SWISS MONEY SECRETS

Robert E. Bauman JD
Jamie Vrijhof-Droese

Swiss Money Secrets

Robert E. Bauman JD
Jamie Vrijhof-Droese

BANYAN HILL

Banyan Hill Publishing
P.O. Box 8378
Delray Beach, FL 33482
Tel.: 866-584-4096
Email: http://banyanhill.com/contact-us
Website: http://banyanhill.com

The authors wish to acknowledge the advice, assistance and hard work that combined to produce this new version of *Swiss Money Secrets*, first published in 2008. Our appreciation goes to Ted Bauman, Amanda Goss, Jennifer Somerville and Liam Sanelli of Banyan Hill Publishing, and to Robert Vrijhof.

About the Authors

Robert E. Bauman JD

Bob Bauman, legal counsel to Banyan Hill Publishing, served as a member of the U.S. House of Representatives from 1973 to 1981 representing the First District of Maryland. He is an author and lecturer on many aspects of wealth protection, offshore residence and second citizenship.

A member of the District of Columbia Bar, he received his juris doctor degree from the Law Center of Georgetown University in 1964. He has a B.S. degree in International Relations from the Georgetown University School of Foreign Service (1959) and was honored with GU's Distinguished Alumni Award.

He is the author of The Gentleman from Maryland (Hearst Book Publishing, NY, 1985); and the following books, all published by Banyan Hill Publishing: *The Passport Book: The Complete Guide to Offshore Residency*, *Dual Citizenship and Second Passports*; *The Offshore Money Manual*; *Where to Stash Your Cash Legally: Offshore Financial Centers of the World*; *Lawyer-Proof Your Life*; *Forbidden Knowledge*; *Panama Money Secrets*; and *Swiss Money Secrets*. His writings have appeared in *The Wall Street Journal*, *The New York Times*, *National Review*, and other publications.

Jamie Vrijhof-Droese

Jamie Vrijhof-Droese, relationship manager at Weber Hartmann Vrijhof & Partners, represents the second generation of the family owned asset management company.

Jamie was born and raised in Zurich, Switzerland where she started her banking career in 2009 at one of the largest Swiss universal banks. She worked her way through different departments, amongst others credit risk management, consumer finance and private banking. She has since worked for a financial planner specialized in providing tailor-made international insurance and investment solutions, for a boutique-consulting firm as well as for a cross-industry association designed to strengthen Switzerland's start-up ecosystem.

Jamie is a vivid traveler, spent some time in Australia and volunteered in South Africa. Jamie holds a bachelor degree in business administration with a major in banking and finance. Jamie absolved her studies at the ZHAW School of Management and Law, as well as the University of California, Berkeley.

Table of Contents

Appendices

FOREWORD

Why Choose Switzerland?

Look beyond the chocolate, cuckoo clocks and yodeling –contemporary Switzerland, land of four languages, is all about once-in-a-lifetime journeys, heart-racing Alpine pursuits and urban culture.
- Lonely Planet Travel Guide

There are many reasons why we at Banyan Hill repeatedly have selected Switzerland as the best financial center in the world — and we explain in these pages.

Say "Switzerland" and most non-Swiss people may think "money." There are good reasons for that nearly universal reaction.

The banks and financial institutions of this historic European country manage one-third of the entire world's private wealth. The investor confidence partially explains why we rate Switzerland as the best and safest of all available offshore financial centers. In times of crisis, even greater flows of foreign cash enter Swiss banks, confirming the belief that Switzerland is one of the best places to safeguard cash and assets.

Keep the Swiss solution in mind as you read, and consider your possibilities before hard economic times, inflation or market crashes arrive.

With its centuries of experience and professionalism, Switzerland is regarded worldwide as the safe haven for international banking and investment management and home of the Swiss franc, one of the world's strongest national currencies. It also enjoys an up to date, modernized digital economy, strict financial regulation, and government policies sympathetic to business and profit.

Tourist guide books tell you that Switzerland is a small, multi-cultural, multi-lingual country found in the very heart of Europe. Centrally located, it is a focal point of international air, road and rail traffic, easily accessible within hours from major European cities. Indeed, Zurich ranks as one of the top 10 cities of the world.

Switzerland shares common frontiers with five sovereign countries — Germany, France, Italy, Austria and the tiny Principality of Liechtenstein, with which it has especially close ties, including a common currency.

Banking secrecy has been a famous Swiss calling card, and despite changes, its financial privacy laws are still the strongest in the world today. As do most countries, it allows reasonable tax information sharing among nations with due process.

A global survey of private banks found that the major attraction for a bank's potential customers is its reputation. Financial discretion and unsurpassed professionalism in private banking and estate planning are main reasons why wealthy investors have trusted Swiss banks for centuries.

In spite of a decade of tax evasion battles with the United States and some other governments, Switzerland's basic financial reputation survives, explaining why it remains "banker to the world."

According to the Swiss Financial Management institute in Zug, in terms of the market size, the total volume of assets managed by banks, fund management companies, securities dealers and supervised asset managers in Switzerland amounted to US$2.258 trillion at the end of 2017, approximately three times the size of the Swiss GDP. The Swiss 2017 international market volume was US$1.84 trillion.

With this great wealth, Swiss bankers still are personable, ready to welcome and give sound advice. I've had the pleasure of visiting leading banks such as Julius Baer and Vontobel and know you too will be welcome at Swiss banks.

The Confederation of Switzerland is a survivor, and a rich one at that. Despite being surrounded by warring belligerents in World Wars I and II, it mostly stayed out of both conflicts emerging with its infrastructure intact. For 250 years, as European empires rose and fell, Switzerland's mountainous topography, its official neutrality and its determination to defend its sovereignty has created an unusual island of stability.

History has made the Swiss highly independent as a people. They are slow to abandon established ways, but they are open to innovation and needed change is underway.

After 50 years of saying "no," the Swiss joined the United Nations in 2002, but repeatedly rejected full European Union membership, rightly fearing EU interference with Swiss privacy and banking laws. In a national ballot, the Swiss soundly rejected a proposal to ease Swiss bank secrecy laws. Current public opinion polls continue to confirm this sentiment.

And in a world in which financial privacy is now at a premium, Switzerland still stands by its statutory guarantee to preserve maximum banking secrecy, but cooperates in foreign criminal and tax fraud investigations. Money laundering is not tolerated. Switzerland insists on clean cash and honest money transactions.

While Switzerland isn't a residence tax haven, there's an exception: wealthy foreigners who reside in Switzerland can be taxed on a lump-sum basis, starting at around US$40,000, the sum annually negotiated with the canton of residence.

For multinational corporations, Switzerland has important advantages. With proper planning, withholding taxes are minimal on dividends, interest and royalty payments between affiliated EU enterprises and Switzerland. With its wide network of tax treaties, Switzerland is a great location for holding companies.

On a more personal note, as those who have visited Switzerland over the years, you'll discover the delightful Swiss people with their charm and a unique blend of linguistic and ethnic differences that produced a country and people unlike any other on earth.

Welcome to Switzerland!

CHAPTER 1

History: Switzerland Then & Now

Switzerland has always been somewhat of a mystery to outsiders.

To most, Switzerland conjures up images of little Heidi, cheese, chocolate, cuckoo clocks, alpine horns, beautiful snow-capped mountains, verdant green valleys ... and huge stainless steel bank vaults filled with money — from possibly questionable sources.

While the cheese, clocks, mountains and valleys are all true, (Heidi lives only in children's books), there is nothing sinister about Switzerland as a modern global financial power. However, before you can appreciate all that this fascinating country has to offer in its role as an international center for financial and even personal refuge, it is a good idea to discover Switzerland and meet the Swiss. Moreover, you should come to appreciate what important roles location, geography, topography and history all have played in forming not only the Swiss state, but the character of its people as well. Keep in mind these factors as you read and try to appreciate the influence each has had on the country and the people.

So, at your leisure in these pages, enjoy and learn about Switzerland and all that it can do for you and for your money.

A Word About "Swissness"

Some nations and their inhabitants come to be epitomized in a cliché or two. Americans are loud and overweight, but good-natured. Japanese tourists travel in packs and are always snapping photos. Germans are stolid, regimented and demanding. Italians are boisterous, excitable and talk with their hands.

The French are haughty, superior and look down at foreigners; but what about those inscrutable Swiss?

The Swiss are a friendly and hospitable people, though somewhat reserved at times. Life in Swiss towns and cities is generally safe and secure. The Swiss share an independent spirit, a respect for tradition, and a population with no fewer than four languages and dozens of dialects. The Swiss love for celebration is not widely known but is evident in traditional festivals and popular seasonal pageants.

From my experience, the Swiss are unique as a people unlike any other I have encountered in my world travels — and I say that with affection and respect.

It helps immensely to understand what the Swiss are really like and what to expect in dealings with them. They are prim, precise and tend to perfectionism, down to the smallest details. That's good but can be maddening to Americans or those who habitually are in a rush.

Nevertheless, anyone who considers Switzerland as a basis for their business or banking, or even as a residence, needs to know about not only the people, but also their unique national history.

In a nation of multiple languages, heritages, nationalities, cultures and religions, it may seem difficult to define "the Swiss."

But consider some dominant tendencies. The Swiss are an individualistic people who care about themselves and their family, but don't "meddle" in the affairs of others. They accept unique and unusual situations and ideas, with greater tolerance for these differences.

The Swiss appreciate law and order, the basis for a well-functioning society, but they tend to have fewer social rules. High quality work, punctuality and efficiency are highly valued. Discretion comes naturally, so nobody discusses salaries or family matters with neighbors or others. The Swiss mind their own business.

The Swiss consider themselves to be special, and in many ways, they are.

A 2012 poll showed that 86% of the Swiss are proud of their country. In 2017, the national pride was at 90%. There is a collective feeling, some say a "new patriotism" among the Swiss. This results from Switzerland's unique tradition of direct democracy and a strong educational system. Other factors that form the national character are centuries of peace, a passion for order and cleanliness and the Swiss role as an island of economic stability.

In 2002, Switzerland became the 190th member of the United Nations. Then in 2003, Switzerland began a move to the right politically, and that has continued.

In national elections, the conservative Swiss Peoples Party (SVP) made significant gains, which increased further in 2007 when the SVP got 28.8% of the vote in Federal Assembly elections, up 2.1% from 2003 results. The SVP gains were the greatest increase since 1919 in support among the four major political parties. The move to the right was partially a reaction to anti-Swiss criticism by the European Union and envious French and German neighbors with a list of laments.

The Swiss were accused of "unfair competition" because of their low cantonal and corporate taxes, their traditional strict bank secrecy law, and restrictions imposed on what had been relatively free immigration. These low taxes have attracted wealthy citizens, investors and companies worldwide, but especially from high tax EU countries.

The Swiss historically have reacted to what they consider unjustified foreign attacks. This attitude is reflected in a 2012 study in which 63% of Swiss voters supported a bilateral, one to one approach in foreign relations, especially in Europe, as compared to 17%, who favored Swiss EU membership.

Advertising experts spend a lot of time in "branding," creating a unique name and image for a product in consumers' and in public, using advertising campaigns with a consistent theme. Branding aims to build a significant and special image that attracts and retains loyal customers. Among all nations, Switzerland stands out as a country with a recognized and respected brand, created over centuries.

A 2016 *Swissness Worldwide* study showed that, despite recent controversies, the Swiss brand remains strong. Consumers are willing to pay, in Switzerland and abroad, a premium of over 100% for Swiss products. Over half of global respondents choose a Swiss product over a same-price product of unknown origin.

Switzerland consistently ranks high on quality of life indices, including highest per capita income, one of the highest concentrations of computer and Internet usage per capita, highest insurance coverage per individual and government subsidized health insurance. This makes the country an excellent test market for businesses seeking to introduce new products into Europe.

There are approximately 8.5 million people in Switzerland, 25% of foreign origin, many from refugee backgrounds. Almost one in ten Swiss, about 650,000 people, live abroad. Those who live there are happy; 80% of those questioned can't imagine living in another country. Political stability, including security and democracy, appeal most to the Swiss, who rank quality of life second, with emphasis on the countryside and cleanliness. Zurich consistently is ranked in the top ten world places for overall quality of life. In 2018, Deutsche Bank's *Business Insider* placed it second, after Wellington, New Zealand, and ahead of Copenhagen and Vienna.

Statistics are helpful, but persona experience counts most. Foreign visitors will find the Swiss to be courteous and cooperative, if somewhat reserved. Once you know them as individuals, and they know you, the Swiss can be delightful and entertaining. Even more importantly, the Swiss know how to manage money profitably.

Historic Switzerland

To learn about Switzerland is to discover an exciting and historic land with a distinctive culture, one whose exclusive location and geography make it unique in the world.

This small country, situated in the heart of central Europe, shares much of its history and culture with its neighbors: Germany, France, Italy and Austria. Yet it is singularly different. It is a land rich in history. A look at Switzerland's past offers a revealing glance at just how such a small nation, in the heart of a historically troubled, warlike continent, evolved into such a remarkable and unlikely sanctuary for peace, people and money from around the globe.

Switzerland's land area is not very big — about the size of the northern half of the American state of Maine. It is also located at roughly the same latitude. The country is situated on and between two mountain ranges, the Alps and the Jura. The Swiss Alps make up about 58% of the country, the Jura Mountains cover roughly one-sixth of the nation. The third natural region is the Swiss Plateau where 75% of the population lives. These physical characteristics played a substantial role in the history of Switzerland and the neighboring regions.

The sheer physical beauty of the country cannot be denied. It must be seen to be believed, and even then, it is overwhelming in its imposing grandeur.

Climate: The climate is moderate with no excessive heat, cold or humidity. From July to August the daytime temperature range is 18 to 28 °C (65° - 82° F) and from January to February the range is -2 to 7 °C (28° - 45° F). In spring and autumn, the daytime temperature range is 8 to 15 °C (46° - 59° F). Depending on the altitude, the temperature range may vary. It is highly recommended for visitors to pack a sweater, good walking shoes, sunscreen, sunglasses, a compact umbrella and/or a light raincoat.

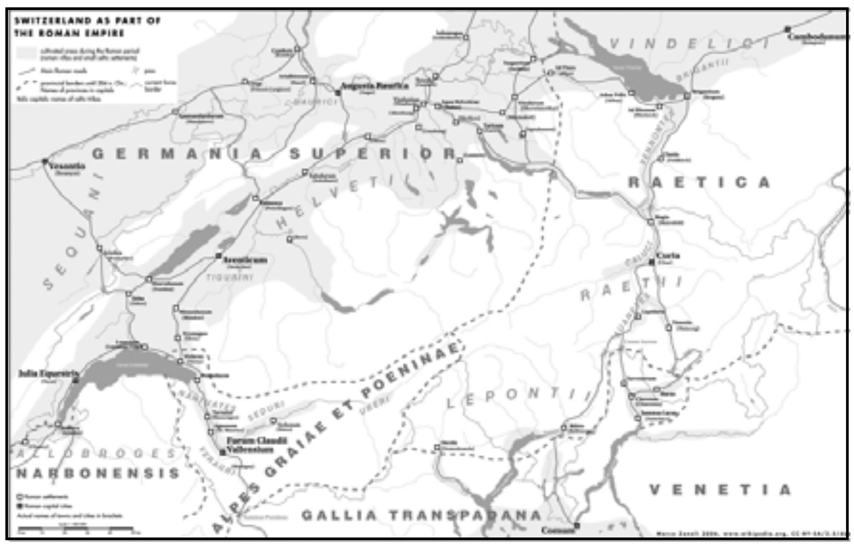
Fun Fact: The summer of 2018 was the hottest summer in Switzerland since 1864!

Like much of Europe, the area now known as Switzerland has produced archeological evidence of human inhabitants going back to 350,000 B.C. These early people were nomadic and found the area to their liking in between the thawing and refreezing of glaciers.

As the Ice Age retreated, early humans hunted throughout the region using primitive stone weapons. The area eventually witnessed the advances of humankind in the Bronze Age and the Iron Age.

In these early times, Switzerland's geography was inconsequential, but as the ages passed, the routes between and around the mountainous terrain would become more important and valuable to these evolving Swiss, and to much of Europe as well. Switzerland always has been a crossroads of Europe; the early cave dwellers now replaced by enormous motor transports carrying goods through the many tunnels and valleys.

Helvatian Period



Switzerland as Part of the Roman Empire

During the Iron Age the Helvetian's, a Celtic tribe, gave their name to the territory they occupied, hence the use of the name *Helvetia*, which today appears on Swiss coins and stamps. The Helvetians attempted to expand their domain but were effectively stopped during the first century B.C. by a Roman commander well known to history as Julius Caesar. This ushered in the Roman Period, which lasted until the year 400 A.D. Some tribes, such as the Alemannic in central and northeastern Switzerland, and the Burgundians, who ruled western Switzerland, settled there. In 800 A.D., the country became part of Charlemagne's empire. It later passed under the dominion of the Holy Roman emperors in the form of small ecclesiastic and temporal holdings subject to imperial sovereignty.

The gradual decline and fall of Rome was followed by the Middle Ages, yet monasteries kept the Roman heritage alive in the area through writings and teachings. In the 12th century, the dukes of Zähringen from Germany gained control over part of the Burgundy territories which covered the western part of modern Switzerland. They founded many cities, including Fribourg in 1157, and Berne in 1191. The Zähringen dynasty ended with the death of Berchtold V in 1218, and their cities subsequently became reichsfrei, essentially free city-states within the Holy Roman Empire. This Swiss Confederation did not secure its independence from the Holy Roman Empire until 1499.

The Legend of William Tell

One of the best-known Swiss historic tales is the legend of William Tell. Soon after the opening of the Gotthard Pass, when the Habsburg emperors of Vienna sought to control Uri and Trans-Alpine trade, Hermann Gessler, the new bailiff, was dispatched to Altdorf. The proud mountain folk of Uri had already joined with their Schwyzer and Nidwaldner neighbors at Rütli in pledging to resist the Austrians' cruel oppression. However, when Gessler raised a pole in the central square of Altdorf and perched his hat on the top, commanding all who passed before it to bow in respect, it was the last straw.

William Tell, a countryman from nearby Bürglen, either hadn't heard about Gessler's command or chose to ignore it; and he walked past the hat without bowing. Gessler seized Tell, who was well known as a marksman, and set him a challenge. He ordered him to shoot an apple off his son's head with his crossbow. If Tell was successful, he would be released, but if he failed or refused, both he and his son would die.

The boy's hands were tied. Tell put one arrow in his quiver and another in his crossbow. He took aim and shot the apple clean off his son's head. Gessler was impressed and, at the same time, infuriated. Gessler then asked Tell what the second arrow was for? Tell looked the tyrant in the eye and replied that if the first arrow had struck the child, the second would have been for him. For such impertinence, Tell was arrested and sentenced to lifelong imprisonment in the dungeons of Gessler's castle. During the long boat journey to the castle, a violent storm arose on the lake. The oarsmen, unfamiliar with the lake, begged Gessler to release Tell so that he could steer them to safety. Gessler finally gave in and Tell cannily maneuvered the boat close to the shore, and then leapt to freedom, simultaneously pushing the boat back into the stormy waters.

Determined to see his task through and use the second arrow on Gessler, Tell hurried to Küssnacht. As Gessler and his party walked along a dark lane on their way to the castle, Tell leapt out, shot the arrow into the tyrant's heart and disappeared back into the woods to return to Uri. Tell's comrades were inspired by his act of bravery and effort to throw off the yoke of Habsburg oppression in their homeland.

Old Swiss Confederacy

The origins of the Switzerland we know today began in 1291, when three tribal leaders from the inner regions of the Alps joined in a defensive alliance, swearing an oath to fight and protect themselves against their common enemies. Calling themselves the "Confederation of Helvetia" they indeed were able to defeat those enemies.

Schwyz (from which the name Switzerland is derived), Uri and Underwalden were the areas that joined to form what history calls the Old Swiss Confederation. Other localities joined the original three and in 1291 a mutual assistance pact declared an intent "to last, if God will, forever." The signatory anniversary of this charter, (August 1, 1291) now is celebrated as Switzerland's National Day. It marked the beginning of the struggle for an independent Swiss confederation, embellished and given heroic stature by the exploits of the legendary William Tell, made famous in an 1804 dramatic play by the German playwright and historian Friedrich Schiller.

The confederation grew as more cities joined and territories were conquered in northern and southern Switzerland. This expansion period included battles against several European powers in which the Swiss gained respect for their military abilities. Military success ended in 1515 with the Swiss defeated by the French at Marignano (now Melegnano, Italy). This defeat made the Swiss realize the great difficulty of defeating stronger neighbors. Henceforth, the confederation abandoned its expansionist goals and began developing the rich potential that the country enjoyed as a crossroads of European trade routes.

The Protestant Reformation was home to two of the movement's major leaders, Huldrych Zwingli's (1484-1531) and Jean Calvin (1509-1564). Zurich adopted Zwingli's religious, political and economic reforms and Calvin, a French theologian preaching predestination, took up residence in Geneva. Calvin helped launch the Swiss watch making industry when he banned jewelry on religious grounds. To survive, jewelers turned to watchmaking. The guilds, associations of craftsmen and merchants, dominated urban areas, and were the driving force of the new Protestantism. They helped to keep Switzerland out of the Thirty Years' War and other conflicts among warring absolutist monarchies.

During the 17th and 18th centuries Swiss domestic political power was centered in wealthy urban cantons that dominated the confederation, each with a few powerful families controlling the government and social life. Political liberties were enjoyed mainly by the wealth, leading to a serious peasant revolt in 1653.

Despite these problems, the 18th Century was a high point in Swiss intellectual life. The writings of Jean Jacques Rousseau gained fame. Johann Heinrich Pestalozzi of Zurich became the founder of modern elementary education. Albrecht von Haller became famous for his writing and work in physiology. For a time, Switzerland was also the home of such literary giants as Goethe, Voltaire and Gibbons.

