

Cutting Edge

The Swiss government has bowed to international pressure and eased its bank secrecy rules, a move that some sceptics believe will make the country less competitive. But a low-tax environment and a high standard of living means that the Alpine nation continues to attract both wealthy individuals and companies.

By DAVID BAIN

On the northern shore of Lake Geneva a luxury residential block is being built. Located about an hour's drive from Geneva, Du Parc Kempinski boasts two and three-bedroom apartments on sale for between €4 million (\$6 million) and €25 million. It is not due for completion until 2011, but already two of the 24 apartments have been sold.

Up the road in Zurich, top end property consultants are marketing a luxury apartment block in which the most expensive units have an asking price of SFr25 million (\$24.3 million). These projects were conceived in happier economic times but their developers remain confident that they will sell.

Resilience

"Switzerland has proved to be the most resilient Western economy to the global property crash. Prime property prices have actually increased 10% every year for the past five years," says Nicholas Barnes, director of Dextra, a London-based independent property consultant.

The property markets in many parts of the world – including London and New York – have been ravaged by the worst financial crisis in living memory. But Switzerland has bucked the trend largely because wealthy foreigners have been moving to the landlocked European country in increasing numbers.

Last year, immigration to Switzerland from the European Union increased by 6.9% to 1.6 million after a 5.3% rise in 2007. Many of these immigrants are coming not from recent accession nations but from wealthy Western European countries. They are attracted by the quality of life in Switzerland, its political and economic stability, and, yes, its beneficial tax regime.

More than 31,000 Germans immigrated to Switzerland last year, an increase of 16% on the previous year. British immigration to the Alpine nation rose 11% and the number of French setting up home in Switzerland climbed by 10%.

Not all new immigrants are wealthy, but relocation experts say the number of rich individuals and families seeking Swiss residency is a growing proportion of total immigration figures.

"We are advising more wealthy Europeans about moving to Switzerland than ever before," says Robert Ferfecki, managing director of Henley & Partners, a residence and citizenship planning consultancy based in Zurich.

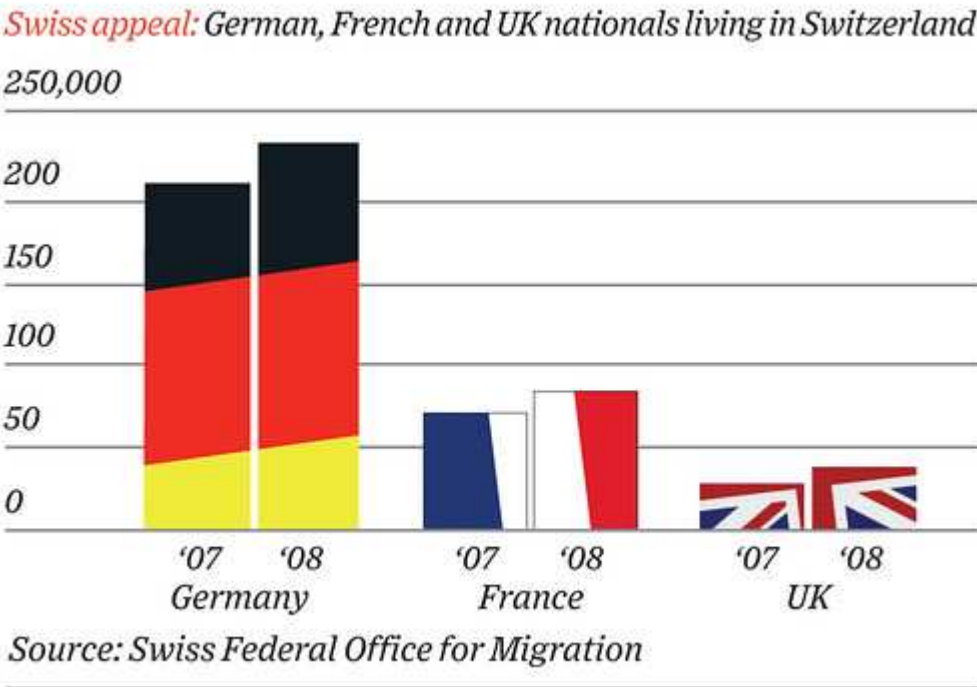
Henley & Partners is taking part in a residency and citizenship conference in Zurich this month, which is being sponsored by private bank Barclays Wealth. "Demand is so strong that we decided to host the conference," says Mr. Ferfecki.

