Information Sheet

For official use, please refer to the German original

Lump-sum taxation in Obwalden

1. Legal Basis

According to article 16 and 16a of the Tax Law of the Canton of Obwalden [Tax Law], persons who do not hold Swiss citizenship and immigrate to Switzerland for the first time or after a minimum ten-year absence from the country may pay a lump-sum tax (or 'forfait' tax) in lieu of ordinary income and wealth tax. It is only available to individuals who abstain from any gainful activity in Switzerland. Lump-sum taxation is levied according to the annual living expenses incurred by the taxpayer and his or her dependents at home and abroad during the assessment period, taking into account certain minimum rates (para. 5).

2. General Information

Lump-sum taxation is based on the notion that it can be difficult in some cases to determine worldwide income or assets. Lump-sum taxation is a simplified tax system based on living expenses, which allows financially independent foreign nationals to settle in Switzerland. Individuals who meet the subjective requirements are entitled to apply for lump-sum taxation.

3. Subjective Requirements for Lump-Sum Taxation

The following requirements must be fulfilled:

a) The applicant is a individual person;

b) He or she does not hold Swiss citizenship. Dual citizens are deemed to be Swiss citizens;

c) He or she is taking up his or her tax domicile or tax residence in the Canton of Obwalden for the first time or after a minimum ten-year absence. The right to lump-sum taxation also applies to taxpayers moving here from another Canton if they were already taxed under a lump-sum regime in the other Canton or if they fulfill the legal requirements for lump-sum taxation;

d) He or she is not engaged in gainful activities in Switzerland. Acting as a board member is legally accepted, provided the directors' fees plus reimbursed expenses do not exceed an insignificant amount. A gainful activity carried out abroad is compatible with lump-sum taxation, provided the activity is effectively personally performed outside of Switzerland ('Place-of-Work Principle');

e) Spouses living in a legally and effectively intact marriage must comply with these requirements (i.e. no Swiss citizenship, no gainful activity in Switzerland).

4. Discontinuation of Lump-Sum Taxation

The right to lump-sum taxation expires when the taxpayer:

a) gains Swiss citizenship;

b) forgoes residency or a temporary stay in the Canton of Obwalden;

c) accepts employment (any gainful activity) in Switzerland.

5. Tax Base and Tax Rate

5.1 Income Tax

a) Minimum Tax Base

The tax, which replaces income tax, is based on the annual living expenses incurred by the taxpayer and his or her dependents at home and abroad during the assessment period. The highest of the following amounts will be deemed the minimum base:

- CHF 400,000.00;
- For taxpayers with their own household: seven times the annual rent or rental value of their home, pursuant to article 23, para. 1 of the Tax Law;
- For all other taxpayers: three times the annual cost for room and board at a boarding house, pursuant to article 5 of the Tax Law.

b) Control Calculation

The lump-sum taxation must be at least equal to the sum of income tax calculated at the ordinary tax rate on the gross amount of the following income:

- Income from immovable assets located in Switzerland;
- Income from movable assets in Switzerland, including secured claims;
- Income from copyrights, patents and similar rights realized in Switzerland;
- Retirement income and income from pensions from Swiss sources;
- Income for which the taxpayer is claiming partial or full relief from foreign taxes based on a dual-taxation agreement concluded by Switzerland.

5.2 Wealth Tax

At a minimum, the assets listed under Control Calculation (lit. b) are subject to lump-sum wealth taxation. Additionally, the assets must account for at least ten times the assessment base for lump-sum income taxation.

5.3 Tax Rate

The tax rate is calculated according to the ordinary tax rates both in the case of income tax as well as wealth tax. Social security deductions pursuant to art. 37 and art. 54 of the Tax Law are not granted.

Persons subject to lump-sum taxation who have not reached statutory retirement age are subject to ‘AHV’ (Old Age and Survivors’ Insurance) contributions for persons who are not gainfully employed. For further information, please contact the Obwalden Social Security Administration.

6. Flat-rate Tax Credits / Modified Lump-Sum Taxation

Taxpayers who are taxed under a lump-sum regime in lieu of ordinary income tax are generally not entitled to claim a flat-rate tax credit for the non-recoverable foreign withholding tax. Exceptions that provide for ‘modified lump-sum taxation’ exist under the double taxation treaties with Belgium, Germany, Italy, Canada, Norway, Austria, and the USA. Persons who benefit from lump-sum taxation but who pay full taxes on all revenues originating from these contracting states at the rate for their total income may claim the flat-rate tax credit for the revenues received from these states. The respective gross revenues, including the non-recoverable foreign withholding tax, must be declared.

7. Procedures and Information

Taxpayers claiming lump-sum taxation must submit an application to the Cantonal Tax Administration, St. Antonistrasse 4, 6060 Sarnen. A brief introduction to the applicant/s as well as a rough representation of their financial situation is to be filed along with the application. The head of the Department of Finance will make the final decision on the granting of lump-sum taxation.

For further information, contact the head of Tax Administration Rahel Rutz (phone: +41 41 666 62 66).

8. Tax Return

After lump-sum taxation has been granted, the taxpayers must file an annual tax return for lump-sum taxation for federal taxes. This tax return also applies for cantonal and municipal taxes.

9. Legal Force

The applicable law on lump-sum taxation became effective on January 1, 2016. This law applies to all applications submitted after January 1, 2016. Persons who were taxed under previous lump-sum tax laws will continue to be taxed under the previous rules until December 31, 2020.