During the French Revolutionary Wars, the French armies moved eastward, enveloping Switzerland in battles against Austria. France accepted Swiss neutrality at first, but in 1798 Switzerland was completely overrun by the French. The conquerors designated the country as the Helvetic Republic and imposed a new constitution and Switzerland became a forced ally of France in the Napoleonic Wars. In contrast to the wars and devastation caused by Napoleon, it was he who unified what would become modern Switzerland. In 1813, Napoleon decreed the restoration of the original 13 Swiss cantons. Napoleon's Act of Mediation partially restored cantonal sovereignty, and added the former allied territories of Aargau, Thurgau, Grisons, St. Gallen, Vaud and Ticino as cantons.

Napoleon in Switzerland

After Napoleon's defeat at Waterloo in 1815, areas taken from Switzerland by France were returned. The cantons, as sovereign states, allied themselves to one another by means of a "Federal Pact" signed in August of that year. Also, in 1815, the Congress of Vienna re-established the Swiss confederation of sovereign states and enshrined Switzerland's status of permanent armed neutrality in international law.


Napoleon Bonaparte (1769-1821)

Opposition to the decentralized and splintered government under the Federal Pact grew through the 1830's and led, in 1847, to a brief civil war. Protestant liberals wanted a centralized national state and minority Catholic conservatives backed the old order. The majority of the cantons opted for a Federal State, modeled in part on the same principles that inspired the U.S. Constitution. Interestingly, the American founding fathers also considered Switzerland and its decentralized government when designing the U.S. Constitution.

The Swiss Constitution established a range of civil liberties and made provisions to maintain cantonal autonomy to placate the vanquished Catholic minority. The Swiss amended their Constitution extensively in 1874, establishing federal responsibility for defense, trade and legal matters, as well as introducing direct democracy by popular referendum.

To this day, cantonal autonomy and referendum democracy remain Swiss trademarks. An updated Constitution was adopted in 1999. The Constitution guarantees freedom of worship, guaranteeing that different religious communities co-exist peacefully.

Modern Federal State

Switzerland, in its modern form, came into being in 1848. Until that time, Switzerland was a loose alliance of autonomous cantons cooperating with each other in varying degrees and free to secede from the confederation.

The 1848 constitution created a national federal union, with a political system much like the United States of America. Central authority counterbalanced and limited the power of individual cantons. Some policy areas, such as foreign policy, were placed solely in the hands of the new central government. The cantons no longer had a right to secede. The constitution was a balance compromise between the national interest and those of the individual cantons, with cantons retaining considerable power, especially in fiscal and tax matters.

Switzerland industrialized rapidly during the 19th Century and by 1850 had become the second most industrialized country in Europe, after Great Britain. Throughout the 20th Century, Switzerland maintained what has become its signature neutrality towards other nations and avoided direct involvement in both of the two World Wars.

Swiss Facts

Switzerland's official name is the "**Helvetic Confederation**" (in Latin: Confoederatio Helvetica). The letters "**CH**" are the country's international abbreviation, thus the designation for the Swiss franc is "**CHF**" followed by a number, as in CHF100. "Helvetic" refers to the Helvetians, one of several Celtic tribes living in what is now Switzerland at the time of the Roman conquest.

Conventional long form: **Swiss Confederation**; *Conventional short form:* **Switzerland** *Local long form:* Schweizerische Eidgenossenschaft (German); Confederation Suisse (French); Confederazione Svizzera (Italian) Local short form: Schweiz (German); Suisse (French); Svizzera (Italian)

During World War I, serious internal tension developed between the German, French and Italian-speaking parts of the country. Switzerland came close to violating its neutrality, but ultimately managed to stay out of hostilities. Labor unrest culminating in a general strike in 1918 marked the interwar period, but in 1937 employers and the largest trade union concluded a formal agreement to settle disputes peacefully, which governs workplace relations to the present day.

During World War II, Switzerland came under heavy pressure from Nazi Germany and other fascist powers, which completely surrounded the country after the fall of France in 1940. Some leaders suggested appeasement, but tactical accommodation and demonstrated military readiness combined to help the country survive unscathed.

The international Red Cross, which was founded in Geneva, carried out relief work for both sides in these wars. Some Swiss soldiers fought with the French during World War I, a practice that was later declared illegal. Although it became home to the League of Nations following World War I, the Swiss chose to remain outside of the United Nations following World War II, in to guarantee its neutrality and preserve its role as an international mediator.

The Cold War enhanced the role of neutral Switzerland and offered the country a way out of its diplomatic isolation after World War II. Economically, Switzerland integrated itself into the American-led Western postwar world order but remained reluctant to enter supranational bodies. Switzerland did not join the United Nations, even though Geneva became host to the UN's European headquarters, and the country was active in many of UN specialized agencies. Switzerland also rejected internal European integration efforts, waiting until 1963 to join the Council of Europe. It remains outside the European Union, which repeatedly has been critical of Switzerland. Instead, in 1960 Switzerland helped form the European Free Trade Area, a non-political economic union.

Switzerland Today

Switzerland has a population of approximately 8.5 million and a surprising 25.1% of whom are foreigners. Almost one in ten Swiss, about 752,000, live abroad in foreign countries.

German, French, and Italian are Switzerland's official languages. Around 65% of the population is Swiss-German speaking (a spoken language only, originating from a 17th century German dialect). For writing, reading and for official communication the Swiss use the so-called "high" German of modern Germany. Of the rest, approximately 23% speak French, 8% Italian, and there is even a small percentage, around 0.6%, who speak Rhaeto-Romanic (a unique dialect stemming from Latin spoken by the Romans over 2,000 years ago). The principal Rhaeto-Romanic dialects include Romansh (or Romansch) spoken by about 70,000 speakers in southeast Switzerland and recognized as a national, but "semi-official" language. Another 10% who are foreign, non-Swiss residents speak a variety of languages. These various cultures have lived together respecting each other's individuality for over 700 years without any notable strife.

Swiss Confederation

Government:	Confederation Structured as Federal Republic
Capital:	Bern
Population:	Approximately 8,500,000 (2018 est.)
Total Area:	41,290 (sq km) 15,942 (sq mi)
National Day:	Founding of the Swiss Confederation, August 1, 1291
Language:	German 65.6%, French 22.8%, Italian 8.4%, Romansch 0.6%, Other 8.9%
Ethnic Groups:	German 65%, French 18%, Italian 10%, Romansch 1%, Other 6%
Religion:	Roman Catholic 41.8%, Protestant 35.3%, Orthodox 1.8%, Muslim 4.3%, other Christian 0.4%, Other 1%, unspecified 4.3%, None 11.1%
Life Expectancy:	82.6 years
Currency:	Swiss Franc (CHF)
GDP:	US$517.2 Billion (2017 est.)
GDP Per Capita:	US$61,400 (2017 est.)

Resident foreigners and temporary foreign workers total about 25% of the population. According to the Swiss Federal Office of Statistics, the population in Switzerland increased to over 8,500,000 in 2018. Three-quarters of this growth was attributed to migration. Recent numbers show Swiss native citizens only grew by 0.6% , compared to an increase in foreign residents of 2.6%.

In addition to mother tongues, many Swiss fluently speak more than one language. In Swiss schools, it is obligatory to learn one of Switzerland's other national languages and English is common, especially in the financial and business communities.

Switzerland enjoys a superior educational system with centuries-old universities. The first university was founded in 1460. Almost all Swiss are literate and 82% of adults are well educated, having attained upper secondary education.

Neutrality & National Defense

Saint Nicholas of Flüe

In 1515, the Swiss people and their government formally proclaimed their perpetual neutrality. The Swiss attitude was encapsulated in the advice of Switzerland's popular saint, Nicholas of Flüe (1417-87); "Don't get involved in other people's affairs." That has been the Swiss hallmark of policy for over 500 years.

Switzerland told the world it would attack no one, participate in no war, make no military alliance, but would defend itself. In 1815, at the Congress of Vienna, the inviolability of Swiss territory and perpetual neutrality was guaranteed by the nations of Europe. In 1919, the Treaty of Versailles ending World War I also recognized Swiss neutrality. The Swiss have strictly maintained this stance, declining membership in international military organizations, such as the North Atlantic Treaty Organization (NATO).

Neutrality is defined as non-participation in a war between other states. In 1907, the international community adopted the Hague Convention that set out the rights and duties of neutral countries in time of war. This neutrality policy has not only protected Switzerland from involvement in war, but has also helped prevent the country from being disrupted by its different language groups which might have been tempted to side with neighboring belligerents in cases of conflict.

After the Cold War ended in 1985 with the collapse of Soviet Communism, Switzerland redefined its understanding of neutrality. It joined NATO's Partnership for Peace in 1996, stressing a desire to promote peace and security, buy reserving the right to withdraw if it believed Swiss neutrality was threatened.

In 1999, the dispatch of unarmed Swiss volunteers to Kosovo in the Balkans as part of a NATO peacekeeping contingency reignited internal Swiss debate about combining neutrality with an international role.

The first armed Swiss peacekeepers arrived in Kosovo in October 2002, but only after a national referendum approved two key changes to the Swiss army's role. The Swiss military was allowed to be fully armed when in international peacekeeping missions and were permitted to take part in military training exercises with other countries. The bitter pre-referendum campaign showed a deeply divided country and the margin of victory was only 2%.

The military of Switzerland, officially known as the Swiss Armed Forces, is a unique institution with attributes of both a militia and a regular army.

Switzerland has no standing army, but all young men are trained and on standby. This called the "porcupine approach" — millions of individuals ready to stiffen like spines when the nation is threatened. The SAF is equipped with modern well-maintained weapons systems including F18 jet fighters. The army has no full-time active combat units, but it is capable of full mobilization within 72 hours. Women may volunteer to serve in the armed forces in all units, including combat troops. The number of women in the Swiss army has doubled recently. In 2018, a record of 250 women volunteered for service and currently 0.7% of the SAF are female.

The 1848 constitution first adopted the principle that every male Swiss citizen has an obligation to serve in the federal army if conscripted. The 2000 constitution repeats that the army is "in principle" organized as a militia, allowing only a small number of professional soldiers. The armed forces consist of a nucleus of about 3,600 professional staff, half either instructors or staff officers, the rest conscripts or volunteers. All able-bodied Swiss males between the ages of 19 and 31 must serve, and although military training may be delayed due to senior secondary (high) school, it is not possible to postpone service for university studies. Those unfit for the Swiss Armed Forces or consciences objectors have the option of service in the Federal Office for Civil Protection (FOCP) which supports the cantons and municipalities.

There is a small, organized movement in Switzerland advocating abolition of the military. The Swiss twice have rejected this; in 1989, 64.4%, and in 1999, 76.8% voted in favor of maintaining the army.

World Mediator

Switzerland's neutrality also allows the country to act as a global mediator.

Switzerland offers a neutral ground to host sensitive conferences and meetings. The first meeting between the last Soviet president, Mikhail Gorbachev and then U.S. President Ronald Reagan in 1985 took place in Geneva, eventually leading to a significant disarmament agreement. Since the location of the doomed League of Nations in Geneva in 1920, Switzerland has been the venue for peace talks between various warring governments and rebel groups and for talks on settlement of many international issues. Geneva is host to about 200 international organizations and diplomatic missions from over 170 countries. It is the European headquarters of the United Nations and headquarters of the International Committee of the Red Cross.

Humanitarian Tradition

Typical of organizations that make Switzerland their home is the International Red Cross (ICRC). Founded in Geneva in 1863, its mandate is to protect and assist victims of war and internal violence. The members of the committee itself are all Swiss citizens, but its staff is of many nationalities. The bulk of its finance comes from voluntary contributions by states and supranational bodies. The ICRC operates worldwide, helping the victims of war, acting as a neutral mediator in cases of conflict and promoting knowledge and respect for humanitarian law. The national Red Cross societies from across the world are grouped in the International Federation of Red Cross and Red Crescent Societies with headquarters in Geneva. In addition, Switzerland has its own domestic Red Cross society.

A Land of Refuge

Switzerland is proud of its humanitarian tradition. It has long been a place of refuge for those persecuted for political, religious or other reasons.

In recent years, Switzerland has taken in refugees from conflicts in various parts of the world. In proportion to its own population, Switzerland receives more asylum applications than most other countries in Western Europe. The number of asylum seekers reached a peak in 1999, when 48,000 applications were made. A total of 18,088 migrants filed for asylum in Switzerland in 2017. This was a decline of 33.5% and the lowest number since 2010. Most asylum applications came from Eritrea with 3,375 applications. Next was Syria with 1,951 applications, followed by Afghanistan with 1,217 requests, Turkey with 852 requests, Somalia with 843 and Sri Lanka with 840.

Indeed, so many refugees have been admitted that curbing immigration has become a national political issue with considerable citizen support for more restrictions. In 2014, a federal popular initiative launched by the Swiss People's Party limited immigration quotas. Immigration already was limited by quotas in 2002 bilateral treaties between Switzerland and the EU, but the initiative was accepted with 50.3% of the voters in favor.

Foreign Involvement

Traditionally, Switzerland has avoided alliances that might entail military, political or direct economic action, but the Swiss have broadened the activities in which participate without compromising their neutrality, including agreements with the European Union (EU).

Swiss voters rejected United Nations membership by a 3-to-1 margin in 1986, but in 2002, they approved joining the UN, by a very close margin. Switzerland is the first country to join the UN based on a popular referendum.

Switzerland had previously been involved as party to the Statute of the International Court of Justice and a member of most UN special agencies, including the International Atomic Energy

Agency based in Vienna. Switzerland has long participated in the groups such as the EU Economic Commission for Europe; the UN Environment Program; the UN High Commission for Refugees; the UN Educational, Scientific and Cultural Organization (UNESCO) and the Universal Postal Union. Prior to its formal full UN membership, since 1948 Switzerland maintained a permanent observer mission at UN headquarters in New York.

Switzerland is also a member of the following international organizations: World Trade Organization (WTO), Organization for Economic Cooperation and Development (OECD), European Free Trade Association, the Bank for International Settlements, the Council of Europe, and the Organization for Security and Cooperation in Europe (OSCE)

Switzerland maintains diplomatic relations with almost all countries and historically has served as a neutral intermediary and host to major international treaty conferences. The country has no major dispute in its bilateral relations. Since 1980, Swiss diplomats have represented U.S. interests in Iran and for a time represented U.S. interests in Cuba.

Swiss neutrality is more than just military or political in character; it also stands for economic neutrality. The Swiss financial system is marked by respect for the creation, preservation and privacy of individual wealth. By avoiding international conflicts and maintaining political stability, Switzerland has become a recognized refuge for capital from every nation.

In 1992, Swiss voters rejected membership in the European Economic Area agreement, which the government viewed as a first step toward EU membership. While it cooperates with the European Union, Swiss voters consistently have rejected EU membership. In 2001, 77% voted against starting EU membership negotiations immediately. Despite leftist demands to join the EU, the strong vote in recent elections for the conservative Swiss People Party has put off such demands.

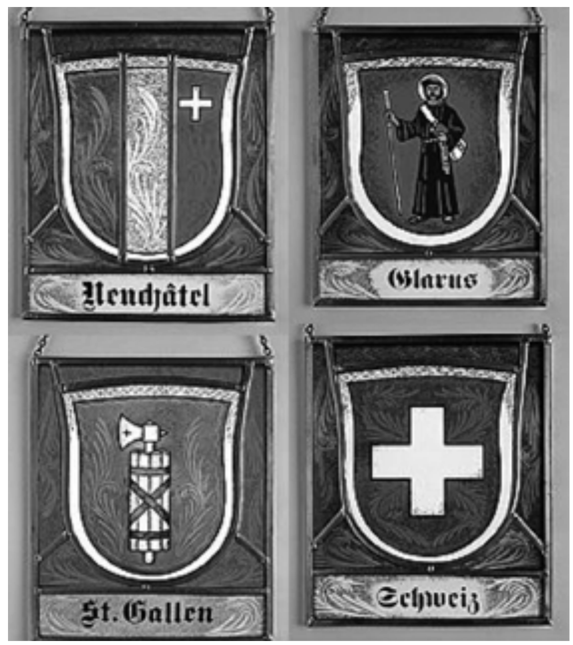
The government continues bilateral talks with the EU aimed at cooperation. In 2005, Swiss citizens voted by 56% in favor of extending the free movement of people into Switzerland from ten new EU member states, a right that already existed for other EU member nations. Supporters of EU membership claim that Switzerland needs to be able to participate in EU decision-making, since EU policies and laws have an impact on the country. Opponents say it would undermine Switzerland's sovereignty and cite numerous attacks on Swiss policies by the official EU and its leading members, France and Germany.

CHAPTER 2

Politics & Government

The People Rule

Switzerland is a true democracy, one of the few countries in which the people have a direct and active role in government.



In 1874, a revision of the Swiss Constitution introduced the referendum at the federal level. In 1891, the "right of initiative" was added. This allows a certain number of voters to introduce a constitutional article, or reject a legislative proposal, using this popular initiative. Similar mechanisms operate at the federal, cantonal and municipal levels.

By petitioning an issue to a national vote, citizens can propose legislation, or oppose a law already approved by parliament. Parliament can override this right only when the proposal is ruled unconstitutional as a violation of international law.

If 50,000 signatures are collected within 100 days of proposed legislation's official publication, that triggers a national vote to decide whether the law will be allowed to take effect. A referendum is mandatory on constitutional amendments and on some major international agreements. In these cases, a "double majority" is needed for approval, meaning support by a majority of all voters and by a majority of the 26 cantons as well.

Important national issues, including constitutional changes, are voted on directly by the entire electorate, usually by mail. Since 2004, electronic voting has expanded to nine of the 26 cantons. Since 1848 there have been 619 national votes on constitutional questions and popular initiatives, plus regular elections.

Over the years, moderate Swiss voters have demonstrated conservative attitudes, with a strong emphasis on liberty and the preservation of individual rights. Typical results of this system occurred in the rejection of EU membership in three national votes between 1992 and 2001, the last by over 60%.

In 2012, an increase in the legal vacation entitlement from four weeks to five weeks was defeated because of concerns about the impact on the national economy and small family owned businesses. Similarly, in 2016, a plan for a government paid guaranteed monthly income of US$2,555.00 for all citizens was overwhelmingly defeated.

Other initiatives have been held on issues such as cutting military spending (rejected) and limiting the foreign population in Switzerland to 18% (rejected). More "exotic" votes have occurred on allowing gambling casinos (accepted) and protecting marshland (approved).

In 2018, Swiss voters rejected a radical plan that barred commercial banks from electronically creating money. Most people think of "money" as bills and coins issued by government. But those sources only count for about 3% of cash. The other 97% is created by private banks electronically when they make loans or other credit advances. In the U.S., the Federal Reserve system and private banks share this non-exclusive power.

The 2018 vote would have granted a monopoly on money creation to the Swiss National Bank, the central bank of Switzerland responsible for the monetary policy and for the issuing of Swiss franc banknotes. Viewed by many as a radical idea, the plan was rejected by a large margin as a potential risk to the Swiss economy.

Since 1848, there have been 619 national votes on constitutional questions and popular initiatives, plus regular elections. Records show that majority approval has occurred in about half of all referendums and in one-in-ten of popular initiatives. Even when rejected, the attendant debate contributes to political life and indicates possible future changes.

The Cantons

An understanding of Switzerland requires knowledge about the federal and cantonal system of government.

Switzerland is divided into 26 cantons, a political subdivision similar to an American state. Language distinguishes cantons, with several German, and French-speaking cantons, one Italian, and a few where both German and French are spoken. In canton Graubünden, German, Italian and Romansh are spoken.

A few cantons geographically constitute one city, such as Geneva or Basel. Some rural cantons consist of mountains and valleys, like the canton of Uri. The cantons vary in size and population. The city of Basel covers 14 square miles (37 km), with 188,500 more inhabitants than the largest canton in area, Graubünden; there 186,000 people are spread across 2,745 square miles (7,105 km) and 150 valleys. The canton of Zurich has over a million residents, while the smaller cantons, such as Appenzell Inner-Rhodes which has a population of only 14,900.

Each canton has its own local constitution, government, parliament, courts and laws, though these must be compatible with the federal constitution. The cantons have administrative autonomy and decision-making powers, including control of education, social services, and its own police force. Each canton sets its own tax levels, some very much lower than those in neighboring countries which has caused complaints of unfair competition.

The Commune: No Place Like Home

Each canton is divided into communes, the basic unit of citizenship and government. The Swiss generally consider themselves to be first and foremost citizens of their own commune. From this official status they automatically derive cantonal and national citizenship. Foreigners seeking Swiss citizenship must apply to the commune of their intended residence and in some cases, a local vote may be taken on the individual's acceptance.

Within each canton, the total number of communes is changeable and mergers with neighbors are not uncommon. There are about 2,900 communes, varying greatly in area and population, each with its own elected administrative authorities. On some local issues they make their own decisions. The commune is responsible for local security, education, health and transportation. Commune officials register births, marriages and deaths, and collect federal, cantonal and local taxes.

In 90% of the communes, an annual citizen assembly is held where important issues are decided by majority vote. In larger communes, direct participation is impractical so they have elected council decide. In all communes, all residents may vote on major issues such as the annual budget.

There is a running debate over the supposed need to reform this traditional system with merger proposals often opposed by smaller communes. The low tax communes are the wealthiest areas, attracting high-income earners, both Swiss and foreign, a benefit they don't want to surrender. They also don't want mergers that impose debt liabilities of neighbors and they support continued low-tax incentives.

A Federal System

Switzerland is a federal state composed of 26 cantons (20 "full" cantons and six "half" cantons for purposes of representation in the federal legislature) that retain attributes of sovereignty, fiscal autonomy and the right to manage internal cantonal affairs. Under the 2000 Constitution, cantons hold all powers not specifically delegated to the federation.

Swiss federal institutions are:

- The Federal Assembly, the bicameral legislature;

• The Federal Council, a collegial cabinet-like executive of seven members;

• The Judiciary, consisting of a regular court in Lausanne, the Federal Tribunal, and special military and administrative courts. The Federal Insurance Tribunal in Lucerne is an independent division that handles social security questions. The Federal Criminal Court, located in Bellinzona, is the court of first instance for all federal criminal cases.

The Constitution provides for separation of the three branches of government.