High-profile individuals choosing to live in Switzerland, such as Formula One racing stars Lewis Hamilton and Michael Schumacher, and the founder of IKEA Ingvar Feodor Kamrad, make the headlines. But it is not only the famous who are setting up home in the Alpine nation. Of the 20 billionaires who live in Switzerland, 11 are German, Swedish or British, according to Forbes magazine.

Quality of life surveys are testament to Switzerland's appeal. Zurich and Geneva often rank in the top 10 of most popular cities in the world in which to live. Many expatriates living in Switzerland cite the country's excellent healthcare provision and educational standards as reasons for their move.

Jacques de Saussure, a managing partner at Pictet & Cie, a Swiss private bank, says stability underpins the country's appeal. "You can't underestimate the stability aspect of Switzerland – the country hasn't been directly affected by war or political and economic instability for hundreds of years," he says.

But although many foreigners living in Switzerland rarely admit it, the country's benign tax regime is probably the single most important factor in their decision to relocate.



Switzerland continues to offer very low taxes for the wealthy. The comparative appeal of Swiss taxes has started to increase as countries such as the U.K. and Germany begin taxing

the wealthy more and clamping down on tax avoidance schemes. Governments are trying to increase tax revenues to finance huge budget deficits.

The U.K., which is likely to notch up a record-breaking £175 billion (\$277 billion) budget deficit by the end of the year, has cut tax advantages for resident non-domiciled individuals and has introduced a 50% income tax rate for high earners. Germany is tracking down tax evaders with offshore accounts.

"As tax regimes become tougher for the wealthy in many parts of Europe, Switzerland takes on an added appeal among those most affected," says Mr. Ferfecki.

Under Switzerland's federal system of government, foreigners can negotiate individual tax agreements with cantons. Generally, they end up paying much less than they would in their home countries. Individuals pay a federal income tax rate of between 0% and 11.5%. They also pay cantonal and communal taxes. But all three income tax rates can often add up to only 20% of a high earner's income, according to Henley & Partners, although the country's federal tax system means that income tax rates can vary considerably between cantons.

Obwalden, a canton in the centre of Switzerland, has the lowest rate of income tax in the country – a flat rate of just 13%.

The cantons of Zurich and Geneva charge higher rates for big earners. Foreigners who live in Switzerland, but don't work there can negotiate lump-sum rates, which are substantially less than they would have to pay in income tax. Some lump-sum agreements can be as little as SFr24,000 a year, but the average is about SFr70,000 a year.

Nevertheless, Switzerland hasn't completely escaped rising taxes. Last February, Zurich voted, albeit by a majority of only 52% to 47%, to abolish the lump-sum taxation status for wealthy foreigners.

Those who voted for the move said they were concerned about the boom in the local residential property market, driven by the demand from wealthy foreigners, that was pricing locals out.

The high demand for prime property is causing concern throughout the country. Credit Suisse recently described prices for residential real estate in Geneva as "overheated."

As yet this is not preventing companies, and their employees, moving to the country. McDonald's, Nissan, Kraft Foods and Yahoo! have all moved their European headquarters to the country in the past three years. Switzerland is also becoming a more diverse financial centre and attracting not only wealth managers but also hedge funds and private equity houses.

Brevan Howard, the U.K.'s largest hedge fund, said this month that it planned to open an office in Switzerland, and Man Group, one of the world's largest publicly traded alternative managers, has a big operation in the country. Some are setting up their headquarters in Switzerland. Amplitude Capital, which manages about \$1 billion in hedge funds, moved to the Swiss canton of Zug from London last year.

"At the beginning of last year we asked ourselves: "Do we really want to live in London?" says Karsten Schroeder, Amplitude Capital's chief executive. "The answer was: "Probably not'. For us, Switzerland made a good combination of business and quality of life." WJ.