

Cutting

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, writes **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 immi-

grants 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%.

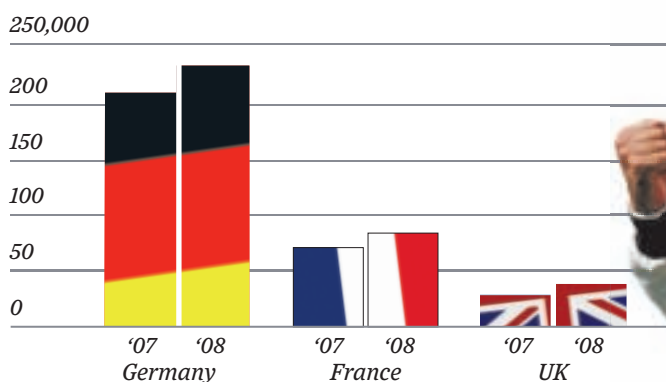
Not all new immigrants are wealthy, but relocation experts say the number of rich individuals and families seeking Swiss residency is a growing proportion of total immigration figures.

"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 Kamprad, 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.

Swiss appeal: German, French and UK nationals living in Switzerland



Source: Swiss Federal Office for Migration

"You can't underestimate the stability aspect of Switzerland"



High-end Swiss property development: Du Parc Kempinski in Vaud

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 health-care provision and educational standards as reasons for their move (see box on page 7).

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



Formula One ace, Lewis Hamilton, moved to Switzerland in 2007

edge



Pictet's Jacques de Saussure

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, foreign-

ers 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%.

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CONFIDENTIALITY

Banking secrecy is alive and well, claim supporters

When UBS, the Swiss bank, agreed in August to hand over some 4,450 names of U.S. account holders as part of a tax settlement between the Swiss and U.S. authorities, it appeared to sound the death knell for banking secrecy in Switzerland - one of the main selling points for the country's financial institutions.

However, Swiss politicians and local bankers said that the agreement did not mean the U.S. authorities would be given information on

all the offshore accounts held by Americans in Switzerland. Instead, information would only be supplied when tax authorities from another country had provable evidence of a tax fraud by an offshore account holder. Swiss foreign minister, Micheline Calmy-Rey, was instrumental in negotiating a settlement between the US and UBS.

But many within the financial industry think that banking secrecy in Switzerland is undergoing its most significant

transformation since it was codified by the Swiss Banking Act in 1934.

"Banking secrecy will continue to exist, but not for tax reasons. Private banks will have to offer services on a fully compliant basis," says Boris Collardi, chief executive of Swiss private bank Julius Baer.

Philip Marcovici, a partner at lawyers Baker & McKenzie in Zurich, says tax-compliant banking secrecy continues to be a useful attribute of offshore centres

such as Switzerland. "Transparency for tax purposes does not mean that bank secrecy does not remain an important need of today's wealth-owning family. A wealth owner needs and wants to play by the tax rules of their home country and

this doesn't compromise his or her ability to retain privacy in relation to their financial affairs."

The stakes are high for Switzerland. The



Above: Calmy-Rey; Left: Collardi

country is the largest offshore financial centre in the world, accounting for \$1.8 trillion, or 28%, of offshore wealth in 2008, according to the Boston Consultancy Group.

Jacques de Saussure, a managing partner at Pictet & Cie, says some Swiss private banks that have small amounts of assets under management will suffer from the changing landscape on banking secrecy.

However, he says there has been "a surge of money coming in from Germany, France and the U.K. in the last year," says Mr. de Saussure. wj.

Swiss appeal



PHOTOGRAPHY: ABI HARDWICK

When, in 1999, Bill Liao decided to sell his dot-com start-up, leave his native Australia and move his family to Europe, the short list of potential new homes was very short

BY DAVID BAIN

It wasn't too hard for us as a family to choose Switzerland," says Bill Liao. "It offered a superior lifestyle, great health care and brilliant transport services – much better than all of its European neighbours."

The 42-year-old serial entrepreneur decided that he wanted to invest the proceeds of his stake in Davnet – which at its peak was Australia's fastest-growing company and worth about two billion Australian dollars (US\$1.8 billion) – in opportunities on the other side of the world.

Mr. Liao has since set up and listed one of the world's biggest business-to-business social networking portals XING, helped numerous chief executives realise greater value from their companies, and been involved in several philanthropic efforts across the world – all from his base in Switzerland.

He decided to live in the canton of Appenzell Innerrhoden, about 40 miles to the east of Zurich and close to the Austrian border. Mr. Liao, who is worth at least \$50 million, says low taxes only played a small part in the decision to live in the canton.

"The beauty of the location struck us. Where in the world can you wake up to such beautiful

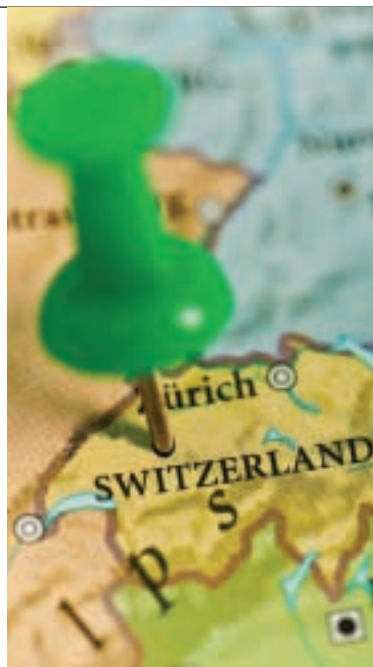
Left: serial entrepreneur, Bill Liao

scenery and, in less than an hour, be in an important international city like Zurich?"

Appenzell Innerrhoden is renowned for its scenery – the Appenzell Alps are among the most spectacular in Switzerland – but also for its low taxes, with the top income tax rate only 15%.

Mr. Liao, who recently launched a charity focused on global re-forestation, tries to keep his carbon emissions low when travelling. "I have given up flying, and take trains and

“Where in the world can you wake up to such beautiful scenery and, in less than an hour, be in an important international city?”



boats. Switzerland's location – in the middle of Europe – makes this easier."

Quality of life surveys back Mr. Liao's enthusiasm towards his adopted home. Earlier this year, *Monocle*, the lifestyle magazine, rated the quality of life in Zurich as the best in the world. A few months earlier, consultancy Mercer placed the Swiss city second in a quality of life survey. Geneva was third.

These surveys, coupled with low tax rates, are fuelling a wave of wealthy immigrants to Switzerland. Last year, immigration rose by 4.3%, with nearly two thirds of the total coming from Germany, France and the U.K.

Since living in Switzerland, Mr. Liao has convinced three of his business associates to move to the country. "The appeal seems to be infectious. Many more of my colleagues around the world are inquiring about moving," he says.

►COVER STORY CONTINUED

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

Nissan, McDonald's and Yahoo! have all moved their European headquarters to the country in the past three years

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.



Nissan relocated its European headquarters to Switzerland in 2008. Above: from Nissan's luxury car division, the Infiniti G37 Coupe car at the 79th Geneva Car Show