	Canton of	Since	Capital
1	Zürich	1351	Zürich
2	Bern	1353	Bern
3	Luzern	1332	Lucerne
4	Uri	1291	Altdorf
5	Schwyz	1291	Schwyz
6	Obwalden	1291 or 1315 (as part of Unterwalden)	Sarnen
7	Nidwalden	1291 (as Unterwalden)	Stans
8	Glarus	1352	Glarus
9	Zug	1352	Zug
10	Fribourg	1481	Fribourg
11	Solothurn	1481	Solothurn
12	Basel-Stadt	1501 (as Basel until 1833/1999)	Basel
13	Basel-Landschaft	1501 (as Basel until 1833/1999)	Liestal
14	Schaffhausen	1501	Schaffhausen
15	Appenzell Ausserrhoden	1513 (as Appenzell until 1597/1999)	Herisau
16	Appenzell Innerrhoden	1513 (as Appenzell until 1597/1999)	Appenzell
17	St. Gallen	1803	St. Gallen
18	Grisons	1803	Chur
19	Aargau	1803	Aarau
20	Thurgau	1803	Frauenfeld
21	Ticino	1803	Bellinzona
22	Vaud	1803	Lausanne
23	Valais	1815	Sion
24	Neuchâtel	1815/1857	Neuchâtel
25	Geneva	1815	Geneva
26	Jura	1979	Delémont

Executive:

Switzerland has what appears to foreigners as a most unusual form of government. Unlike almost all other countries with a parliamentary system, the executive branch of the national government is not administered by a single president, prime minister or a single political party.

Instead, the government is managed by the Federal Council, a sort of cabinet consisting of seven members from several political parties, each of whom also heads an administrative department of the government. The political parties are chosen for the Council based on the relative number of votes they receive in national elections held every five years.

On a rotating schedule, each member serves as president of the Council. The presidency has no special powers or privileges, and the president continues to administer his or her own department. The Federal Council is assisted and advised by the Federal Chancellery, the official bureaucracy that manages the government. Its Chancellor attends weekly cabinet meetings in a consultative capacity and is sometimes referred to unofficially as "The Eighth Councilor."

Legislative:

The legislative branch – the Swiss parliament – is known as the Federal Assembly. Most members are citizen-politicians serving in their elected posts only as a second profession. They maintain their professional jobs or businesses while serving in the Assembly. The Assembly is composed of two chambers having equal rights: 1) The Council of States, representing the cantons, and; 2) the National Council, (not to be confused with the Federal Council, or executive cabinet), the representative body of the people as a whole. The composition of the Assembly reflects the desire to balance the interests of the cantons and to ensure that larger cantons do not dominate smaller ones.

The 200 seats in the National Council, the peoples' chamber, are distributed between the cantons in proportion to the size of their population, while the Council of States has two members for each canton (somewhat like the U.S. Senate) and one for each half canton, for a total of 46 members.

The Federal Assembly is the primary seat of power, although in practice the executive branch has been increasing its power at the expense of the legislative branch. The Federal Assembly, the Council of States and the National Council, have equal powers in all respects, including the right to introduce legislation. Legislation cannot be vetoed by the executive branch nor reviewed for constitutionality by the judiciary branch, but all laws, except the budget, can be subjected to a popular referendum before taking effect.

The 46 members of the Council of States, (two from each canton and one from each half canton), are directly elected in each canton by majority voting. The 200 members of the National Council are directly elected in each canton under a system of proportional representation. Members of both houses serve a term of four years.

Any member can also propose a new law or decree and can submit questions to the Federal Council concerning any matter involving state affairs. The two chambers come together to elect the president of the Confederation and the vice president of the Federal Council for each following year, as well as the heads of other state bodies.

The Swiss government is highly decentralized, with most governing powers assigned to the 26 cantons and to the individual communes or villages. At each level, major decisions often are submitted to popular vote.

In recent years, Switzerland has seen a gradual shift to the right in the political party landscape.

The conservative Swiss People's Party (SVP), previously the junior partner in four-party coalition governments, more than doubled its voting share from 11% in 1987 to 26.6% in 2011. In the more recent 2015 election, the SVP won a record number of seats in the lower house, taking a third of the seats, the highest portion since 1919. They also secured more seats in the National Council, more than any other party since 1963 (a notable 65 seats).

Party	*Vote share (%)*	*Seats*
Swiss People's Party (SVP)	29.4 (+2.8)	65 (+11)
Social Democratic Party (SP)	18.8 (+0.1)	43 (-3)
FDP. The Liberals	16.4 (+1.3)	33 (+3)
Christian Democratic People's Party (CVP)	11.6 (-0.7)	27 (-1)
Green Party (GPS)	7.1 (-1.3)	11 (-4)
Green Liberal Party (GLP)	4.6 (-0.8)	7 (-5)
Bourgeois Democratic Party (BDP)	4.1 (-1.3)	7 (-2)
Others	-	7

Results of the 2015 Swiss federal elections (National Council)

This shift in voting ended the half-century-old "magic formula," a power broker agreement that created a four-party coalition, giving a second seat in the seven-person Swiss cabinet to the SVP, at the expense of the Christian Democrats, now the weakest party.

From 1959 to 2003, under the four-party "magic formula," two Federal Councilors (ministers) were elected each from the Christian Democrats, the Social Democrats, and the Free Democrats and one from the conservative Swiss People's Party (*Schweizerische Volkspartei* or SVP).

Reflecting the Swiss move to the right, under a new "magic formula" starting January 1, 2004, the composition of the cabinet changed to: 1 Christian Democrat, 2 Social Democrats, 2 Free Democrats, and 2 representatives of the Swiss People's Party.

There has been opposition in recent years to the traditional way in which agreement is achieved in the Federal Council.

The Council's unwritten tradition was that once a parliamentary member joined the council, they must agree with the majority on issues, without regard to his or her personal views. Thus, a member with conservative or liberal views on a council decision is expected to abandon his or her personal political viewpoint and agree with the consensus for unity's sake. This tradition tended to silence strong opinions, but it has weakened since the conservative Swiss People's Party won a second seat on the Council in 2003.

Proposals by the governing Federal Council are often rejected by the Federal Assembly or by the people in a national vote. This Swiss system of compromise is designed so that rejection of a particular policy or proposal avoids a government crisis such as would occur after losing a vote of confidence or a resignation in other parliamentary systems.

This special brand of democracy allows power to reside in the cantons and communes. It also permits the Swiss to relate well to officials' decisions and actions, providing an unusual political stability that other nations can only envy.

Judicial:

The administration of justice is primarily a cantonal function.

The Federal Tribunal is limited in its jurisdiction to hearing appeals of civil and criminal cases and complaints of violations of the constitutional rights of citizens. It has authority to review cantonal court decisions involving federal law, as well as certain administrative rulings of federal departments. It has no power to review federal legislation for constitutionality. The Tribunal's 30 full-time and 30 part-time judges are elected by the Federal Assembly for 6-year terms. The Federal Criminal Court is the court of first instance for criminal cases involving organized and white-collar crime, money laundering and corruption, which are under federal jurisdiction. The Court's 11 judges are elected by the Federal Assembly for 6-year terms.

CHAPTER 3

The Economy

A Solid Reputation

Without question, no foreigner wants to invest, do their banking in, or move to a nation that suffers from a shaky economy, deficit spending, a weak currency, labor unrest or inflationary fiscal policies. On all those counts, you can count Switzerland as being on the right side of the question. If you want to choose a nation in which your investments and money will enjoy solid growth and be ultra-safe, Switzerland is near the top of the list.

In addition to the trillions of dollars under Swiss banking and investment management, and despite a relative shortage of natural resources, the Swiss economy is among the worlds most advanced and prosperous.

At about CHF78,024 (approx. US$78,345) per capita, income is among the highest in the world, with wages ranking along with the United States and Japan. Trade has been the key to prosperity in Switzerland. The country is dependent upon export markets to generate income, and dependent on imports for raw materials and for expansion of the range of goods and services available within the country.

Switzerland is a highly developed industrial country with a strong export-oriented economy. Machines, synthetics and dyes, agro-chemistry and pharmaceuticals, jewelry and watches are the main exports. 95% of all Swiss watches are exported abroad. Switzerland is well known worldwide in manufacturing for its precision instruments and machines. The food industries also have a good international reputation (Swiss chocolate and cheese, but also baby food). Switzerland meets about a half of its food requirements from abroad, but agriculture remains a very important economic asset. Grain, potatoes and sugar beet, but also wine, fruit and tobacco are produced. There is also cattle breeding and the dairy industry.

Switzerland has liberal investment and trade policies (except in the agricultural area), along with a very conservative fiscal policy. The Swiss legal system is highly developed, commercial law is well defined, and solid laws and policies protect investments. The Swiss franc is one of the world's soundest currencies (within the top 10), and the country is known for its high standard of banking and financial services.

The Swiss Franc

Since the collapse of the 1944 "Bretton Woods Agreement," a global system of fixed currency exchange rates, the Swiss franc has been one the world's strongest currencies. That has made the franc a very popular place to park cash in times of trouble.

Swiss Money

The franc has different names that reflect the four official languages spoken in Switzerland. It is called the *Franken* (German), *franc* (French), *franco* (Italian) and *franc* (Rhaeto-Romanic). The smallest denomination, worth one-hundredth of a franc, is called Rappen, centime, centesimo and rap, respectively.

CHF is the Swiss franc symbol. Historically stable, the CHF has attained global safe haven status due to substantial gold and foreign currency holdings backing the currency. The CHF and gold are on a par, both viewed as some the world's soundest investments.

The franc is a "safe haven" currency investors buy when other currencies, such as the euro and dollar, are struggling. But to inspire such confidence, a safe haven currency must be backed by a strong national economy, a stable government and liquidity for international trading – in other words, Switzerland.

Add to these factors, the astute management by the Swiss National Bank's (SNB), the central bank of Switzerland, which is responsible for the monetary policy and for the issuing of Swiss franc banknotes. SNB has followed a disciplined monetary policy of price stability, concentrating on controlling money supply and inflation.

The fate of the non-euro Swiss economy is closely linked to that of its neighbors in the euro zone, who purchases half of all Swiss exports. After the 2008 global financial crisis, the Swiss

National Bank implemented a zero-interest rate policy, which boosted the economy and recovery.

On September 6, 2011, after months of extreme upwards demand pressure on the Swiss franc, the SNB announced that it would no longer accept a EUR/CHF exchange rate below CHF 1.20. This allowed the SNB to curb an acute threat to the Swiss economy.

But the SNB could not control the 2013 sovereign debt crises in Greece, Cyprus and other euro zone countries. This posed a significant risk to Switzerland's financial stability because it again drove up demand for the Swiss franc by foreign investors seeking a safe currency. The SNB upheld its zero-interest rate policy and conducted major market interventions to prevent further appreciation of the Swiss franc.

These policies have produced one of the lowest inflation rates in the world and one of the strongest exchange rate performances.

Gold Backing

As with the U.S. dollar until 1933, the Swiss National Bank previously was required by law to redeem its banknotes in gold upon request. In 1999, Swiss voters approved ending the statutory-required gold backing of the franc. The gold backing guaranteed the value of the franc as money, but today banknotes are legal tender no longer redeemable in gold and the SNB has reduced its required gold reserves.

In 2014, the Swiss People's Party launched a referendum requiring SNB to increase its physical gold reserves by about 8% to 20% within five years and prohibiting it from selling gold. This was rejected with 77% voting no.

Swiss monetary authorities are acutely aware of the need to maintain confidence in the Swiss franc, and the psychological support of gold backing. In 2018, SNB reserves amounted to US$800.5 billion. Of these, US$724.3 billion were in foreign currencies. Other reserves included US$28.7 billion, including IMF Special Drawing Rights and US$41.8 billion in gold at the official price. Gold reserves exceed 5% of total reserves.

In 1999, when EU countries surrounding Switzerland adopted the euro as their currency, there was concern about a negative impact on the Swiss franc. Nineteen years later, the Swiss franc remains strong and euro has proven no threat.

In the 3rd quarter of 2017, the Swiss GDP advanced 0.6%, following a 0.4% growth in the previous quarter, the strongest growth in three years. Expansion mainly was due to consumer spending, equipment investment and net exports. Higher spending on healthcare, housing, energy and leisure upped household consumption. Government spending also rose. The Swiss economy is projected to expand 2.4% in 2018 and 2% in 2019. The Swiss trade balance expanded slightly to US$1.35 billion by mid-2018.

Switzerland for Innovation

"Innovation distinguishes between a leader and a follower."

That was the judgment of the late Steve Jobs, celebrated entrepreneur and chairman, CEO and a co-founder of Apple Inc. That description certainly applies to Switzerland that in 2018, for the eighth year in a row, was named the world's most innovative country by the World Intellectual Property Organization (WIPO).

The Swiss won over the Netherlands, Sweden, the UK and Singapore in the WIPO Index that considers 80 factors, such as institutions, human capital and research, infrastructure, market sophistication and business sophistication. As a related proof, Switzerland has the highest ratio of European patent applications to population.

The Swiss federal technology institute, ETH Zurich, ranked seventh in the world's Top Universities 2019, behind only MIT, Stanford, Harvard, the California Institute of Technology and England's Oxford and Cambridge.

ETH Zurich, with over 18,000 students, is a world leader in science and technology known for cutting-edge research and innovation. Established in 1855 as the Federal Polytechnic School, it has produced over 20 Nobel Prize Laureates as alumni, including the great Albert Einstein.

Unique Education System

It is no accident that Switzerland's excellent educational system has produced the most Nobel laureates per capita of any country.

Importantly, the Swiss excel in highly skilled employees, including not only native workers, but many qualified employees attracted from abroad.

These highly qualified employees are the product of the unique Swiss school system. After elementary school, most children enter an apprenticeship of two to four years, depending on the chosen work area.

These include handicrafts such as mechanic, carpenter, hairdresser, and extend to office workers, including secretary, bookkeeper, and information technology (IT) specialist. Apprentices are trained at a company, but also attend high school for one or two days a week. Depending on the specialty, after apprenticeship the young professional can either start in a job, or study further at a University of Applied Sciences.

Switzerland is one of the most competitive countries in the world. For 2018, the country was ranked fifth by Lausanne's IMD business school, based on the strength of its finance system and its institutional framework. For nine previous years in a row, the World Economic Forum ranked the Swiss as the most competitive in the world.

Other important business factors include excellent Swiss infrastructure available in the fields of energy, public transport, telecommunication, health care, environment, and safety.

This Is the Place

All of these impressive factors have combined to create Switzerland's current position as a leading start-up center for digitalization and related technologies which some call a natural "start-up ecosystem."

digitalswitzerland

Digitalswitzerland is a Swiss national and cross-industry association created in 2015 with a shared goal of more than 100 members to strengthen the country as a world digital hub. The goals are structured around five core projects: Politico-Economic Environment, Education & Talent, Startup Enablement, Corporate Enablement and Public Dialogue. Learn more here: https://digitalswitzerland.com/

Compared to established technology centers such as Silicon Valley, Tel Aviv, Berlin or London, Switzerland's progress is modest, but steadily growing thanks, to local Swiss entrepreneurship.

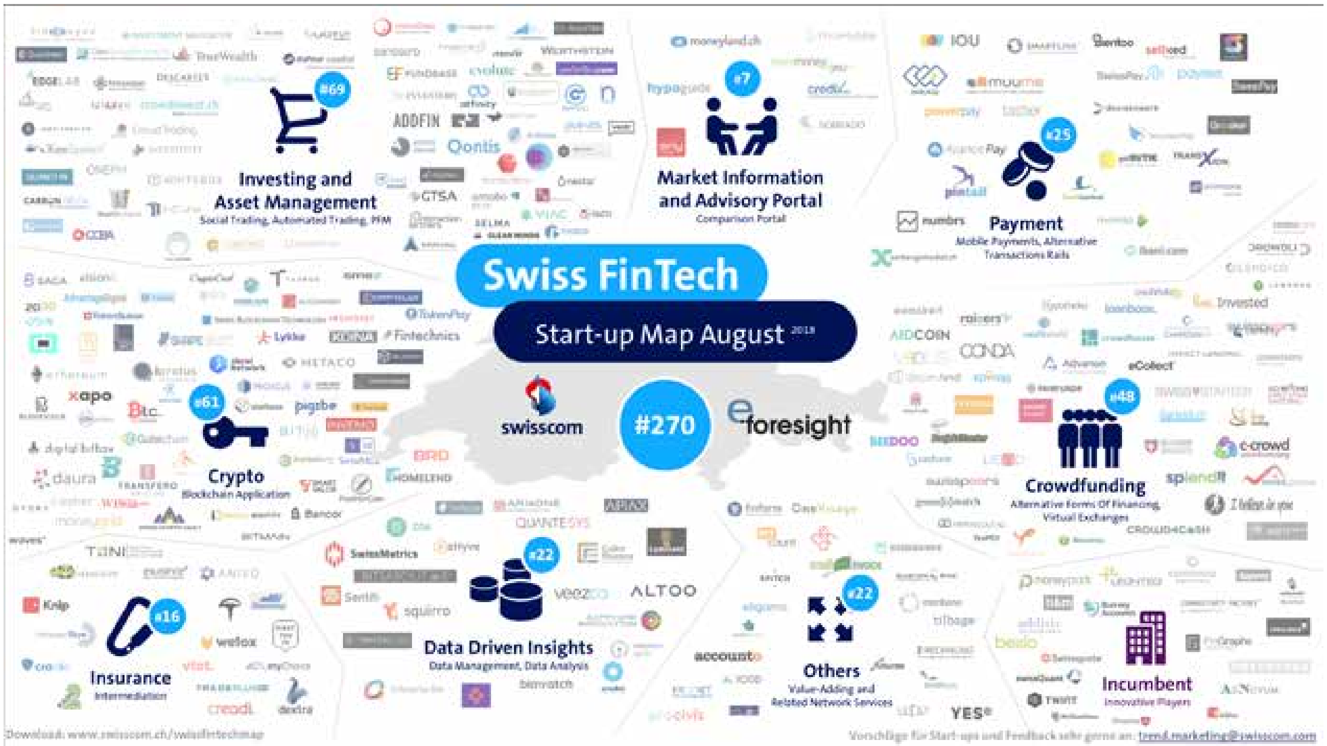
In 2018, Switzerland ranked second in the Global Entrepreneurship Index behind only the United States. Scoring 137 countries in 14 areas, the index considered attractive conditions for start-ups and the total number of tech start-ups working in niche markets. Switzerland was first in aspirations and abilities and ranked better than the U.S. in "opportunity start-ups" and "technology absorption". Swiss strong points were business internationalization and risk capital.

The small size of the Swiss tech market and multiple languages are problems, but the geographical location allows easy access European markets. Existing institutions and nonprofit organizations provide support and venture funds are available, especially for developed projects. A leading attraction is the close cooperation between companies, universities and political leaders who support digital progress.

Fintech Environment

Swisscom, the partially government owned (51%) major telecommunications provider, keeps constant watch monitoring and analyzing financial sector and digital trends, publishing a list of new tech start-ups every month.

The map below shows Swiss start-ups less than 10 years old that focus on both business model innovation and technologies and have reached a defined degree of maturity. There are 270 start-ups shown, most active in investment and asset management (69 companies) and cryptocurrencies (61 companies). In third place is crowdfunding with 48 companies. The map also shows start-up expansion from 2016 when there were with only 170 FinTech monitored start-ups, 39 in investing and asset management and 18 in crypto.



Click Here for Full Size Map

Zug and the Crypto Valley

The Swiss banking market has experienced significant change since the 2008 UBS scandals, not only in internal operating and reporting procedures, but also in accepting and accommodating crypto currencies, blockchain and initial coin offerings. Swiss acceptance of crypto is a good example of the positive attitude towards innovation.

Much of the activity in these new financial areas is located in an internationally recognized area known as “Crypto Valley” located in the Canton of Zug. The Crypto Valley Association founded in 2017 encompasses blockchain companies that promote growth and development of the industry. Sector leaders have endorsed Swiss financial regulation of cryptocurrencies because they see regulators as understanding the application and methodology of the technology.

The city of Zug is a small town about 30 minutes by car from Zurich. With nearly 30,000 residents, it is now famous as “Crypto Valley,” the home of over 200 crypto currency start-ups. Of the 123,000 residents of the Canton of Zug, 1.6%, are involved.

The Ethereum blockchain app platform, developed by the Ethereum Foundation, a Swiss non-profit company, is one of the best known. Ethereum is a decentralized platform that runs contracts on a custom built blockchain.

When crypto currency first appeared, large banks were opposed to the new technology, but this had been replaced by acceptance. In 2016, Bank Vontobel was the first to issue a bitcoin certificate listed on the SIX Swiss Exchange enabling investing in crypto currencies. In 2018, Falcon Private

Bank in Zurich, began storing and trading Bitcoin.

Switzerland also has its own regulated Swiss Crypto Exchange (SCX). The platform was built for blockchain products and crypto currencies such as Bitcoin and Ether. The company contributes to transparency in the market and provides safe, high quality access to blockchain based products. Switzerland's primary stock exchange, SIX, has indicated openness to offer crypto currency trading by 2019.

Most Competitive

Switzerland holds first place in the Global Competitiveness Index 2017–2018 rankings, with a score of 5.86, an improvement from 5.81, its previous year's first place standing.

The ranking covers over 130 economies and measures the national competitiveness based on institutions, policies and productivity. Switzerland scored high in legal rights protection, flexibility, high employment and low inequality, and for an even balanced among the components of competitiveness. Special mention was given for the public health system, primary education and a solid macroeconomic environment. The Swiss labor market is rated first as the best functioning, and second for new technologies.

The United States placed in second place with a score each year of 5.85 and 5.70. Other top scores were Singapore (5.71), the Netherlands (4.66), Germany (5.65) and Hong Kong (5.53).

US News magazine's 2018 annual country rating placed Switzerland first among 80 countries, with a 6.5 scored out of 10. Switzerland won this same USN ranking in 2017 based on ratings of citizenship, business, entrepreneurship, quality of life and cultural influence. Canada, Germany, the UK and Japan outranked the United States.

Switzerland has a well-developed infrastructure for scientific research, companies spend generously on research and development, and intellectual property protection is strong. Business activity benefits from a mature institutional framework, characterized by the rule of law, an efficient judicial system, and high levels of transparency and accountability in public institutions. Higher education and training are rapidly growing in importance as engines of productivity growth.

