seller and the buyer can be entered into in a first step. Usually this kind of contract has a time restriction/limit and a reservation fee is payable to the seller.

7.2 Necessary documents for the purchase procedure

The notary will need the following documents to legalise the purchase contract:

- Authorisation to purchase a holiday home by the canton
- Resident permit for main residency
- Confirmation of a Swiss bank for the financing of the purchase
- Passport of the beneficial owner
- · Authorisation in favour of the notary to withhold transaction costs and taxes from the purchase price

7.3 Time frame

Depending on the necessary applications, the purchase may be finalised within 2-6 months. The ownership is only transferred with the registration of the new owner in the land register.

BUYING PROPERTY IN SWITZERLAND

Below are three examples for buying, owning and selling a property in Switzerland. In each canton and in some cantons in each commune, the costs are different. Furthermore, the taxes and costs can be different for residents and non-residents. Income and wealth taxes are progressive and different in each commune and canton. The three following examples are indicative examples to understand the different systems.

BUYER

PURCHASE IN GENEVA

Transaction costs

- Notary fee: total 0.2145%
- Transaction tax: 3%
- Land registration fee: 0.25%
- Other costs: CHF 1,000
- Registration or overtaking of mortgage: 1% of mortgage amount

PURCHASE IN ZUG

Transaction costs

- Notary fee: maximum CHF 3,300 (usually 50/50 by parties)
- Transaction fee: maximum of CHF 6,000
- Registration or overtaking of mortgage: maximum of CHF 4,500

PURCHASE IN TICINO

Transaction costs

- Notary fee: 2% (usually 50/50 by parties)
- Transaction tax: 1.1%
- Registration or overtaking of mortgage: maximum of 2%

OWNER

RESIDENT IN GENEVA

Annual costs

(Based on a property valued at CHF 10m)

- Deemed rental value of CHF 300,000 taxed with other income at a maximum tax rate of approximately 40%
- Tax value of CHF 10m taxed with other wealth at a maximum tax rate of approximately 1%

RESIDENT IN ZUG

Annual costs

(Based on a property valued at CHF 4m)

- Deemed rental value of CHF 144.000 (rental of CHF 12,000/month) taxed with other income at a maximum tax rate of approximately 21%
- Tax value of CHF 2.8m taxed with other wealth at a maximum tax rate of approximately 0.27%

HOLIDAY HOME IN TICINO

Annual costs

(Based on a property valued at CHF 3m)

- Deemed rental value of CHF 84.000 (rental of CHF 7,000/month) taxed at a maximum tax rate of approximately 34%
- Tax value of CHF 2.25m taxed at a maximum tax rate of approximately 0.6%

VENDOR

SALE IN GENEVA

Transaction costs

(Based on a CHF 10m purchase)

- Agency commission
- Capital gains tax: maximum of 50% (less than 2 years holding), 0% after 25 years of holding

SALE IN ZUG

Transaction costs

(Based on a CHF 4m purchase)

- Notary fee: maximum of CHF 3,300 (usually 50/50 by parties)
- Transaction tax: usually paid by the purchaser
- Capital gains tax: maximum of 60% (less than 1 year holding) and a minimum of 10% after 25 years of holding

SALE IN TICINO

Transaction costs

(Based on a CHF 3m purchase)

- Attorney fee: 2% (usually 50/50 by parties)
- Transaction tax: paid by purchaser
- Capital gains tax: maximum of 31% (up to 1 year holding), minimum of 5% after 20 years of holding



KNIGHT FRANK SWISS NETWORK OFFICES

Geneva

Zürich

Lugano

Nyon

Lausanne

Neuchâtel

Horgen

Chur (for St Moritz and Davos)

Villars

Verbier

Crans-Montana



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