As a country dependent on exports for economic growth, Switzerland is linked closely to the economies of its customers in western Europe and the United States. The Swiss economy earns half of corporate earnings from exports, with 62% destined for the EU market. The EU is Switzerland's largest trading partner, enjoying minimal economic and trade barriers.

Switzerland shared the slowdowns experienced in these countries during the 1990s, when the Swiss economy was western Europe's weakest, with annual GDP growth averaging 0% between 1991 and 1997. After 1997, the economy steadily gained momentum until peaking in 2000 with 3% growth in real terms. The economy has been at or above potential since 2004 averaging about 2.5% per annum.

The US dollar/Swiss franc exchange rate depends geopolitical tensions. The dollar has depreciated against the Swiss franc beginning in 2002 falling to as low as 0.99 in 2018, later rebounding to $1.31.

The Swiss labor market enjoys stable employment normally unaffected by external economic problems. Full time work averages 41.7 hours a week, with 20 days of paid leave and 98 days of paid maternity leave. The unemployment rate was 2.4% in June 2018, the lowest since September 2008. One-fourth of the country's full-time workers are union members. Labor-management relations are good with the norm being negotiation rather than labor action.

Switzerland's precision machinery, metals, electronics, and chemicals sectors are world-renowned for precision and quality. Together, they account for over half of export revenues. In agriculture, the country is 60% self-sufficient, with 7.5% of imports from the U.S. Swiss farmers are among the most highly protected and subsidized group in the world. OECD estimates show Switzerland subsidizes more than 70% of its agriculture, compared to 35% in the EU.

World Travels and Trade

Tourism, banking, engineering and insurance are significant sectors of the economy and they heavily influence official economic policies.

Swiss trading companies have unique marketing expertise in Eastern Europe, the Far East, Africa, and the Middle East. Switzerland has a highly developed tourism infrastructure, making it a good market for tourism equipment and services. Tourism creates about 163,750 jobs in the country and is a leading economic sector.

The Swiss also are intrepid travelers. On a per capita basis, there are more Swiss visits the United States annually than to any other country. This makes tourism America's most important export to Switzerland.

The Swiss federal government remains divided over EU membership as a long-term goal. In a 2001 referendum more than 70% of Swiss voters rejected EU membership. EU membership is not a major issue.

In 1992, Switzerland rejected full membership in the European Economic Area. In its place in 1991, seven EU-Swiss sector agreements were signed known as "Bi-laterals I". These agreements included free movement of person, technical trade barriers, public procurement, agriculture and air and land transport. Switzerland is also a full associate in the EU's framework research programs.

In 2004, further agreements known as "Bi-laterals II" were signed. This allowed Switzerland's participation in the Schengen and Dublin agreements, with added agreements on taxation of savings, processed agricultural products, statistics, combating fraud and the participation in the EU Media Program and the Environment Agency. Agreements are in place regarding education, professional training and youth programs.

The Schengen agreement, allowing open borders among EU members and associated states, caused a heated political debate in Switzerland. Issues involved the basic nature of Swiss-EU relations amid populist warnings against EU workers and criminals entering Switzerland. In 2005 the Schengen-Dublin package was approved by a referendum of 54.6%. Fears of cheap labor coming from new EU member states in Eastern Europe have prompted government to provide surveillance committees to ensure that decent wages are enforced.

Under the 2004 bilateral agreement on the taxation, Swiss banks levy a 5% withholding tax on EU citizens' savings income which is transferred to their home governments. Under the Swiss bank secrecy law, the EU account holders who are taxed are not identified.

Low Swiss canton corporate taxes have produced threats of unilateral trade retaliation by the EU. The EU claim this is "unfair competition," as if the Swiss have no right to enact their own tax laws as they see fit. These EU attacks have caused increased anti-EU feelings among the Swiss people.

A government goal is to strengthen ties with other non-EU trading partners in Asia and America. US – Swiss exploratory talks on a free trade have bogged down due to Swiss rejection of free trade in agriculture, but there is agreement on the need for a US/Swiss framework for economic, trade and investment discussions.

Switzerland ranked 14th in 2017 among main U.S. trading partners, with exports of US$21,685 million and imports of US$35,997 million. In 2016, Switzerland was the 15th largest importer of goods to the US. US exports to Switzerland were US$22.8 billion and US foreign direct investments in Swiss stocks was US$172.6 billion in 2016.

For more information on the Swiss economy, see the official government website: **https://www.admin.ch/gov/en/start.html.**

CHAPTER 4

Swiss Banking

In a world in constant financial turmoil, Switzerland stands as the world's best all-around offshore banking haven.

The essential tenants of traditional Swiss conservative banking remain in place today: knowledge, discretion, informed advice, meticulous professional standards and maximum financial privacy.

These hallmarks survive in spite of the many compromises forced upon the Swiss by international pressure from the European Union, the United Nations and leftist critics, such as the Organization for Community and Economic Development (OECD) and neighboring governments in Germany and France, and also by the United States government.

Swiss National Bank Headquarters, Bern.
Very few financial centers around the world can offer quite so many strengths including bank client confidentiality and the protection of privacy. Every Swiss banker is well used to handling a large number of different currencies, something that bankers in most other countries cannot claim.
— Guy de Picciotto, CEO, Union Bancaire Privée, Geneva

Part One: Times of Troubles

Banking Secrecy

The eyes of the beholder define the Swiss Banking Law of 1934, and its famous Article 47.

Most of the Swiss people and their bankers see it as a traditional statutory protection essential for financial privacy. The pejorative phrase its attackers use is “banking secrecy,” a scandalous cover for billions in tax evasion by the wealthy from many countries.

Even at its inception, the 1934 banking privacy law came under attack by the Nazi German government seeking to confiscate funds from German Jews and others who opposed Adolf Hitler. In the ensuing 85 years, this privacy law properly has shielded the funds of exiled refuges from many countries. The law also created a high level of financial privacy that attracted trillions of dollars that the Swiss have managed profitably for investors worldwide.

Bank privacy and the 1934 law continues to hold majority support among the Swiss people. The voters decisively rejected a proposed 1984 constitutional amendment that would have opened bank records to tax authorities. In opinion polls since then, favorable support has ranged up to 81%.

The 1934 law remains in place, but that once nearly absolute privacy has been compromised greatly, even though it still guarantees financial privacy far stronger than any other nation.

By comparison, in the United States, the so-called PATRIOT Act of 2001 has abolished financial privacy, allowing government agents secret access to any information they demand.

Target Switzerland

Three decades ago Switzerland, and especially Swiss “bank secrecy,” became targets of a coordinated, full-scale international media propaganda and political war.

This attack was waged by big spending, high tax budget deficit governments in the United States, Germany and France, and by the European Union, and it was orchestrated by the Paris-based Organization for Economic Co-operation and Development (OECD). News media, with little understanding of international finance, but titillated by charges of massive “tax evasion” by rich people, provided uncritical coverage.

The joint objective was to weaken or abolish the Swiss 1934 law. Critics claimed this was necessary because Switzerland served as a secret haven protecting foreign clients who were evading billions of dollars in home country taxes. They labelled this as “unfair competition,” demanding it end. Leftist front groups wailed about the poor being denied money for needed programs.

Robert Vrijhof, founder and senior partner of WHVP, a leading Zurich investment manager and partner of Banyan Hill since our founding, says: “Ten years after the global financial crisis, Switzerland and its world-famous banking are stronger than ever. Discerning clients are trusting their wealth to Swiss banks because of our well-structured and experienced management, because of the safe Swiss franc, all this enhanced by the stable economic and political situation our country enjoys.”

While these critics cloaked their actions in calls for transparency and ending tax evasion, their motives were hardly so pure. Indeed, the governments of Germany and France paid huge bribes to bank thieves to obtain stolen Swiss bank records of nationals from those counties. A violation of bank secrecy is punishable under Article 47 of the Banking Law with fines up to CHF50,000 (US$52,000) and a prison sentence.

Perfect Storm

In 2008, proof of real tax evasion by Swiss bankers created a "perfect storm" seriously damaging Switzerland's hard-won reputation for sound banking.

UBS, the country's largest bank, was exposed for greed and stupidity by its bankers who aided tax evasion by thousands of citizens of high tax nations, including the U.S., Germany and France. This was revealed in highly publicized lawsuits by the U.S. Department of Justice against UBS and subsequently, numerous other Swiss banks. Since 2009, Swiss banks have paid over US$5 billion in fines and penalties to the U.S. and other governments.

In 1998, the U.S. Federal Reserve System granted an American banking license to UBS AG, created by the merger of the Swiss Bank Corporation and Union Bank of Switzerland. UBS grew to have about 80,000 employees worldwide, 30,000 in the United States.

Unknown to the U.S. IRS, UBS staff secretly began assisting at least 4,500 American clients illegally to evade U.S. taxes, conspiring from 2001 to 2006 to defraud the IRS. When the IRS finally realized fraud, the U.S. Department of Justice (DOJ) sued UBS, seeking the names of an alleged 55,000 Americans with UBS accounts.

The DOJ suits produced fines and penalties, but they also called into question the 1934 privacy law. Worldwide headlines cast a cloud over Swiss banking. The UBS-IRS scandal was a propaganda bonanza for the anti-privacy, anti-tax haven crowd that advocated an end to all financial privacy, especially in offshore centers.

The DOJ lawsuits were settled in 2010 with the UBS surrender of 4,500 names. About 120 U.S. persons were prosecuted and fined, and some also jailed. Thousands of Americans came forward to pay taxes, penalties, and interest under an IRS voluntary disclosure program that ended in 2018. The IRS claims their efforts have collected billions.

UBS paid the U.S. government a $780 million fine for tax evasion and an additional $200 million for SEC violations. Credit Suisse Group AG pleaded guilty and paid a $2.6 billion penalty. Many other Swiss banks were penalized. Among the casualties, Wegelin & Co. in St. Gallen, founded in 1741, the oldest bank in Switzerland and the 13th oldest in the world, closed its doors.

It can be argued that, over time, strict Swiss bank secrecy would have been relaxed to some degree anyway — but the villain in this historic defeat was UBS, a mismanaged, greedy, tax evading behemoth bank. Ironically, UBS had demanded and received a multi-billion-dollar bailout package by the Swiss government, when it posted record losses during the 2008 world recession.

Bank Privacy Today

The Swiss Banking Law of 1934 remains in force today.

This law does offer greater privacy than in the U.S., where the PATRIOT Act has abolished financial privacy. In Switzerland it remains a crime for bank staff to violate client privacy, subject to a sentence for violation of five years in prison.

Ironically, a leading left-wing group active in attacking Swiss bank secrecy, the so-called Tax Justice Network (TJN), publishes an annual Financial Secrecy Index. It did them a favor by listing Switzerland in 2018 as the number one in bank secrecy country worldwide, with the highest score of 76 on a global scale. The TJN report concludes that the Swiss banking secrecy law remains in place, even though it now permits exceptions for countries seeking tax related information.

Bank Tells Almost All

The UBS and related scandals indeed have changed the country's banking practices, reporting requirements, and diminished banking "secrecy."

The ever-efficient Swiss opted for a streamlined procedure now in place that allows individual banks to hand over data about American clients directly to the IRS. This procedure mirrors that of the UK, France, Germany, Spain and Italy, using direct Swiss government-to-IRS contacts.

A special Swiss domestic bank program allowed banks to resolve criminal liabilities involving U.S. clients. Banks must provide details of all cross-border activity, list all U.S. client accounts, and close accounts of those unwilling to comply with IRS rules and to pay penalties. In Switzerland, over 100 banks now participate in this program to disclose undeclared American accounts and pay penalties. A Joint Statement between the U.S. Department of Justice and the Swiss Federal Department of Finance provides the details: https://www.justice.gov/tax/file/631356/download.

Many thousands of Americans names and their information were collected by the IRS under the 2012 Offshore Voluntary Disclosure Program (OVDP), from whistleblowers and under the terms of the 2010 Foreign Account Tax Compliance Act (FATCA), which requires foreign banks and financial institutions to report on American clients.

FATCA enforces U.S. tax compliance by the exchange of information on U.S. persons with foreign accounts. All financial institutions, such as Swiss banks or asset managers, had to increase tax reporting and hire legal and compliance staff to meet FATCA's regulatory demands. For a small example, a KPMG International 2013 survey of 200 global hedge fund managers estimated annual FACTA costs by then totaled US$3 billion, adding 7% to operating costs.

In addition to FATCA, Switzerland ratified the [Multilateral Convention on Mutual Administrative Assistance in Tax Matters] that went into effect on January 1, 2017. Thanks to the treaty, Switzerland now automatically shares information on accounts held by foreigners

Now, Swiss banks pass details of foreign clients to the Swiss tax office, which transmits the data to countries with which it has a treaty. Switzerland receives data of Swiss citizens with bank accounts in those countries. In 2018, deals with 38 countries were in place. A second group of 41 countries was approved by the government and will become operative in 2019.

Financial Safeguards

The **Financial Services Act** (FinSA, German acronym FIDLEG) and **Financial Institutions Act** (FinIA, German acronym FINIG): These are laws that create a new Swiss financial market architecture. The Swiss parliament adopted both in 2018 to take effect January 1, 2020. These laws aim to improve client protections. FinSA focuses on a code of conduct governing financial asset manager conduct with clients and FinIA standardizes rules for financial institutions.

Basel III: It is appropriate that the voluntary rules governing the world banking industry, known as the "Basel Accords," are administered by the Bank for International Settlements in Basel, Switzerland. Since 1988 the goal of these rules has been to strengthen regulation, supervision and risk management of banks by setting minimum capital requirements which apply internationally. Since 2009, all the G-20 major economies are represented officially, plus some other major banking centers such as Hong Kong and Singapore.

Markets in Financial Instruments Directive II (MiFID II): This European Union law provides harmonized regulation for investment services across the 31-member states of the European Economic Area. Its aim is to ensure greater transparency and fair, safe and efficient markets to protect investors. It does this by allocating fee costs, reporting trading activity and forbidding fee splitting. Information about these safeguards is available from the Swiss State Secretariat for International Finance (SIF): https://www.sif.admin.ch/sif/en/home.html.

A New Switzerland

As authors, we have not tried to minimize the troubles of the Swiss banking and investment industry during the last decade, many of them self-inflicted.

The total number of Swiss banks is down a third from 2008, to a total of 253 in 2017. Assets under management have been cut in half to about US$6.8 trillion. The number of employees in finance and banking has dropped, as well.

The end of bank secrecy, competition from other offshore financial centers, and Swiss official accommodations on data-swapping under the OECD, all have taken their toll. Some traditional

Swiss banking clients, for example from Latin America, have retreated from Zurich and Geneva in favor of centers like Miami.

But Zurich has recovered its allure as a safe haven and now is Europe's second-most important financial market, behind London and ahead of Frankfurt.

Switzerland's largest city has scored as a fintech center, helping it move back into the top ten in the index of global financial centers. The city also has a wealth of experts in banking, but also in hedge funds, insurance and re-insurance.

Swiss News Asia in July 2018 had this to say: "The seismic changes have taken their toll. But what gets lost in the gloom and doom is that the industry's paradigm shift can make way for a new era. Depending on your point of view, today's turning point represents the end of an era or a promising new beginning. There are plenty of signals for the latter."

Tough Anti-Money Laundering

The 1998 Swiss Money Laundering Act was the first anti-money laundering law in Europe. It is one of the world's most comprehensive legal mechanism for fighting money laundering. The Act forces all financial intermediaries, not just banks, to identify clients and to determine beneficial owners of assets. In 1990, Switzerland also was one of the first European countries to make money laundering a criminal offense.

That law resulted in the demise of the anonymous Swiss bank account, the *compte anonyme*, as the French-speaking Swiss termed it. Previously, it was possible for an attorney to open a "nominee account" in which the identity of the lawyer's client, the beneficial owner, need not be revealed to the bank and was known only by its number — thus the storied Swiss "numbered account" famous in movies and fiction writing.

The 1998 Act obliges all financial intermediaries to identify for themselves all clients and to establish the beneficial owners of the assets involved, an application of the now famous "know your customer" (KYC) rule.

The Act is also backed by rules against money laundering in the Swiss Criminal Code and by Federal Banking Commission guidelines. In addition, all financial companies must report to the authorities any suspicions they have about possible money laundering and must freeze suspicious assets. For more than 20 years now, the Swiss banks have observed a voluntary "Due Diligence Agreement" which contains the KYC directive.

Popular Swiss Bank Secrecy:

Swiss citizens clearly favor maintaining bank client confidentiality. In a 2009 poll by a Lausanne based market researcher, 78% said they were in favor of keeping it. In 2008: 81%, 2005: 78%, in 2004: 76%. In another poll conducted by the Gallup group, 56% defend banking secrecy but the same number said banks should assist foreign authorities when Swiss accounts are suspected of tax evasion and tax fraud.

In 1998, an even stricter money laundering law took effect that transformed Swiss banking in a fundamental way.

Previously, bankers had the option of reporting suspicious transactions to police authorities. Now, under pressure from world governments pursuing corruption, drug cartels and organized crime, Switzerland mandates that banks report "suspicious transactions." Failure to report is a crime; bankers can now go to prison for keeping secret the names and records of suspected criminal clients. This is quite a switch, since not so long ago they faced imprisonment for failing to keep such suspicions secret.

If a bank has a well-founded suspicion that assets are connected with criminal activities or belong to a criminal organization, it must report this immediately to the Money Laundering Reporting Office (MLRO). A bank that files a report to the prosecuting authorities or to the Office immediately must freeze the account and the assets in question pending the outcome of the investigation.

Together, Swiss banking laws, the Penal Code, anti-money laundering laws and rules issued by the Swiss bank regulators, plus self-regulatory directives issued by the Swiss Bankers Association, create formidable restrictions that keep cash clean and banking reputable.

- Banks must know their customers, verifying a client's identity with valid documentary proof when opening an account.
- Deposits for a third party must identify in writing the beneficial owner.
- Banks cannot accept, deposit, invest or transfer assets, they know or should know, come from corruption or misuse of public funds.
- If a "politically exposed person" is involved (e.g., a foreign head-of-state or government official or their close family members), only a bank's senior executive body can approve opening an account.

Banks are required to take a risk-based approach to prevent money laundering. They have in place criteria identifying relationships that might involve legal risks and transactions requiring a higher degree of due diligence.

Part Two: World Class Banking System:

Reputation to Uphold

Surveys repeatedly show that when individuals consider choosing a bank, the major attraction for new customers is a bank's reputation. Switzerland's solid financial reputation is central to the claim that this nation serves as "banker to the world."

For centuries, as European empires and nations rose and fell, Swiss topography and political determination combined as potent defenses assisting this unique nation, together with a policy of neutrality towards others.

The importance of the banking system and its famous financial secrecy are a part of national life. In 1992 and 2001 national polls, Swiss voters rejected membership in the European Union, rightly fearing EU bureaucratic interference with Swiss privacy and banking laws. National ballots soundly have rejected specific proposals to ease Swiss bank secrecy laws and recent public opinion polls reaffirm this position.

After each of these national plebiscites, and during world recessions and wars, even greater amounts of foreign cash flowed into Swiss banks, confirming the widespread notion that Switzerland is the place to safeguard cash and personal assets. It is estimated that Swiss banks currently manage one-third of all assets held offshore by the world's wealthy.

For centuries the Swiss stereotype has been as a country of conservative people living in an organized society that is given to perfectionism, precision and punctuality.

A global survey of private banks published by PricewaterhouseCoopers found that the major attraction for a bank's new customers is reputation. Certainly, Switzerland's solid financial reputation long was central to the repeated claim that this alpine nation served as "banker to the world," and indeed it did.

And despite recent troubles, Switzerland still serves the world in that much needed international banking role.

Swiss banking privacy is legendary, but secrecy is not the most important reason for Switzerland's success.

Of far greater significance is the country's political, financial and economic stability and strength. In 2014 the service sector contributed 70% of Switzerland's economy, with financial services at 5.8% of all Swiss employees. In 2012, banks employed over 105,000 people, that is one out of 46 jobs.

Three factors make Switzerland the world's largest center of private banking:

- Swiss political neutrality attracts wealthy persons from conflicted countries seeking safety for their money and assets. The Swiss provide banking safety, conservative financial policies and the world's recognized safe haven currency, the solid Swiss franc.
- Switzerland enjoys statutory maximum banking privacy, careful regulation and controls against money laundering.
- Most of the world's largest companies and many hundreds of thousands of foreigners bank with the Swiss. At the start of 2015, Swiss banks had USD$2 trillion assets under management, a 14% increase over 2008, the year worldwide depression began.

Banks range in size from small private and regional banks, to the two giants, Union Bank of Switzerland (UBS AG) and Credit Suisse. These major Swiss banks have branch offices in world financial centers, Hong Kong, Singapore, London, New York, Panama, Tokyo and Cape Town.

Consolidation in the Swiss banking sector has slowed since the 1990s. In 2017, there were 253 independent Swiss banks . Mergers among smaller institutions continue forming strategic and logistical alliances. Gross operating income measures overall business volume, and UBS and Credit Swiss hold about 50% of the market, followed by the cantonal banks and foreign banks, each with 15%.

Swiss banks combine traditional banking with international brokerage and financial management. To guard against inflation or devaluation, Swiss bank accounts can be denominated in the currency of your choice — Swiss francs, U.S. dollars, euros or almost any other currency. An account opened in one currency can be switched to another denomination, even for short-term profits or long-term gains and safety.

Banking Services

Swiss bankers are respected worldwide because of their distinguished education and highly efficient and discreet approach to their work and their clients.

Simple, traditional and efficient processes allow services at comparative fees, benefitting from the available national capital market. The Swiss bond market, popular among international bond issuers, had strong local demand and attractive financing terms. A high savings rate and inflow of foreign capital combine allowing banks to offer lower cost borrowing.

One can invest in certificates of deposit, stocks, bonds, mutual funds and commodities from any nation; buy, store and sell gold, silver and other precious metals; and buy insurance and annuities. Swiss banks can act as your agent to buy and hold other types of assets, such as precious metals. Of course, Swiss banks also issue international credit and ATM debit bank cards.

Bank officers and staff are fluent in English and many other languages. Swiss banks are equipped for, wire, e-mail or telex and instructions are carried out immediately. Depending on your instruction the bank requires an originally signed letter for your own safety. For example, if you wish to take some money out of the account. Alternatively, just phone your own personal Swiss banker or asset manager who handles your account. Swiss local time is six hours ahead of the eastern United States.

In ownership and title to assets, Swiss and foreign citizens have equal eights. Constitutional guarantees of ownership apply without regard to nationality or country of residence.

As in most countries today, “know your customer” rules have complicated the opening of a Swiss bank and proof of identity and references are required. A larger obstacle is the high minimum deposits required by most banks. A few years ago, many banks were content with initial deposits of a few thousand dollars. Now, Switzerland’s popularity among foreign investors, plus the cost of administering “know your customer” and other reporting laws, has increased deposit minimums to US$1 million.

Swiss banks often require foreigners to apply in person to open a new account. Because of onerous U.S. government FACTA and other reporting requirements of Americans, many Swiss banks no longer are willing to do business with U.S. persons — unless a large sum of money is involved. As we explain in Chapter Six, account opening problems are avoided by working with an

SEC-registered independent asset manager. Your IAM will arrange opening the bank account and serves as contact between you and your bank.

Inside Swiss Banking

The Swiss take great pride in their role as the world's center for asset and investment management, an important part of the "Swiss brand." Centuries of political neutrality and ultra-conservative financial policies have been augmented low interest-rate official policies.

Switzerland's banking sector is markedly different from other banking centers. New York and Tokyo, for example, both labored under national laws that forced a strict division between activities of banks and securities companies. Swiss banks historically have been free of such restrictions, able to offer universal banking services, as well as investments.

The Swiss banks offer a wide range of financial services including commercial banking, personal accounts, deposits and loans. These same banks also are in the securities business, conducting stock market transactions and underwriting. The Swiss successfully have managed the conflict between the safety-first attitude of commercial bankers anxious to protect the value of deposits, and investment bankers with risk-taking attitudes.

At the end of 2017, there were a total of 253 banks in Switzerland. In addition to the two big banks, there are 24 cantonal banks, semi-official entities with state guarantees charged with promoting the canton's economy with commercial banking. There are also smaller regional and savings banks. There are also 53 stock exchange banks, which provide brokerage and portfolio management.

The Raiffeisen Group of affiliated independent local banks with local roots are organized as cooperatives. Dating back over a century, they have most, about 1,000 branches. In 2017 there were also 81 foreign banks.

Types of Banks

Whatever personal or business requirements you may have, there are many Swiss banks to fit your needs.

Big Banks: In 1998, the then two largest Swiss banks, the Union Bank of Switzerland and the Swiss Bank Corporation, merged, creating UBS.

UBS is a world leader in wealth management and services for individual and corporate clients and important globally in investment banking and securities. The second largest bank, Credit Suisse, globally provides financial services, and through its associated Winterthur Insurance Company, insurance and pension services.

These two global banks are huge by any standard — which is a good reason to avoid them, before you get lost in the crowd. They dominate in Switzerland and have extended their influence by buying and merging banks in the United States and elsewhere. Both are active in international investment banking and have special private banking divisions, but these services tend to change personnel often and offer truly personal service only to the very richest clients.

Cantonal Banks: An alternative can be found in banks run by the various Swiss "cantons," as the largely self-governing provinces are called. These cantonal banks offer full services, have relatively low minimum deposits and each cantonal government insures the deposits. Within Switzerland's federalist structure, 24 of the country's 26 cantons have their own cantonal banks.

Founded in the 19th Century, the cantonal banks reflect the development of their respective economies and peoples. Varying in size, traditionally they engage in mortgage lending and credit provision to small and medium-sized enterprises. In recent years, some have diversified into private banking, personal loans and export finance.

Regional & Savings Banks: Swiss regional and savings banks are similar to cantonal banks, but typically restrict their business to smaller regions or selected territories within Switzerland. They are usually small or medium-sized local institutions principally active in mortgage lending and savings. Although they are full-service banks, they do not, as a rule, engage in international business. Most of them are affiliated with RBA Holding SA, which acts as their clearinghouse.

Raiffeisen Banks: This group consists of some 292 individual Raiffeisen banks organized along co-operative union principles and inspired by the philosophy of the German social reformer Friedrich Wilhelm Raiffeisen (1818- 1888). Raiffeisen banks are credit co-ops that serve the needs of a local and predominantly rural clientele, numbering more than 3.7 million.

Foreign Banks: A surprising fact is that over 40% of banks in Switzerland are foreign owned banks. They are subject to Swiss banking law and regulated by the Swiss Federal Banking Commission, as are all banks. Most of the world's leading banking groups are represented in Switzerland and are particularly active in private banking.

Private Banks: These banks specialize in personal service banking and individual asset management for those who are generally known as "high net worth individuals." In Switzerland the term "private banker" is reserved for those banks where the banking partners carry unlimited personal liability for their bank. At this time, there are only six truly "private bankers" in Switzerland and they are among some of the country's oldest banks, some tracing their history back to the 18th Century. Minimum deposits start at US$1 million or more.

Specialty Banks: A small number of banks specialize in serving various business areas, concentrating on the stock exchange and securities business, mortgage investments or commercial loans to finance trade, industry and commerce.

Strict Control, High Quality, Safety

Swiss banks have attained their unique position with financial expertise, honesty, international capabilities and the high percentage and quality of their reserves, much of it in gold and Swiss francs. The Swiss financial industry is tightly regulated, with banks strictly supervised by the Swiss Federal Banking Commission (SFBC).

Swiss law imposes stiff liquidity and capital requirements on banks. The complicated official liquidity formula results in some private banks maintaining liquidity at or near 100%, unheard of in other national banking systems. The Swiss reputation also rests on the fact that banks traditionally hold substantial unreported, hidden reserves. Every month, Swiss banks with securities investments must calculate the value of their holdings to market price or actual cost, whichever is lower. That assures Swiss banks will not have unrealized paper losses as too often happens in other countries.

Swiss banks are also subject to two regular audits. The first audit is to ensure compliance with the Swiss corporation law. The second is the banking audit, conducted by one of 17 audit firms specially approved by the SFBC. These exacting audits provide the primary guarantee for Swiss bank depositors.

Supervision and regulation of Swiss banking surpasses that of any other nation. In addition, the banks have comprehensive insurance to cover deposits, transfers, theft or abnormal losses. As stated on the Swiss Financial Market Supervisory Authority FINMA, "If a bank or securities dealer is declared bankrupt, deposits up to a maximum of CHF100,000 per client are secured. Unlike deposits, custody account assets (e.g. shares and fund units) belong to the client. By law, they are segregated entirely (i.e. not included in the bankruptcy proceedings) and returned to the client. This is also the case with client-owned precious metals deposited physically at a bank."

Three Centuries of Private Banking

The banks that gave Switzerland its special banking flavor are known as "private banks," and some few survive, but they are dwindling in number. They catered to the wealthy elite, providing personal banking, portfolio and wealth management services.

A "private bank," according to Swiss law, is organized as an unlimited partnership, with each partner sharing liabilities and assets. Only six remain according to this definition, though many former private banks have now incorporated as part of other banks. Some of these banks were involved in infamous scandals involving Nazi loot and corrupt cash from notorious dictators such as Haiti's Papa Doc Duvalier and the Marcos family of The Philippines, who plundered their country's treasuries for personal use.

Private banks as unlimited partnerships had their origins in the revocation of the Edict of

Nantes in 1685. The "Sun King," Louis XIV of France, withdrew the civic rights of Protestants causing the French Protestant Huguenots to flee the country and start banking in Switzerland. Those surviving banks have a rich history. Landolt & Cie in Neuchatel was founded 235 years ago in 1780. It became the oldest bank in Switzerland in 2013, following the collapse of Wegelin & Co. under threat of IRS lawsuits.

Some banks existed in Geneva even before the canton joined the Swiss Confederation. The five banks in the Geneva, *Groupement des Banquiers Prives Genevois*, have an average age of 190 years. As in the past, these banks mainly provided traditional private banking services, employing over 30,000 jobs and managing US$1.69 billion. Consolidation trends in the banking industry threaten the future of the private banks. Even so, the Swiss pioneered and still excel in this "private banking."

This exclusive type of banking specializes in asset management for "high net worth individuals" (HNWI). The number of private bankers, never very large, has diminished. The private banking focus has shifted towards wealth management, including comprehensive estate planning and investments. Services insurance, tax advice, pension and estate succession planning. Many international clients also receive banker concierge services arranging the pleasures of skiing holidays, golfing excursions, cultural events, *haute cuisine*, hotel and transport, real estate rentals and health care needs.

Fiduciary Investment Account

A popular account for foreign investors is the "fiduciary account." A Swiss bank investment manager oversees the account, but all investments are placed outside Switzerland, as the account holder directs. Funds that pass through the account are therefore exempt from Swiss taxes.

The fiduciary account is in two forms: an investment account and a fiduciary loan account. With the *investment* account, the bank places the client's funds as loans to foreign banks in the form of fixed-term deposits. In the *loan* account, the customer designates the commercial borrower. Although the bank assumes no risk, it provides an important service by conducting a thorough investigation of the prospective borrower's credit credentials. Many international companies use fiduciary loans to finance subsidiaries.

There is an element of risk in making such loans, because in the event of currency devaluation, or the bankruptcy of the borrower, the lender can lose.

Discretionary Accounts

With over 250 years in the international portfolio management business, Swiss banks are among world leaders in investment management. Experienced money managers constantly analyze world markets, choosing investments with the greatest potential and a minimum risk. Swiss banks offer a broad selection of investment plans diversified by industry, country, international or emerging markets. Non-bank independent financial managers can be employed to invest deposited funds and bank loans can be arranged for investment purposes. These accounts are best managed by a Swiss portfolio manager, as explained in Chapter 6.

U.S. Reporting Requirements

What follows may seem discouraging, but there is no reason for alarm.

If a U.S. person has a bank or other financial account in Switzerland, or in any foreign country, in most cases they must inform the U.S. government about the account.

You simply will need experienced U.S. tax and legal professional for guidance and to handle filings. Swiss banks and investment advisors are familiar with U.S. reporting rules and will assist by providing all the timely information needed for filing.

But even simple international transaction may require complex reporting, so an experienced U.S. international tax expert should advise and review your filings. Many Swiss banks now require American account holders to sign a statement certifying that they have complied with all applicable U.S. tax laws.

In 1960, the U.S. Congress first required companies and individuals to disclose international assets. Later laws expanded reporting obligations and dramatically increased penalties for noncompliance. Each law had its own justification and was often promoted by a special interest group. For example, the fight against organized crime produced a 1970 law that required reporting of foreign accounts held by individuals, domestic trusts, and business entities.

Each law added to a tangle of uncoordinated reporting obligations and penalties. Additionally, rules imposed by the U.S. Treasury agency, the Financial Crimes Enforcement Network (FinCEN), greatly expanded the scope of investments that U.S. taxpayers must report annually. It's difficult to navigate, even for international tax specialists.

FBAR

One of the most common reporting forms is the Report of Foreign Bank and Financial Accounts (FBAR). U.S. persons long have been required to submit the Foreign Bank Account Report (FBAR), FinCEN Form 114, (the former U.S. Treasury Form TDF 90.22-1) by June 30 each year.

A U.S. citizen or permanent resident must file an FBAR if they have financial interests in, or authority, over foreign accounts with an aggregate value of $10,000 or more at any time during the preceding year. The form filing is due the same date as your personal tax return, (April 15 each year), but must be filed electronically at a Treasury Department portal. Fortunately, there is an available six-month filing extension for this form by filing Form 4878 for your regular return.

The penalties for noncompliance are draconian. A fine can be imposed for each unreported account for each year there was failure to file the FBAR. Penalties for willful failure to file the form are worse. In 2018, the U.S. Treasury increased the penalty for failing to file the FBAR to $12,921 for each year of negligently failure to file. The penalty for willfully failing to file the FBAR was increased to $129,210, or 50% of the balance of your foreign accounts, whichever is greater. It's much easier for the government to prove "willfulness" than you might think. The courts have ruled that simply signing a tax return under penalty of perjury demonstrates willfulness.

It can be difficult to know whether or not you need to file an FBAR on a specific international financial relationship. If you have signature authority over an account at an international bank or brokerage, that relationship is reportable. However, the published IRS guidance on whether you must disclose details of other international relationships is unclear.

In addition to the FBAR, you must acknowledge foreign accounts with an aggregate value exceeding $10,000 on Schedule B of IRS Form 1040, the annual income tax form. Depending on your circumstances, you may need to file other disclosures as well:

- IRS Form 8938 form followed the enactment of the Foreign Account Tax Compliance Act (FATCA) in 2010. You need to file this form if you hold more than $50,000 of financial assets offshore. The thresholds are higher if you're married or live permanently outside the U.S.
- You must file IRS Form 8621 if you have investments in offshore mutual funds.
- If you own an interest in a non-US business entity, you may need to tell the IRS. They want to know about something as simple as owning a retirement home in another country. The relevant forms are Form 5471 for foreign corporations; Form 8865 for foreign partnerships; and Form 8858 for foreign disregarded entities.
- The US grantor (i.e., the person funding) a foreign trust must file Form 3520-A annually. They may be required to file Form 3520 as well.

Non-Reputable Foreign Investments

These three types of investments usually, and currently, are excluded from IRS reporting, so long as a U.S. person makes purchases without opening an associated "bank, securities, or other financial account," or uses such an account to maintain custody: **1)** offshore real estate **2)** most insurance policies and **3)** directly purchased foreign securities.

However, even a mere book entry in a foreign corporation's records is considered an "other financial account" if the corporation transmits or disburses funds or otherwise functions as a bank on behalf of the securities owner.

The IRS has complicated rules governing the types of foreign life insurance policies that are reportable. There may be punitive FBAR tax penalties imposed by the IRS for not reporting the life insurance policies correctly. These rules should be fully discussed and understood before a US person buys a foreign insurance policy of any type.

Real Estate Investments

Direct ownership of real property in Switzerland or any foreign country, including a timeshare arrangement, is not a reportable foreign account as defined in the FBAR Form. However, real estate holdings are generally a matter of public record in the jurisdiction where they are located, and they cannot be liquidated easily. If you own real estate through a holding company or trust, that entity may be required to file its own disclosure forms.

While the default rule is that foreign real estate is not reportable, most US persons do need to report their real estate holdings on IRS Form 8938. This is because foreign property is usually held in an offshore trust or foreign corporation and shares in entity must be reported on Form 8938 and elsewhere.

If you wish to purchase and hold real estate in a foreign country without disclosing your ownership, this can be accomplished by placing title in an international business corporation (IBC) located in a nation such as Panama where beneficial ownership does not have to be disclosed. Your IBC does not have to be registered in the same nation where the real estate is located. Many countries have rules that require beneficial ownership to be revealed in legal proceedings, but not on a public register.

Safekeeping Arrangements

Valuables or documents such as stick shares, purchased outside the U.S. and placed into a *non-bank* safety deposit or private security vault, do not constitute a reportable foreign account. If the box is provided by a bank where you have an account, it is reportable.

To avoid personally having to visit the box each time you wish to add or remove valuables, you can give a local attorney or other trusted intermediary a limited "power of attorney" allowing them to perform this function.

Materials held in a safety deposit box or private vault are not ordinarily insured against theft or other loss. Supplemental insurance can be purchased, but the existence and location of the assets must be disclosed to the insurer.

Safekeeping is available through companies that offer private vaults, many of them non-financial institutions. As such, they are subject to fewer record- keeping and disclosure requirements and some permit anonymous vault rentals. Most honor power of attorney arrangements. A recommended Swiss private vault service, Loomis International (CH) AG, has four offices:

ZURICH
Loomis International (CH) AG
Steinackerstrasse 49
P.O. Box
CH-8302 Kloten
Phone: +41 43 488 9292
Email: zurich@int.loomis.com

NEUCHÂTEL
Loomis International (CH) AG
Rue des Perveuils 8
P.O. Box
CH-2074 Marin-Epagnier
Phone: +41 43 488 9292
Email: zurich@int.loomis.com

CHIASSO
Loomis International (CH) AG
Via Milano 5
P.O. Box 1745
CH-6830 Chiasso
Phone: +41 91 695 3010
Email: chiasso@int.loomis.com

GENEVA
Loomis International (CH) AG
Route des Moulières 5Z.I.
ZIMEYSA 11BCH-1217 Meyrin
Phone: +41 22 939 0660
Email: geneva@int.loomis.com

Banking Questions & Answers

Q. What does "bank-client confidentiality" mean?

A. Swiss banks have a duty to keep confidential all facts about their customers. It is a legal right of the customer to have his or her records and data protected. This right to financial privacy is written into the Federal Constitution, Section 13.

Swiss Federal Constitution, Art. 13, Right to Privacy:

1. All persons have the right to receive respect for their private and family life, home and secrecy of the mails and telecommunications.
2. All persons have the right to be protected against the abuse of personal data.

Q. Does confidentiality shield criminals?

A. No. Bank confidentiality is not absolute. Swiss banks must disclose information in criminal proceedings against their clients, regardless of whether the criminal offense was committed in Switzerland or abroad, but a judicial determination must first be made before access to client information. Suspected money laundering must be reported to the government by banks or other financial institutions.

Q. Can bank accounts be anonymous?

A. At one time in the past they could be, but no longer. Banks follow "know your customer" rules that require identification of the person opening an account and/or the identity of the beneficial owner.

Q. But, aren't those famous "numbered accounts" anonymous?

A. No. Contrary to popular myth, there now are no truly anonymous "numbered" accounts in Switzerland (if there ever were). The name of the account holder of a numbered account is and always has been known, although only to a limited number of the bank staff. There is no real difference between numbered accounts and any other accounts, except greater secrecy.

Q. Why do political dictators have bank accounts in Switzerland?

A. Switzerland is the global leader in asset management. In the past, dictators or other undesirables sought Swiss accounts for the same reasons all others do — it is a very safe place for your cash and other assets. Learning from experience, Switzerland has implemented rules governing the treatment of assets of "politically exposed individuals." In several well-known instances, Switzerland has returned hundreds of millions of dollars to nations whose leaders dishonestly opened Swiss accounts, but only after proper judicial determination of the rightful owners.

Q. Can anyone open a Swiss bank account?

A. In principle, anyone can open a bank account in Switzerland. However, banks reserve the right to reject customers. A bank might refuse services to a "politically exposed person" it believes would pose a risk to the bank's good reputation if he/she were a client. It might refuse if there are doubts about the origins of the funds. Alternatively, an applicant may not be able to meet minimum deposit requirements.

Q. Can I open a Swiss bank account from abroad?

A. Swiss banks have strict procedures concerning the opening of accounts. Many, if not most, require a personal interview. You can also work together with an independent asset manager. Due diligence requires that the bank verify a customer's identity with an official document, such as a passport from his actual country of residence, by the use of utility bills or other residential proof.

Q. Can I open a Swiss bank account on the Internet?

A. No. Internet procedure prevents the valid customer identification required by Swiss law. Banks can open an account by following identification procedures by e-mail or postal correspondence. In this process, the bank verifies identity by obtaining a certified copy of an official identification document, such as a passport or national identity card. This may be provided by a bank, a financial intermediary appointed by the bank or by a notary or public office that customarily issues such authentications. The bank also checks the physical address of a new customer through an exchange of correspondence.

Q. What questions will the bank ask?

A. You must show proof of your identity and the identity of the beneficial owner of assets being deposited for someone else. They may ask for proof of the origin of the funds, the nature of your business and the type of financial transactions you desire. They may inquire about your future financial plans. If the bank is to manage an investment portfolio, they will ask the degree of risk you are willing to take. The more the bank knows, the more it can tailor its advice and service to your individual needs.

Q. What documentation will the bank need?

A. Most banks prefer a face-to-face initial discussion. They will want to see official identification papers as described above with a photograph ID. They may ask for documentation proving the origin of the funds, such as a contract for a recent real estate sale, a statement from your foreign bank, or a receipt from the sale of securities. They may also ask for personal references.

Q. Is there a minimum opening deposit?

A. Most Swiss local banks do not require a minimum deposit for an ordinary checking, current or savings account for foreigners living in Switzerland. However, private bankers and wealth management services do require a minimum deposit, often as much as US$1 million or the equivalent in any currency.

Q. How much interest will the bank pay?

A. That depends on current market conditions, interest rates and the type of account you open. The nation's high savings rate and large inflow of foreign funds make Switzerland an enclave of low interest rates compared with other European nations and rest of the world, for larger amounts you currently even have to pay negative interest rates. At this time, the average rate for mortgage loans is around 1% to 1.5% . For investment loans, the figure varies from 4% to 7% depending on the credit rating of the borrower.

Keep in mind that Swiss entities paying interest or dividends are legally required to deduct a 35% withholding tax. Swiss taxpayers have this tax credited against their tax bill. Foreigners can claim a tax refund from their home country if it has a double taxation agreement with Switzerland.

Q. How safe are Swiss banks?

A. The Swiss Federal Banking Commission (SFBC) licenses all banks. The SFBC, which is a member of the international Basel Committee on Banking Supervision, supervises all banks according to strict standards of not only equity and capital adequacy, but also prudential and behavioral rules. Swiss law demands capital adequacy standards even higher than those required by the Basel Accords.

There is no government deposit insurance in Switzerland. However, your deposits are probably safer in a Swiss bank than in most other banks in the world. Here is why: Swiss banks have signed an agreement by which they must agree to compensate depositors for up to CHF100,000 (US$103,000) of their deposits in a bank if that bank goes bankrupt. Each bank would then pay a share of the total compensation proportional to their size. The Swiss postal savings system is an exception, since all deposits there are fully guaranteed by the Swiss government. Unlike deposits, custody account assets such as shares, or bonds belong to the client. By law they are segregated entirely and controlled by the client.

Recommended Bank Contacts

Banyan Hill has special arrangements for our members who wish to obtain accounts with one of Switzerland's leading banks.

Opening a Swiss discretionary portfolio management account usually requires a minimum deposit of US$1 million. Thanks to special arrangements made by Banyan Hill Council of Experts member, Robert Vrijhof of Zurich, some banks welcome accounts starting at US$250,000. Mr. Vrijhof and his staff offer personal assistance in completing account forms and provide you with information about the bank.

Jamie Vrijhof-Droese
Weber, Hartmann, Vrijhof & Partners
Schaffhauserstrasse 418, CH-8050 Zürich, Switzerland
Tel. From USA/Canada: 011 41-44-315 77 77
Email: info@whvp.ch
Website: http://www.whvp.ch

General Banks

Bank Vontobel AG
Bahnhofstrasse 3 CH-8022 Zürich
Tel: +41 (0)58 283 71 11
Website: http://www.vontobel.com/en
This excellent general service and investment bank has branches all over Europe and representative offices in the U.S. and Canada. This is an internationally oriented private bank specializing in asset management for sophisticated private and institutional clients.

Bank Julius Baer
Bahnhofstrasse 36, P.O. Box, CH-8010 Zurich
Tel.: +(41) 1 228-5111
Website: https://www.juliusbaer.com/global/en/home
U.S. Representative Office:
251 Royal Palm Way, Suite 601, Palm Beach, FL 33480
Tel.: +1 (407) 659-4440
This private bank serves clients with the same discretion it has offered for over a century. This is the place for those of great wealth who want a private relationship with sophisticated international bankers.

Private Banks

Lombard Odier Darier Hentsch
Utoquai 31 8008 Zurich, Switzerland
Tel.: +41 (0)44 214 11 11
E-Mail: zurich@lodh.com;
Website: https://www.lombardodier.com
Founded in 1796, this is one of the oldest firms of private bankers in Switzerland. With offices in 17 countries, it is also one of the largest private banking firms in Switzerland and in Europe.

Swiss Banking Agencies

SWISS NATIONAL BANK (SNB)

The SNB is an independent central bank that is responsible for monetary and exchange rate policy, provides liquidity for the Swiss franc money market and the economy, processes and facilitates non-cash payment transactions, manages the national currency reserves and helps ensure the stability of the overall financial system. The SNB monitors the clearing system for payments and the settlement of transactions involving financial instruments, in particular securities. Unlike the central banks of other countries, however, it does not exercise any direct supervisory function over the banks. See http://www.snb.ch.

SWISS FEDERAL BANKING COMMISSION (SFBC)

The banks and financial markets are supervised and regulated by the SFBC. SFBC is an independent administrative authority that issues and can revoke banking licenses. It delegates responsibility for monitoring the banks to external audit companies, which act as an "extended arm" of the SFBC. In addition to the banks, the SFBC also monitors investment funds and mortgage bond issuers, as well as stock market and securities dealers.
See https://www.finma.ch/en.

MONEY LAUNDERING REPORTING OFFICE (MROS)

The 1997 Money Laundering Act established the MROS within the Federal Office for Police. The MROS performs an intermediary and filter function between financial institutions and criminal prosecution authorities. Any financial entity (bank, investment manager, etc.) who knows or has reason to suspect that assets derived from criminal activity or have criminal origins (including financing of terrorism) must notify the Reporting Office immediately and freeze the assets for a period of five working days, during which time authorities investigate the matter.
See: https://www.eda.admin.ch/eda/en/home/foreign-policy/financial-centre-economy/fighting-international-crime.html.

MONEY LAUNDERING CONTROL AUTHORITY

The 1997 Money Laundering Act established the Money Laundering Control Authority. It monitors the banking related sector (e.g. asset management, fiduciaries, moneychangers) and ensures that all professional financial intermediaries in Switzerland are either members of a self-regulating organization that is recognized and monitored directly by the Control Authority. The Control Authority's supervisory powers are limited to ensuring compliance with the provisions of the Money Laundering Act.
See https://www.admin.ch/opc/en/classified-compilation/19970427/index.html.

SWISS BANKERS ASSOCIATION (SBA)

The SBA is the leading professional association of the Swiss banking and financial services industry. Founded in Basle in 1912, its membership includes virtually all the banks, audit companies and securities dealers in Switzerland. The SBA plays a vital role in the system of self-regulation, issuing guidelines, rules of procedure and codes of conduct in conjunction with the SFBC. For example, in 1977, well before any other European nations, the SBA first imposed a requirement for banks to identify their clients under the banks' Agreement on Due Diligence. See https://www.swissbanking.org/en/home?set_language=en.

For a complete list of Swiss banks, see http://www.swconsult.ch/cgi-bin/banklist2.pl#top.

Seven Swiss Banking Advantages

1. **World leader in private banking.** The Swiss practically invented private banking. They excel in investment services and portfolio management for high-net-worth clients that are of the highest caliber in the world. Private bankers in Switzerland can introduce you to qualified attorneys, accountants, estate planners, investment managers — and higher profits.

2. **Bank secrecy.** Your financial secrets are safe here. A Swiss bank account cannot be used for criminal purposes, but in all other matters strict secrecy laws ensure that no information about your account is released without your authorization. In the United States banks legally may release account data to insurance or direct marketing companies with which they are affiliated, and there are only limited rights to prevent this. In Switzerland, such conduct would be a criminal offense.
   In order to retain privacy, a "U.S. person" should abstain from investing in U.S. securities using your Swiss bank account. When you open your account, the bank will determine whether you are a U.S. person (a citizen or a "green card" holder). If you are, you must either instruct the bank not to invest in any U.S. securities, or accept the fact that, under international agreement with the U.S., the bank will forward information about your U.S. investments to the IRS.

3. **Financial safety.** Swiss banks are safe and well capitalized. Strict internal controls apply, and all banks are subject to two annual external audits for compliance with Swiss banking laws and accounting standards. There is no government deposit insurance in Switzerland, but deposits are probably safer here than in most other banks in the world. That is because in addition to a long record of stability, Swiss banks provide private deposit insurance coverage under which they will compensate depositors for up to CHF100,000 (US$102,359) of their deposits in a bank if a bank fails, a rare occurrence. Swiss banks are regulated by the Swiss Federal Banking commission, which enforces very strict rules.

4. **Tax free.** There are no taxes on the money you invest in Switzerland; none on capital gains, and none on earned interest. The only exception to this rule is if your bank account is denominated in Swiss francs. Then you must pay a 35% withholding tax on any interest earned on your account. "Withholding," means that the bank keeps 35% and sends it to the Swiss tax authorities (on a no-name basis) and pays you only 65% of the interest earned. Accounts denominated in other currencies do not have to pay this tax. If you want to have an account in Swiss francs, your banker can invest funds in a money market fund, which will be exempt from the withholding tax. Americans can regain or receive credit for all or part of this tax under double tax treaties between the Swiss and the United States.

5. **Minimum deposits.** Most Swiss banks will open an account with a request for a minimum deposit of at least US$1 million. Such banks specialize in wealth management for private international clients and for them smaller accounts are not economically desirable. However, Banyan Hill associate, Rob Vrijhof, can arrange bank accounts with an initial deposit of US$250,000.

6. **Currency diversification.** Using a Swiss bank account, you choose that it be denominated in any freely traded national currency. This protects U.S. investors against U.S. dollar fluctuations. In contrast, in America most banks only offer accounts in U.S. dollars.

7. **Global investments.** You can use a Swiss bank account to purchase any stock, bond or mutual fund, anywhere in the world. In America, most brokers only allow you to purchase U.S. stocks, bonds or funds. In fact, they discourage offshore investments, even though that is where the greatest profits are. For a list of all Swiss banks, visit the website at: http://www.swconsult.ch/cgi-bin/banklist2.pl

CHAPTER 5

Investing in Switzerland

Foreign Investment Welcome

Switzerland welcomes foreign investors, but of equal importance, once you have a Swiss bank account, annuity or life insurance policy, they can be used as a basis for worldwide investments, unfettered by many U.S. regulations that curb such investments. From a Swiss base, the whole world can be your investment goal.

Swiss Stock Exchange, Zurich

There are no controls on foreign investment or on the repatriation of profits or capital. Applicable taxes are described in Chapter 7. The government's generally laissez-faire policy towards investment, means there is relatively little official government domestic investment, at least at the federal level.

The Swiss federal government does support infrastructure investment (tourist facilities, communications and training facilities) with subsidized loans up to 25% of required financing. There are also a few rural industries, including agriculture in long-term decline, and for these the government offers more generous support.

Inducements for foreign investors are more generous at the cantonal level, where governments offer low tax deals. The cantons compete vigorously for attractive job-producing projects and terms for foreign investment are negotiable. Inducements assistance or subsidies for acquiring land or for construction, waivers of work rules, 10-year tax holidays, cheap energy and job training subsidies. Businesses that locate in cantonal-designated industrial zones enjoy these privileges. Most cantons welcome offers, but the most business-friendly are: Fribourg, Grisons, Lucerne, Schwyz, Untervalden, Uri, Valais and Vaud, all predominantly agricultural areas eager for foreign investment.

SIX Swiss Exchange

The SIX Swiss Exchange is the Swiss' principle stock exchange. ("SIX" stands for Swiss Infrastructure and Exchange). Founded in 1850, in 1995 the SIX Swiss Exchange was the world's first stock exchange to operate a fully automated trading, clearing and settlement system. The exchange is owned and controlled by 55 banks and is a joint owner of Eurex, the first transnational derivatives exchange.

One of the best-known SIX products is the Swiss Index, comprised of: 1) the Swiss Market Index (SMI), including the most important Swiss stocks; 2) the broader-based Swiss Performance Index (SPI), covering all Swiss stocks and those of Liechtenstein), and; 3) the Swiss Bond Index (SBI), which measures performance of CHF bonds.

Switzerland's most important and influential equity index, the SMI, celebrated its 30th birthday in 2018. The SMI index covers the 20 largest companies listed in Switzerland representing 80% of total market capitalization. SMI serves as an indicator of the national economy.

SIX Swiss Exchange is part of the SIX Group, a consortium known for innovation and stability. Headquartered in Zurich, it operates globally. Its three main business areas are securities trading and post-trade services, financial information, and cashless payment transactions. The company is regulated by the Swiss Financial Market Supervisory (FINMA) and the Swiss National Bank (SNB).

Investment Funds

Historically, Switzerland was a leader in developing the investment fund business. However, in the 1980s, as funds under management experienced massive growth worldwide, Switzerland lagged behind. Competitors, such as Luxembourg, pulled ahead, offering more flexible regulatory structures, lower taxes, and access to the lucrative EU market on preferential terms.

The Swiss responded with updated laws, reduced taxation and more sophisticated investor protection. The Investment Funds Law of 1995 loosened restrictive investment guidelines, providing greater transparency to enhance investor protection. This law established the principle of reciprocity, permitting Swiss licensing of foreign funds with acceptable regulatory regimes, many from EU states. In return, the EU allowed Swiss funds to be marketed freely in the EU, under a Bilateral Agreement between the EU and Switzerland. The law has successfully attracted a wide range of foreign funds to Switzerland.

The Investment Funds Law recognizes types of funds and applies requirements for each type:

- Securities funds, which invest in publicly-issued and traded shares;
- Real-estate funds;
- Other funds, including funds of funds, money market funds and hedge funds.

Umbrella funds are permitted, and there are special rules for limited- circulation funds. Foreign funds are permitted on a reciprocal basis.

The Federal Banking Commission (FBC) is responsible for licensing and supervising all investment funds. The law requires separation of fund management and custodial functions. Custodians must be licensed under the Banking Law.

Stamp taxes – The federal government applies an issuance stamp tax of 1% on stock capital in Swiss investments (from starting at CHF1 million), and of 0.06% or 0.12% on Swiss bonds, depending on the bond type. These taxes generally can be avoided on reorganizations, mergers, or transfers of companies from abroad into Switzerland.

The federal government also levies a securities transfer tax of 0.15% on Swiss securities, and of 0.3% on foreign securities. This tax has caused the Swiss Stock Exchange to move some trading activities to London, while Swiss banks conduct activities in Luxembourg and London to avoid the tax. Competitive pressures forced the Swiss government grant tax exemption to Swiss and foreign mutual funds, foreign dealers, foreign corporations and foreign banks. Stamp taxes are seen as counterproductive, but political considerations have kept the tax alive, although resulting revenues amount to only 0.03% of the federal budget.

Bank Investment Services

Choice of Currency:

When opening an account at a Swiss bank, you can direct that it be denominated in any major currency you choose. This offers important advantages to foreign investors, especially Americans, where foreign currency accounts usually are not available at U.S. banks, or available only with very large minimum deposits.

The power to denominate all or part of your account in one of more foreign currencies allows diversification and choice of those that are of higher value than the U.S. dollar, such as the Swiss franc or the euro. The U.S. dollar lost more than 40% of its value against most major currencies from 2000-2018.

Term Deposit:

Another conservative way to profit from the possible decline of the dollar is using your Swiss bank account to purchase a term deposit. A short-term deposit usually has a maturity of 1 month, 3 months or a year. These investments allow currency diversification and earned interest, with less risk than stocks or funds because of fixed values that don’t fluctuate.

Term deposits can be denominated in foreign currencies or U.S. dollars. More interest is earned for a larger investment and a longer term. However, if you redeem it early, you may forfeit part or all of interest earnings and pay a penalty. The interest rate paid on term deposits varies depending on the credit rating of the issuer and the foreign currency in which it is denominated.

Investing Through Your Bank

In Chapter 4, we described Swiss private banking and its many services. We repeat our earlier warning about getting lost in the crowd as a client of the two major banking behemoths, UBS and Credit Swiss.

Smaller private banks give more attentive personal service. But if you need help making intelligent investing choices, the private banking departments of Swiss banks are there for you, especially if your account balance is US$1 million or more. With an account of US$250,000 to less than US$1 million, it makes sense to have your own independent asset manager, as we explain in Chapter 6.

The term "private banking" encompasses a full range of financial services available to individuals with lots of money to invest and individualized service to clients. Private banking has grown with many more wealthy individuals and families demanding this type of service. While every major bank now claims to offer "private banking," what you get differs greatly in quality compared to Swiss state-of-the-art services available.

Private banking means being assigned one individual as your continuing contact for transactions and help. Some banks enable clients to execute Internet trades. A private banker wants to know your short, medium and long- term financial goals and your investment and risk philosophy. It's in your interest at the outset to know your investment objectives.

Your private banker can explain procedures for specific types of investments. For example, private banking departments routinely make trades targeting specific industries in a selected developing or emerging economies, as in Eastern Europe. They can write call options on securities in your portfolio and invest set monthly amounts in precious metals.

As with a domestic U.S. securities broker, you can issue limit and stop orders, but now have choices of any security worldwide, not those limited to a U.S. exchange. US$1 million and up portfolios will be managed as a client directs. The stated portfolio management minimums of most Swiss private banking departments are negotiable. A younger client with future earnings potential may be given reduced minimums, not offered to a retired investor.

A typical bank portfolio management fee is 1% - 1.5% annually, adjusted downward for larger portfolios. A conservatively managed bond portfolio may cost less to manage than a frequently traded stock portfolio. If your portfolio is large enough, a negotiated single annual fee for all management services and trading commissions is possible.

Unrestricted Investment Opportunities

With a Swiss bank account, trades can be executed directly on most global exchanges, with only one commission payment. U.S. brokers generally limit purchases to U.S. exchanges. Based on American securities laws adopted during the 1930s, the U.S. Securities & Exchange Commission (SEC), has blocked information about non-U.S. investments from reaching Americans. Despite this censorship, it is fully legal for a U.S. person to purchase any foreign security, stock, bond, fund or precious metal.

Under Swiss law, non-residents may purchase any Swiss or foreign security traded in Switzerland, or at any other stock exchange in the world including stocks, bonds, warrants, derivatives and more. Banks debit the purchase price, less applicable commissions, from your bank account and credit it to a custodial securities account maintained by the bank.

Minimum purchases for securities are low at most Swiss banks, in some cases US$1,000 or less. As with domestic securities accounts, you may issue limit order instructions to buy only at a certain price or better, limit sell orders to sell at a certain price or above, or stop-loss orders to sell whenever the market price drops below a certain level. Your bank collects dividends, coupon payments and, if the security has a maturity date, the value of its principal when it matures, credited to your account.

If you purchase the bank's own bonds, or bonds of the bank-associated group, custodial fees are lower or may be waived entirely. Most Swiss banks issue research publications with regular buy/sell recommendations.

Foreign Bonds: Opportunities to Profit

One of the most popular ways to invest using a foreign bank account is to purchase bonds. Trading fees are lower for bonds than other securities, and if you are a U.S.-resident investor, you will find fewer restrictions on purchasing foreign bonds through a foreign account than those that apply to purchasing foreign stocks and especially to foreign mutual funds.

Thousands of bonds are available worldwide, from issuers with credit quality ranging from AAA to junk. Minimum purchases for bonds are low at most Swiss banks, in most cases US$1,000 or US$2,000.

Euro-denominated bonds issued by EU governments or corporations are a popular choice, with interest rates varying according to the credit quality of the issuer. The EU has made it easy and inexpensive to purchase or sell any other bond listed on the London, Frankfurt or Zurich exchanges using a Swiss bank account, even though Switzerland is not an EU member state. Commissions may be lower on such purchases than on purchases outside the EU, and you save on currency exchange fees.

Bonds from smaller and emerging markets are also popular because of their higher interest rates. Yields are higher because of greater risks in emerging market currencies compared to the euro or dollar.

Banks in Switzerland and other offshore jurisdictions may discourage purchasing bonds traded on U.S. exchanges. That's because of restrictions in the U.S. "qualified intermediary" agreements now in effect. These require foreign banks to administer U.S. tax and reporting laws as applied to U.S. investments by all customers, both U.S. and non-U.S., when they invest in American securities using Swiss accounts. To preserve your privacy, we strongly advise against using a

Swiss bank account to invest in American securities or bonds, thus avoiding imposition of the intermediary rules.

Purchasing Stocks through a Swiss Bank

Most Swiss banks offer all the same services as full-service stockbrokers. Just as was mentioned about securities accounts, you may issue limit order instructions to buy only at a certain price or better; limit sell orders to sell at a certain price or above; or stop-loss orders to sell whenever the market price drops below a certain level. It is also possible to generate additional income from your securities holdings by writing options or employing other hedging strategies.

As with bonds, most Swiss banks will allow you to borrow against the value of any stock, either to assist in paying for it, or to leverage your investment. The percentage of value permitted as a loan, however, is less for stocks than for bonds, since stocks are perceived to be higher risk investments.

Mutual Funds

As in other countries, a Swiss mutual fund is an investment vehicle financed by money collected from many investors who combine to buy a fund for the purpose of investing in the fund's securities, stocks, bonds, money market instruments and other assets. Their popularity has grown because they make it possible to invest in any market and in a wide variety of areas, from gold to Internet start-ups.

More than 110,000 open-end funds exist worldwide, of which the 9,511 U.S. funds are only a fraction. SEC rules and fund registration requirements force most offshore funds to avoid problems by prohibiting U.S. persons from buying their mutual fund shares, locking out American investors.

U.S. persons should be very wary of investing in offshore mutual funds. Consult your U.S. tax advisor before making such an investment. The reason is because the U.S. Tax Code treatment of these funds is extremely punitive, compared to the tax treatment of similar investments that are incorporated in the U.S.

For example, an American holder of shares in a U.S. incorporated mutual fund that invests in European stocks, pays the low long-term capital gains rate of 15% if the fund share is held for more than one year. The same American investor who buys a nearly identical fund listed in the UK or in Switzerland, or any place outside the U.S., will find their investment subject to what is known as the "PFIC" taxation regime, which counts all income, including capital gains, as ordinary income and automatically taxes it at the current top individual tax rate of 37%. In some cases, the total tax on a foreign mutual fund investment is above 50%. Worse still, capital losses cannot be carried forward or used to offset other capital gains.

To get information about the variety of offshore funds available, go to www.morningstar.com where thousands of funds in every market and category are described.

Precious Metals

Swiss banks offer a full range of precious metals purchase and storage options. Fewer restrictions exist on metals for U.S. buyers than for stocks, bonds or mutual funds, since precious metals are not considered "securities." As with securities, you may issue limit and stop-loss orders for your holdings. It is also possible to finance precious metals purchases (or to "short" precious metals) in your Swiss account. The permissible percentage is generally around 50%.

Precious metals such as gold, silver, platinum, and palladium, are misunderstood by many U.S.-based investors. That is not surprising, because for decades, global investors viewed the U.S. dollar as being "good as gold." However, that belief is long gone. After climbing from US$35/oz. to US$850/oz. during the 1970s, gold prices languished from 1980-2001, reaching a low point in 2001. Gold in mid-2018 was over $1,000 per ounce, far below its all-time high in January 1980 of $2195.94, and well below the price in November 2011 of $1945.04.

Most banks in Switzerland buy and sell gold bullion and also conduct a market in semi-numismatic and numismatic collector coins. Silver, platinum and palladium coins may also be available. Most banks allow metals activity through a custodial account or gold coins are available from a coin dealer, although many dealers specialize in numismatic coins.

Next, in Chapter Six, we describe the ways and means of what many believe to be the easiest and best method of profitably investing in Switzerland – with the assistance of your own independent investment manager.

CHAPTER 6

Independent Asset Managers

We've told you much about banking in Switzerland, how banks operate and laws and rules that govern their conduct, including the different types of banks and accounts available.

But there is also another important traditional banking figure whose role is essential to successful banking and investment – the independent asset manager (IAM).

That title says it all.

The IAM works for you as your independent investment advisor and manager. Their duty is to individual clients to whom they owe their professional services. While they have good working relationships with many banks, they are not employed by those banks nor by any other financial entity.

The hallmarks of the best Swiss asset managers are knowledge, experience, judgment, discretion, adherence to the law and to maximum privacy, all attributes employed to promote and protect the client's interests.

The availability of Swiss IAMs for many decades has made them top choices for knowledgeable high net worth individuals worldwide.

The IAMs are trusted advisors who assist in financial and estate planning based on a thorough understanding of a client's individual and family situations. Their recommendations integrate asset protection with profitable ways and means to increase wealth. By their very nature, the most successful IAMs combine knowledge with discipline and a deft personal touch.

Working with an IAM requires a very personal relationship based on mutual trust.

The IAM translates a client's expressed personal goals into practical reality. This includes formulating a realistic, systematic approach based on a client's entire situation. Goals must be defined considering all parties affected, plus factors such as age, health, available capital, investment preferences, and the client's chosen degree of desired investment risk.

Regulation of IAMs

Obviously, when choosing an IAM, careful and extensive due diligence is essential.

This investigative process when choosing an IAM is aided greatly by the unique Swiss system that governs these professionals. This system includes interaction and cooperation of industry professional organizations and public supervisory bodies.

The Swiss have opted for careful self-regulation.

Independent asset managers are governed by the Anti-Money Laundering Act and either have to be approved by the Swiss Financial Market Supervisory Authority (FINMA) or be a member of a recognized Self- Regulating Body (SRO). One of the largest SROs is the SAAM, which has been officially recognized since 1999.

This allows the industry to create its own codes of "best practices" governing conduct. This is a form of officially sanctioned self-regulation of investment advisors unique in the world. These codes are distinguished for practicality because the participants contribute their professional knowledge. When the need arises, this allows for flexible and rapid enforcement by officially supervised, but self-regulatory bodies. The federal government reviews and approves codes of conduct and guarantees their enforcement, giving them the same force as law.

Exercising this power, the Swiss Association of Asset Managers (SAAM) and the Swiss Funds Association (SFA) have adopted the SAAM Code of Ethics and Professional Conduct for the Practicing of Independent Asset Management. Compliance with these professional rules is enforced to ensure disciplined and ethical asset management.

Additionally, the Swiss Federal Banking Commission (SFBC) and the Anti-Money Laundering Control Authority, a department within the Federal Finance Administration, both exercise supervisory powers. The SAAM website, http://www.vsv-asg.ch, provides details and individual IAM member listings.

Personal Service

Americans, even those not from the State of Texas, respect great size. The theory is, big is better.

An important instance where that is not true is when considering doing business with the two Swiss banking giants, UBS and Credit Suisse. Their sheer size almost guarantees you may get lost among thousands of clients they try to serve. A good alternative offers access to almost any Swiss bank - that is the honorable tradition of the Swiss independent asset manager, the IAM.

Estimates indicate there are over 3,500 Swiss independent asset managers in charge of US$604 billion. Indeed, IAMs operate in all major financial centers, including the City of London, Copenhagen, Gibraltar, Singapore, Hong Kong, Montreal, Montevideo and the Cayman Islands.

As in any profession, these independent managers have definite personalities and investment philosophies; some are conservative, others favoring a more aggressive investment style. The best are constantly aware of every aspect of the investment market on a daily, even minute-to-minute basis, always ready to act on behalf of their clients' best interests.

There are good reasons why Swiss independent asset managers attract such large investment sums; they are good at what they do, and they provide a much needed service. Banyan Hill investment experts and publications consistently have recommended that a balanced portfolio and estate plan should include an offshore component. All things considered, Switzerland remains as Banyan Hill's first choice as the world's leading offshore financial center.

Compared to domestic U.S., an offshore bank account can serve as an investment vehicle, with direct access to more diverse investments and greater profits, but it also provides strong asset protection. But achieving maximum benefit from an offshore account requires personal experience and knowledge.

Chances of success are greatly enhanced by working with, and through, your own personal independent investment manager.

That's far better than a struggling foreigner dealing long-distance with impersonal bank staff. Self-management by a foreign investor obviously requires intimate knowledge of procedures, fees and rules in other countries, and demands constant supervision and instant information. Unless you want to become a long-distance day trader, an independent asset manager will make all the difference in your investment success.

More Art than Science: No theory can fully explain and describe a private asset manager's work. It's more an art than a science. Over many centuries, the Swiss have mastered this especially well. The most successful investors and investment managers are not scientists, they don't abuse robotic algorithms, nor are they burdened with sophisticated investment and asset allocation strategies. Rather, they are experienced individuals who personally understand fundamental market factors, can spot and analyze trends, have a real feel for business and the markets, and most importantly, have a highly developed ethical sense.

How much will an IAM cost?

There is no required cash minimum to open a Swiss investment account. Each IAM determines the minimum they are willing to accept for management. Currently a majority require a minimum deposit of at least US$250,000 to start, but many require up to US$1 million. There is no maximum. Swiss independent managers charge a standard 1% to 1.5% annual (p.a.) management fee on all transactions.

Asset Manager vs. Private Bank

Private banking goes back more than three hundred years in Europe to Mayer Amschel Rothschild, who in the 1760s, founded the famous family banking dynasty that still bears his family name. In those days before government financial control, Mayer boasted: "Permit me to issue and control the money of a nation, and I care not who makes its laws!"

Mayer Amschel Rothschild (1744-1812)

Switzerland, especially Geneva, became a banking center in the early 18th century through its merchant trade with a few dozen privately owned and guaranteed banks. Traditionally, offshore portfolio management was the province of "private bankers."

Private banking is now a growth sector; most major banks worldwide have what they advertise as a "private banking" department offering special services to wealthy clients. What goes unsaid is that with the expansion of the total number of high net worth individuals, mainstream private banking services are more standardized, with true personal service rare, except for the wealthiest clients.

The Swiss National Bank listed 253 authorized banks and securities dealers in 2017, with 110,413 employees. One unverified website lists what it describes as the top 100 private banks, in its opinion. Nevertheless, it is still possible to receive the personal care and services of highly trained private bankers by employing an independent asset manager. IAMs now provide the personal banking services that once were the province of traditional Swiss "private bankers."

Eight Reasons for an Independent Asset Manager

Here are eight advantages that explain why an IAM can boost your wealth and give you peace of mind.

Advantage 1: More personalized service. A private banker at a large Swiss private bank manages as many as a thousand client relationships. Most IAM relationship managers have fewer than 100 clients. Independents are smaller operations that create and manage individual portfolios for each client allowing maximum flexibility. Most banks tend to categorize and treat customers as aggressive, non-aggressive, or in between. IAMs create portfolios for individuals, including precious metals, stocks and/or bonds, reflecting your choices.

Advantage 2: Independent asset managers know their clients on a personal basis, not just as numbers. A good manager telephones each client at the end of each quarter, reporting on the prior three months and suggesting the future. A good IAM builds a personal relationship, understands and tries to fulfill the client's goals. But small size doesn't limit services. Swiss banks allied with your IAM manger serve as "back office" service providers. Through your IAM, you have full access to the bank's in-house trading system, allowing quick trade transactions at the same speed as if by the bank itself. These allied banks produce, as required by law, every transaction and tax statement for the client and the manager.

Advantage 3: A good independent manager reflects stability, continuity and longevity. Many established IAMs have been in business for decades, proud of their record and content in their profession. Staff and personnel fluctuations at most private banks are a major problem. With an IAM, the same owners are active until retirement and often remain as advisors afterwards. Direct personal access to IAM owners and staff is impossible at a large bank with multiple branch offices in many countries managing thousands of portfolios.

Advantage 4: Independence frees the IAM from slavishly following big financial institution trends of the moment. If they don't like the market, unlike big banks, they can switch positions quickly. IAMs rarely change their core investment holdings but are free to use options to hedge. Your IAM is free of pressure to sell in-house bank products (e.g. mutual funds) that generate cash for the bank, often at an unneeded cost to the client. You and your IAM working together build a portfolio that suits your personal needs, based on factors such as your age, health, net worth, experience, and preferences and you regularly can adjust your portfolio as circumstances change. In contrast to the personal service above, managers of large portfolios (US$5 million and above) in major Swiss banks must follow advice of an "investment committee" dictating "model portfolios" that are unlikely to meet your unique requirements.

Advantage 5: Independent managers offer real personal service, especially to foreign clients. Arriving in Switzerland, clients are met at the airport by their IAM or their staff, enjoy pre-arranged reservations at a first-class hotel and attend scheduled meetings with bankers and others, all with constant IAM assistance. Working personally with your own experienced portfolio manager gives you the valuable benefit of your IAM's private banking knowledge

Advantage 6: You have a bank account in your name at a private Swiss bank, and your IAM manages it in your behalf, but without power to withdraw money except investment and management fees as agreed. Working with an IAM simplifies investing. Your manager opens your account at one of the several Swiss banks where the IAM has established relations. You are freed of the need to monitor frequently your portfolio. Constant contact with a client builds the relationship and creates trust.

Advantage 7: Indeed, a basic and important factor in employing an independent asset manager is creation of mutual trust. Confidence is needed for discussion of such intimate matters as net worth, income, investing history, goals, family situations and relevant personal matters such as age and health. Once that trust is established, a client signs a limited power of attorney allowing the manager to trade the account as he judges to build the desired portfolio best suited to the client's goals.

Advantage 8: There is a world of difference between foreign investing and domestic investing, especially for U.S. persons laboring under numerous restrictions in America. Investing offshore frees you from the of the drag of the U.S. dollar. It opens you to investments not immediately available to U.S. investors, including foreign stocks and bonds, currencies and precious metals. Your independent asset manager, trading from your Swiss bank account gives you such broad access acting as your stockbroker, and your foreign currency and precious metals trader. Your orders go to your IAM acting as your manager and from them directly to the custodian bank.

Thank You SEC

Current U.S. laws dictates that before you decide to work with a foreign IAM, you must make certain that your chosen IAM is compliant with U.S. tax laws and U.S. SEC rules. Americans should only work with Swiss or other IAMs who are registered with the U.S. Securities and Exchange Commission (SEC).

That registration means the IAM is aware of the SEC rules and regulations and has qualified to work with American clients in a fully U.S. compliant way. That includes the U.S. investor receiving on a regular basis all investment transaction documents, as well as U.S. tax statements directly from the custodian bank where investment funds are held.

In order to qualify to become a registered SEC investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 (15 U.S.C. § 80b-2(a)(11)), the applicant and the professional firm must tell all in writing. This complete transparency is a great advantage for U.S. investors.

Under SEC rules registration this means that each person or entity must file full information on their professional activity and business, the nature of their investments and the overall amounts. Investors can access adviser registrations and other company filings using the SEC electronic system known as EDGAR, https://www.sec.gov/edgar.shtml.

Due Diligence

As professionals who have many years of experience completing due diligence, we can tell you that when choosing a Swiss manager for your assets, you need to investigate thoroughly every aspect of the person and their professional standing.

Personality, compatibility and competence are all essential elements in an investment advisor. Ask detailed questions and demand precise answers. Ask for references. Asset managers are governed by the Swiss Asset Managers Code of Ethics and Professional Conduct, (discussed in Chapter 5), and applicable laws prohibiting money laundering and other financial crimes.

Questions you should ask a prospective asset manager:

1. Are you registered with the SEC?
2. What is the net profit and loss track record for your typical client, for each of the past five

years after all costs are deducted?

3. What are your academic and professional credentials?
4. What experience do you have as an investment manager?
5. What are the fees, expenses or other charges that may be deducted from my account?
6. Will you have direct access to my funds or will you hold a "power of attorney" to trade on my behalf? (In Switzerland, all managers have only a limited power of attorney, never direct access to the client's funds.)
7. Will my funds be commingled with other clients' funds? (The Swiss answer is always "no.")
8. In case of your firm's insolvency, will your creditors have any claim against my funds? (In Switzerland, the answer is always "no.")
9. If I were to invest with you today, exactly how would you deploy my funds?
10. How frequently do you communicate with your clients?
11. If I am not happy with your services, how can I close my account and how long will that take?

If, after asking these questions, you feel of any concerns, keep looking for another IAM.

Questions an asset manager might ask a prospective client:

1. What is your current financial and personal situation?
2. Are there any existing situations, however remote, that might threaten you financially?
3. Are you interested in a personal account, a trust account or an IRA?
4. Are you looking for capital preservation or growth?
5. Are there any investments which you would like to exclude from your portfolio (e.g. tobacco industry)?
6. Do the financial requirements and funds available consider your known living costs?
7. Will you have enough income after retirement?
8. Should retirement provisions be geared to early retirement?
9. Are plans in place to secure assets after death for a surviving spouse or partner and children?
10. Are the statutory succession provisions for heirs, inheritance laws and a will, adequately addressed in your existing estate planning?
11. Based on the answers to these questions, the financial planner draws up a comprehensive analysis, makes concrete recommendations and helps the client to implement them.

Recommended Contact

Founded in 1991, Weber, Hartmann, Vrijhof & Partners AG, WHVP, is an independent asset manager, specialized in managing private client funds. They are registered with the U.S. Securities and Exchange Commission (SEC). With offices in Zurich, Switzerland, WHVP is associated with several first-class private banks in Switzerland and Austria, which act as custodian banks for WHVP client accounts. Their asset management principles are guided by conservative, long-term oriented capital preservation strategies with focus on personalized service. WHVP structures a portfolio insulated against US dollar depreciation, yet seeks to capitalize on non-U.S., foreign investment opportunities.

WHVP is small, family-owned company that applies strict conservative asset management principles. Main targets include capital preservation and very personal service to suit the needs of each client.

Jamie Vrijhof-Droese, Relationship Manager
Weber, Hartman, Vrijhof & Partners, Ltd.
Schaffhauserstrasse 418, CH-8050 Zürich
Tel.: +41-44-315 77 77
Email: info@whvp.ch
Website: http://www.whvp.ch

CHAPTER 7

Switzerland & Taxes

Swiss Paradox

A paradox is a seemingly self-contradictory statement or proposition that, when investigated or explained, may prove to be well founded or true.

Switzerland is a land of many paradoxes, a major one involving economic factors unusual in any country. In spite of a slow internal growth of under 2% annually, the country's per capita income in 2017 was US$61,400, 18th out of 221 countries and ahead of the United States.

Another example: Swiss companies employ over two million people abroad, more than half of Switzerland's working population of 3.6 million. Yet, Switzerland, despite this bifurcated work force, ranked first in the 2017-2018 World Economic Forum Global Competitiveness Report.

These paradoxes are explained by Switzerland's traditional involvement in global trade and foreign investment that pours substantial amounts of cash and assets into the country from abroad.

Relatively low individual tax rates, respect for financial privacy and attractive, low business taxes have given Switzerland an undeserved reputation as a "tax haven," but that is a false claim. Switzerland is not a low-tax country for its residents or companies. Taxes are lower than in neighboring left-leaning countries, such as France and Germany, both of whom complain about "unfair tax competition" from low Swiss taxes.

By law, Swiss banks collect a withholding tax of 35% on all interest and dividends paid by Swiss companies, banks, the government, or other sources. Foreign investors to whom this tax applies may be eligible for refunds of all or part of the tax under the terms of bilateral tax treaties between Switzerland and a foreign person's home nation.

Under the terms of [Article 23 of the 1996 Swiss-U.S. Tax Treaty], Switzerland now taxes U.S. citizens who are Swiss residents on all their worldwide income, but the taxpayer is eligible for a U.S. tax credit for payment of these taxes in order to avoid double taxation. Switzerland has a network of over 90 such bilateral international tax treaties.

Smart foreign investors can avoid some taxes by choosing certain types of Swiss investments that are exempt from taxes. There is no withholding on payments to foreigners arising from Swiss life insurance or annuities. Nor is there a tax on dividends or interest from securities that originate outside Switzerland.

For this reason, many Swiss banks offer investment funds with at least 80% of earnings in foreign investments or, even better, investments in money market funds based in Luxembourg or Ireland. (Be careful about such investments. Consult a U.S. tax attorney because unless properly arranged, the U.S. tax consequences can be brutal.)

Income Taxes

Personal income taxes in Switzerland vary, depending on the canton and local community (commune) in which an individual resides, works or has his/her investments. While a federal tax applies throughout Switzerland, each of the 26 cantons has its own tax system and sets its own tax rates. As a rule, individuals who are deemed resident for tax purposes in Switzerland are subject to income tax on their worldwide income regardless of its source.

Trying to figure out total Swiss taxes is not an easy task.

Federal, cantonal and communal taxes all have complex tax rates and deductions. Federal income tax rates range from 0% to 11.5%. Cantonal and communal tax rates vary but generally are twice as high as federal rates. Swiss nationals domiciled in Switzerland and foreign nationals holding "C" permanent residence permits are assessed on income and net wealth taxes based on their filing of periodic tax returns. The individual taxpayer then is responsible for tax compliance and payment of income taxes when billed by the state.

Border commuters and foreign nationals living in Switzerland who do not hold a "C" permit, usually, are subject to withholding taxes levied by employers on gross taxable earned income. Progressive withholding tax rates depend on gross taxable income, marital status and the number of dependents.

Switzerland is also attractive because it imposes no federal inheritance or gift taxes. Instead, the cantons levy inheritance and gift taxes, which means that there are 25 different inheritance and gift tax regimes. The 26th canton, Schwyz, levies neither inheritance nor gift taxes.

Although in the Swiss federal system, the 26 independent cantons each impose their own taxes, unlike the U.S., where the federal government dominates tax and fiscal policy, the Swiss central government accounts for less than one-third of total taxes and spending. This strong decentralization is a key tax feature when considering residence options for business and residence location.

Within Switzerland, one must be careful in choosing a location for a personal residence or business headquarters. Effective tax levels in cantons may vary by as much as 300%. Tax levels also differ significantly among municipalities, which are free to set their own rates. In recent years, this highly decentralized tax system has served to keep taxes low aimed at getting required voter approval, since they must approve taxes.

Swiss Success

In spite of tax competition among cantons, expansion of government welfare entitlement programs has increased taxes. In 2016, the total tax burden represented 27.7% of gross domestic product, a major increase from 21.3% in 1970. That figure is slightly higher than the U.S. tax burden, which in 2016 was 26% of GDP.

Canton taxes can vary significantly depending on municipal taxes. The chart here shows 2014 tax burdens in CHF in various Swiss cities for a married couple with two children.

Swiss Tax Burdens 2014

City	Low Salary (CHF 70'000)	Middle Salary (CHF 100'000)	High Salary (CHF 200'000)	Very High Salary (CHF 500'000)
Aarau	1'876	5'543	26'947	122'260
Altdorf	2'056	6'059	22'603	96'889
Appenzell	2'185	5'114	22'731	100'018
Basel	259	6'334	31'869	130'707
Bellinzona	458	2'632	25'502	134'807
Bern	2'891	7'954	31'422	141'134
Chur	1'177	4'665	25'646	119'762
Delsberg	2'082	7'211	32'973	146'303
Frauenfeld	1'456	5'522	26'385	117'736
Freiburg	4'959	9'099	34'313	146'444
Genf	25	2'214	27'637	136'489
Glarus	2'333	5'998	25'965	116'636
Herisau	2'680	6'636	29'022	123'341
Lausanne	1'334	7'827	30'915	146'679
Liestal	868	6'047	32'600	145'906
Luzern	1'536	5'182	24'963	116'178
Neuenburg	4'017	8'933	35'793	148'014
Sarnen	2'460	6'048	21'661	92'373
Schaffhausen	2'660	6'193	28'511	130'789
Schwyz	1'379	3'490	18'574	90'818
Sitten	873	3'698	24'954	130'611
Solothurn	3'653	7'786	32'520	138'097
St. Gallen	1'493	6'042	31'394	137'241
Stans	1'484	5'021	22'737	99'917
Zug	0	801	10'554	83'049
Zürich	1'266	3'888	23'118	125'651

Withholding Tax

Switzerland, in an agreement with the EU, enforces withholding taxes on EU nationals with Swiss accounts and on interest income. Although names are not revealed, all taxes collected are remitted to the foreign nationals' home governments.

The so-called European Union "withholding tax directive" is an agreement which permits a withholding tax to be deducted from interest earned by EU residents on their investments made in another member state, by the state in which the investment is made.

The EU itself has no taxation powers, and this directive tries to ensure that citizens of a member state don't evade taxes by depositing funds outside the jurisdiction of their residence. The tax is withheld at the payment source and passed on to the EU country of residence.

When proposed this tax was proposed, EU member state Luxembourg protested that it would not agree to the tax directive unless Switzerland, a non-EU member, was included. As a compromise, Switzerland agreed under the terms of the Schengen agreement to assist in cases of indirect taxation, such as customs, VAT, alcohol and tobacco duties, but declined to supplying information in cases of direct income and corporate taxation.

Swiss officials point out that the country imposes a 35% withholding tax on payments of interest and dividends on Swiss liable parties, without distinction between residents and non-residents, as a major deterrent against tax evasion.

This withholding tax of 35% on all interest and dividends paid by Swiss companies, banks, the government or others, may be eligible for refunds of all or part of the tax under the terms of Switzerland's network of more than 90 double taxation treaties with other nations, including the United States.

Income Taxes

Residence is the test criteria that determines whether an individual is subject to Swiss personal income tax. A person is deemed a Swiss resident if that person:

- Has Swiss employment. A foreign person must have work permit in order to work; limited work permits of 90-120 days are granted can limit taxation;
- Conducts a business in Switzerland; or
- Lives in Switzerland for not less than 180 days in any one calendar year. If, however, they remain in the same abode, the time required to become a resident for tax purposes is 90 days.

With the exception of the "negotiable tax" deal explained below, there is no personal income tax discrimination between Swiss residents and the foreign employees of "offshore" operations. Swiss authorities consider various types of tax-privileged companies as legitimate tax planning structures available to Swiss and to others and not as "offshore" operations in the usual sense of the word.

Swiss law distinguishes between what is termed tax "subtraction," an administrative offense, and "tax fraud," a criminal offense. Tax subtraction occurs when a taxpayer forgets to declare or accidentally conceals income or wealth; tax fraud implies the deliberate falsification of records. This distinction reflects a Swiss belief in a need for government tax legitimacy and it is said that it results in higher tax compliance

Income tax is levied at the federal, cantonal and communal levels. Personal income tax is progressive in nature. The total rate does not usually exceed 40% and in most cases, the maximum tax rate is much lower. For example, in the Canton of Schwyz, the top rate, inclusive of federal, cantonal/communal tax is approximately 22%.

The basis of assessment is as follows:

- Residents are taxable on their worldwide income, but income arising from foreign enterprises and real estate located abroad is tax exempt;
- Non-residents are taxable on income from permanent establishments and real estate located in Switzerland, and the tax rate is based on the individual's worldwide income.

Personal income tax rates are progressive, rising to a maximum of 11.5% for incomes over US$872,677 at the federal level, and about twice that at cantonal level. Taxes rates vary considerably between cantons and municipal rates usually are a small fraction of the cantonal rate.

Payments to individuals of salary or interest on loans at what are judged to be excessive rates are likely to be deemed "hidden profits" and subjected to the withholding tax of 35%.

Negotiable Income Taxes

Wealthy foreign nationals who want to make Switzerland their home, but not work in the country, may qualify to pay personal income tax under the "fiscal deal" or "lump sum assessment" basis explained below which entitles them to pay considerably less tax than a Swiss national with an equivalent income. This is the only discriminatory personal income tax levy that exists in Switzerland

For the very wealthy immigrant, Switzerland's cantonal tax system allows the development of a unique personalized income tax plan called lump-sum tax regime payments, called forfait fiscal in French, and *Pauschalbesteuerung* in German.

Foreign citizens who fulfill certain requirements may be eligible for a special tax arrangement in which Swiss taxes are levied on the basis of a person's personal expenditures and standard of living in Switzerland, rather than on worldwide income and assets.

This lump sum arrangement is available throughout the country except in the canton of Zurich. This unique lump-sum taxation effectively caps the income and net wealth tax for qualifying foreign citizens. This tax break has generated much political opposition in Switzerland and some cantons have curtailed its scope. In a 2014 national referendum, 59% of voters rejected an initiative that would have ended this tax break for foreigners.

The more populous and popular cantons are likely to charge more tax in such cases, but some of the smallest, Appenzell and Zug, will settle for far lesser amounts per year, regardless of actual income. The initial difficulty comes in obtaining a Swiss residency permit, a scarce commodity. But if you are wealthy and offer proof of sufficient future income, you may qualify.

Although this system has been criticized as a privilege for wealthy foreigners seeking to avoid ordinary taxation in their own countries, strict conditions apply and vary substantially depending on the canton. Less than 0.1% of all residents are taxed this way. To improve tax equity and popular support, parliament increased the assessment basis and made the conditions more stringent. In 2016 only a little over 5,000 residents were subject to the lump sum taxation and they paid a total of US$793 million in taxes.

One reason for this arrangement is that for centuries Switzerland has seen itself as a refuge for persecuted people from around the world, including victims of confiscatory taxation in neighboring countries with high tax, welfare state socialist governments. Because of its high level of safety and quality of life, the country attracts wealthy foreign individuals who are leaders in industry, sport or the arts who choose it as a permanent residence, for retirement or living, earning foreign revenues that are difficult to evaluate for tax purposes.

One possibility is to establish a company in Switzerland which employs the individual seeking Swiss residence. Switzerland wants to attract small and medium-sized enterprises, as well as large corporations. Swiss tax advantages as a whole are complemented by benefits specific to each canton. Even more tax breaks from the canton may be available for a large business that creates jobs.

Americans Living in Switzerland

The United States is one of the few governments that taxes international income earned by their citizens, as well as permanent residents, residing overseas. There are some U.S. tax breaks that help mitigate possible double taxation. These include:

- The Foreign Earned Income Exclusion allows one to exclude US$104,100 (the 2018 amount) in earned income from foreign sources when living abroad.
- A tax credit that reduces U.S. tax on remaining income based on taxes paid to foreign governments.
- A foreign housing cost exclusion from income for some amounts paid for household expenses due to living abroad.

Tax Treaties Abound

To free Swiss citizens or corporations from double taxation, the Swiss government has a global network of nearly 90 tax treaties with other nations. When claiming a tax credit under a tax treaty, the applicant reveals to a home government income that was taxed. Tax treaties not only help those investing or doing business internationally to avoid double taxation, they facilitate information exchange between national tax authorities.

The 1997 U.S.-Swiss tax treaty, still in effect, is a case in point. Non-payment of taxes is not a crime in Switzerland, the treaty Article 26 permits the two governments to exchange information about alleged "tax fraud." It also allows authorities to reveal information that may help in the “prevention of tax fraud and the like in relation to taxes.” The U.S. IRS presses hard to bend Swiss bank secrecy in specific cases. But the 1997 treaty did little more than codify the Swiss view that bank secrecy should be waived only in extreme cases, and certainly not for unsubstantiated “fishing expeditions” launched by the IRS.

Corporate Income Taxes

Switzerland is an ideal location for a European or global corporate base or headquarters.

The Swiss legal system operates under the civil law Napoleonic code rather than the common law system of the British Commonwealth and the United States. Critics claim that under the civil law formation and administration of companies tends to be slow and bureaucratic. Businesses are registered and domiciled in a given canton, much as American corporations are registered in individual states, but not at the federal level. Each canton keeps a register of companies and their directors, shareholder lists and capital structure in public documents. Company formation is subject to fairly strict rules.

For corporate income tax purposes, a company is deemed a resident in Switzerland if it is either incorporated in Switzerland or effectively managed from there. Thus, an American company registered in the State of Delaware with effective management in Switzerland is treated and taxed as a Swiss resident company.

Business is attracted to Switzerland by low taxes, political stability and conservative financial policies. The law makes no distinction between foreign and domestic, Swiss or non-Swiss, in company registrations.

The Swiss “General Assessment Rule,” based on the territorial tax principle, does not tax resident companies on worldwide income, including profits from foreign enterprises, permanent establishments and real estate. Non-resident companies are only assessed on profit generated within Switzerland, including interest on loans on secured Swiss real estate.

Three Tax Levels

Corporate income tax is levied at a federal, cantonal and communal level. Cantonal corporate income tax varies greatly. Zug and Fribourg are best for trading and holding companies. The federal government applies a flat rate of 8.5% on net profit. Federal corporate income tax paid may be tax deductible for assessment of cantonal corporate tax and vice versa. This results in an effective corporate federal rate of 6.7% on average.

Advance official tax rulings on corporate income tax payable are available and advisable. Capital gains are taxed as corporate income at federal, cantonal and municipal levels.

The Swiss branch of a foreign company pays the same taxes as a Swiss- resident corporation. Profits sent abroad by a foreign company are not taxed in Switzerland.

The cantons tax corporate profits at flat, progressive, or two-level rates, depending on the canton, averaging 14.5%, resulting in an overall corporate tax rate of 23%.

The low-tax cantons make Switzerland competitive internationally. Corporate taxes in the Canton of Zug, are on a par with the Republic of Ireland, the lowest in the EU. Some cantons provide full tax exemption for up to 10 years for new companies. Cantons engage in aggressive tax competition to attract companies and wealthy expatriates as well.

A 1997 corporate tax reform made Switzerland even more attractive for holding companies and corporate administrative headquarters making it a favorite location for European regional and world headquarters. Low taxes and an absence of controlled foreign corporation laws as in the United States, exempt foreign subsidiaries from tax on profits before distribution. The extensive treaty network, including with the EU, exempts from tax dividends, royalties and interests paid to affiliated companies.

Kraft Foods, the American multinational, joined other U.S. corporations moving European headquarters to Switzerland, joining Procter & Gamble and Colgate-Palmolive. Unlike high tax welfare states nations such as France and Germany, Switzerland supports and defends international tax competition. Its privacy laws protect flight capital and cantons vigorously compete to offer the best tax regimes.

EU Meddling

The low taxes of cantons such as Obwalden and neighboring Zug have been attacked repeatedly by the European Union and French and German tax collectors hungry for more taxes to cover their deficit spending.

The Paris-based Organization for Economic Co-operation and Development (OECD), the mouthpiece for high tax, big spending governments, repeatedly has denounced the Swiss with a phony “unfair tax competition” charge. The EU has claimed Swiss low taxes “may be incompatible” with Swiss obligations under their association agreement with the EU.

Not surprisingly, as the *Neue Zuricher Zeitung* reports, Swiss leaders repeatedly have rejected such attacks, defending Swiss sovereignty on tax matters.

CHAPTER 8

Legal Entities

Trusts in Switzerland

Federal Supreme Court of Switzerland, Lausanne

Surprisingly, there are no Swiss trust laws, per se. That seems odd, since more than one-third of the world's total assets are under Swiss management and trusts play a major role in that management.

This statutory absence results because Switzerland, under the Napoleonic Code, is a civil law country, not a common-law country, as are the British Commonwealth countries and the United States where trusts date back centuries.

Swiss law does recognize, and honor valid trusts created elsewhere, so the problem is more academic than practical. Courts here have no problem administering the trust laws of other nations. It has been suggested that Switzerland should ratify the Hague Trust Convention or follow the example of other civil law international financial centers, such as Panama and Liechtenstein, that have adopted statutory common law trust regimes that fully recognize the trust principle.

To refresh memory, a "trust" is a legal relationship in which assets are transferred on a fiduciary basis to one or more trustees, who manage these assets and use them for a purpose determined in advance by the grantor, the person who creates the trust, and for the benefit of named beneficiaries.

A large volume of assets owned by trusts or managed in the name of trusts created in other countries, are held and managed in Switzerland. Swiss banks have trust departments, and many Swiss companies specialize in trust management. Swiss fiduciary companies and law firms are involved in trust planning and administration.

Although trusts are broadly recognized under current Swiss law and judicial decisions, the legal situation is still marked with uncertainty. The adoption of the Hague Trust Convention would recognize trusts and give them legal certainty. There is also a major economic interest in greater legal certainty that would improve the establishment and management of trusts in Switzerland.

To avoid the Swiss law trust situation, it is common for those wanting maximum asset protection and investment flexibility to establish a trust in a jurisdiction noted for modern trust laws, such as the Cook Islands, Panama, Bermuda, Gibraltar or the Channel Islands, while at the same time having the offshore trust's banking and investment accounts located and managed in Switzerland.

Swiss law also fails to provide clear tax rules for trusts, so tax treatment is uncertain. Trusts are liable to general Swiss taxation rules, which can impose unwanted results. Each canton administers its own taxes and as a result, trust taxes can vary widely. There may be gift and estate taxes, imposed upon distribution. Wealth and income taxes may be levied on the beneficiaries, trustees or grantors, depending on the trust deed and the opinion of local cantonal tax authorities.

To avoid these uncertain trust tax situations, Switzerland allows tax plans to be submitted to tax authorities for official tax rulings. As we have explained, foreign individuals seeking Swiss residence can negotiate with cantonal tax authorities who flexible and willing to please wealthy foreign residents. For anyone with existing trust arrangements, it is highly recommended that cantonal trust tax opinions be obtained before choosing a Swiss residence.

Corporations

As we have noted, low cantonal corporate taxes have attracted foreign investors and business owners, especially in Europe, to Switzerland where they incorporate and create a base of operations. Switzerland is not a "no tax" offshore haven such as the Cayman Islands, Panama or Jersey.

But it definitely is a low-tax jurisdiction with specialized corporate forms that allow international investors and multinational companies to reduce their tax bills. To repeat, this attractive tax situation has caused loud complaints about "unfair tax competition" from Switzerland's envious high tax neighbors and from the EU. The Swiss have responded with firm rejections.

The corporation is the most popular and common legal entity for foreign investors in Switzerland. A stock corporation is formed under a company name, followed by the words and initials of either the German *Aktiengesellschaft* (AG), or the French *Société Anonyme* (SA). The minimum share capital for these stock corporations is CHF100,000, (US$103,400) and the minimum paid-up capital required is CHF50,000 (US$52,000).

The right to transfer shares depends on the type of shares issued by the corporation. Shares registered in the owner's name must either be endorsed or assigned, depending on the corporate bylaws. There may be restrictions on the transfer of registered shares, such as limits on total holdings or on foreign ownership. Under Swiss law, shareholders usually are not personally liable for corporate debts.

The limited liability company, *société à responsabilité limitée* in French using the letters (Sàrl), or *Gesellschaft mit beschränkter Haftung* (GmbH) in German, shares some features of a corporation, including limited personal liability of its members, as well as some characteristics of a partnership, including direct management and control by members. The Swiss LLC is an association of two or more persons or legal entities, with a minimum stated capital of CHF20,000 (US$21,000), up to a maximum of CHF2 million (US$2,6 million). At least 50% of its capital, in cash or in kind, must be paid in and disclosed in the bylaws at the time the company is founded. Every member has one vote for each CHF1,000 of his or her contribution, unless the bylaws provide otherwise.

Members are personally, jointly and severally liable to third parties up to the aggregate amount of stated capital not paid in. Shares may only be transferred before a notary public and the transfer must be recorded in a public deed. Full or partial transfer of shares requires the approval of three-quarters of all the members representing three-quarters of the stated capital. The bylaws may further restrict or even prohibit transfers.

Holding companies are stock corporations with special tax status that benefits from reductions in income and capital gains taxes at the federal and cantonal level and from a reduction in net worth tax at the cantonal level.

For federal tax purposes, a company is defined as a holding company if it holds either a minimum of 20% of the share capital of another corporate entity or if the value of its shareholding in the other corporate entity has a market value of at least CHF2 million (US$2.06 million) known as "participating share-holding."

The Swiss holding company was a particular target of the OECD's so-called "unfair tax competition" initiative. An agreement between Switzerland and the OECD shares information about Swiss holding companies with other governments in case of *prima facie* evidence of fraud.

Although the definition of a holding company varies among cantons, a corporate entity is a holding company for cantonal corporate income tax purposes if it either 1) derives at least 51%-66% of its income from dividends remitted by the subsidiary, or 2) holds at least 51%-66% of the subsidiary's shares.

Generally, foreign dividends remitted to any capital gains realized by a Swiss company on the sale of shares in a foreign entity in which it holds a stake, are taxable in Switzerland, unless they are remitted to a company which Swiss fiscal law defined as a "holding" company.

Swiss holding companies enjoy the following relief from corporate income tax:

- At the federal level, a holding company pays a reduced level of corporate income tax on any dividend income received from the subsidiary or the company in which it holds a "participating shareholding." The reduction in corporate income tax payable depends on the ratio of earnings from "participating shareholding" to total profit generated.

- At the cantonal or municipal level, no corporate income tax is payable on income represented by dividends, when the corporate entity meets the cantonal definition of a holding company.

Holding companies that hold a minimum of 20% of the share capital of a subsidiary pay reduced corporation tax on any capital gains made on the sale of that shareholding, so long as the shareholding was held for at least one year and was purchased after January 1998, or the shareholding was purchased before January 1997 and will be disposed of after 2007.

Fribourg is currently considered the best canton in which to locate a holding company for corporate income tax purposes.

Domiciliary Companies are companies that:

- Are both foreign-controlled and managed from abroad.
- Have a registered office in Switzerland (usually at a lawyer's office).
- Have neither a physical presence nor staff in Switzerland.
- Carry out most if not all of their business abroad.
- Receive only foreign source income.

Domiciliary companies enjoy the following relief from corporate income tax:

- At a federal level, there are no tax advantages in terms of corporate income tax payable on income and gains.
- At a cantonal and municipal level, the corporate income tax rate may be substantially reduced or even reduced to zero; taxes levied by the cantons are calculated according to a formula that relates the company's paid up share capital and reserves to profit.

Auxiliary Companies are essentially a domiciliary company that also may carry out a certain proportion of its business within Switzerland. Auxiliary companies can exist in only seven cantons. An auxiliary company may: have Swiss offices and staff, receive Swiss income (which is taxed at normal rates) though most of its income must be from a foreign source.

Auxiliary companies enjoy the following relief from corporate income tax:

- At a federal level no exemptions are granted on corporate income tax;
- At a cantonal and municipal level, the level of corporate income tax payable on income and capital gains varies among the seven cantons who give favorable treatment. However, generally Swiss-sourced income is taxed at 5%, whereas foreign-sourced income is tax exempt. The tax concessions can vary, and an advance tax ruling should be sought.

Service Companies are companies whose sole activity is the provision of technical, management, marketing, public relations, financial and administrative assistance to foreign companies that are part of a group of which the service company is a member.

Service companies may not in general derive income from third parties i.e. companies outside their corporate group). Service company status is obtained by an advance tax ruling.

Service companies enjoy the following relief from corporate income tax:

- At a federal level, relief is not available on corporate income tax payable;
- At a cantonal and communal level, corporate income tax rates will be adjusted depending on the international orientation of the services provided.

There are a number of ways of calculating annual taxable profit for cantonal and municipal purposes but generally speaking annual taxable profit will be the equivalent of 8.5% of the payroll or 5%–20% of overheads (unless overheads are very low in which case a higher percentage rate will be used).

Mixed companies are companies that have the characteristics of both domiciliary companies and holding companies but that do not qualify as either.

A mixed company gets the following relief from corporate income tax:

- While at a federal level, no relief is granted;
- At a cantonal and municipal level, a mixed company may pay reduced tax or be totally exempt if it meets the following conditions: It is foreign controlled; a minimum of 80% of its total income comes from foreign sources; and the company has close relationships to foreign entities.

There are no special rules applying to the foreign or Swiss employees of the tax-privileged corporate operations described here. The various exemptions from income tax described apply only to the corporations, not to employees. A business employing and paying people in Switzerland must follow the normal income tax rules for the taxation of individuals.

Corporations Growing

Foreign companies form a substantial part of the Swiss economy. In recent years new incorporations in Switzerland have averaged about 40,000 annually. Most companies chose to set up offices the Geneva area. Single employee companies comprised 82.2%, 15.6% employ two to four people, 1.9% employ five to nine people and 0.4% employ more than ten people.

In 2015, over 11,000 branches of foreign companies were established in Switzerland employing 470,000 persons, 10% of total employment. These companies were mainly in Zurich and the region of Lake Geneva. Primary activities were trade, finance or administrative services. These companies have headquarters in Germany (25%), the U.S. (21%), France (13%) and Britain (6%).

Partnerships

As in the United States or the United Kingdom, Swiss law recognizes various forms of partnerships, with the requirements and liabilities set in law.

An ordinary partnership is a loose form of business organization between parties, usually established for temporary operational purposes, such as a major construction project. It usually does not have a firm name since it consists only of a contract of association, which must be in writing. An ordinary partnership is not a legal entity per se and cannot acquire rights or assume obligations.

A general partnership is an organization of two or more individual persons, (but not corporations), formed for the purpose of operating a trading, industrial or other commercial enterprise. The partners are jointly and severally liable for partnership liabilities to the extent that liabilities are not covered by the partnership assets. The general partnership corresponds loosely to the U.S. common law partnership and is formed by registration of partnership articles in the cantonal Commercial Register. Initially, the name of the partnership must include the name of one or more partners. No minimum amount of capital is required. A partnership may take legal actions and sue and be sued, as can a corporation.

A limited partnership is similar to that of a general partnership, but the liability of one or more of the partners is limited to his or her capital contribution, the amount of which must be entered in the Commercial Register. General partners must be natural persons; limited partners may be natural persons or legal entities. At least one partner must be fully liable for the obligations of the firm itself. This type of partnership corresponds approximately to a U.S. common law limited partnership.

Associations & Foundations

A Swiss association is designed for organizations that pursue non-profit objectives and engage in beneficial, scientific, cultural, political or social activities. Many of the more important Swiss-based associations are formed to pursue charitable or economic goals, such as professional organizations and trade unions. To attain their goals, non-profit associations may engage in industrial or commercial activity. Associations acquire the status of a separate legal entity as soon as the articles of association are adopted but should be registered publicly.

A Swiss foundation is a fund endowed for a specifically stated purpose. The assets set aside for that purpose become autonomous, acquiring the status of a separate legal entity. The foundation is frequently used for company or other pension plans. The foundation is not an entity with members, but rather a fund to finance a specific objective. A foundation is established by filing a public deed or it can be created under the terms of a testamentary will. Once registered in the cantonal Register of Commerce, the foundation becomes a legal entity that can conduct business. (This Swiss entity should not be confused with the private family foundation that is available by law in neighboring Liechtenstein where it is a popular personal estate planning and administration tool.)

A Swiss branch of a foreign business that more or less corresponds to an existing Swiss legal form as defined in law (partnership, corporation, LLC), may establish branches within Switzerland. This is quite often done by foreign businesses wanting to establish a Swiss base of operations, and many major multinational corporations use it. The branch must be registered in the cantonal Commercial Register and must meet certain conditions. The registration documents required depend on the legal form of the foreign company and must be certified by a notary. Documents in a language other than that of the local cantonal Commercial Register must be translated by a certified translator. At least one branch manager with the power to legally manage and obligate the branch office or two branch managers who can sign jointly must reside within Switzerland.

Beware of the IRS *Per Se* List

For U.S. persons who control the shares in a foreign corporation, there are major limitations on U.S. tax benefits that would otherwise be available to a corporation formed in the United States. This is because the foreign corporation may be on what is known as the IRS "*per se*" list of foreign corporations, which appears in IRS regulations, section 301.7701-2(b)(8)(i).

Included on the list is the Swiss corporation that is the most popular and most commonly used legal entity for foreign investors in Switzerland. This stock corporation is formed under a company name that is followed by the words either *Aktiengesellschaft* (AG) in German, or *Société Anonyme* (SA) in French.

The listed *per se* corporations are barred from numerous U.S. tax benefits. This means that U.S. persons cannot file an IRS Form 8832 electing to treat the corporation as a "disregarded entity" or a foreign partnership, either of which is given much more favorable tax treatment.

Under IRS rules, the foreign corporation that engages in passive investments is considered a "controlled foreign corporation," which requires the filing of IRS Form 5471 describing its operations. U.S. persons must also file IRS Form 926 reporting transfers of cash or assets to the corporation.

As explained in Chapter Four, a U.S. person who controls a foreign financial account of any nature that has in it US$10,000 or more at any time during a calendar year must report this on the Foreign Bank Account Report (FBAR), FinCEN Form 114, (the former U.S. Treasury Form TDF 90.22-1) by June 30 each year. There are serious fines and penalties for failure to file these IRS returns and criminal charges can also be imposed.

As a general rule, U.S. persons can be guilty of the crime of "falsifying a federal income tax return" by failing to report offshore corporate holdings.

Any eventual capital gains an IRS-listed *per se* corporation may make are not taxed in the U.S.

under the more favorable capital gains tax rate of 15%, but rather as ordinary income for the corporate owners, which can be much higher. There is also the possibility of double taxation if a foreign corporation makes investments in the U.S., in which case there is a 30% U.S. withholding tax on the investment income. Under U.S. tax rules, no annual losses can be taken on corporate investments, which must be deferred by the U.S. owners until the foreign corporation is liquidated.

However, compared to these IRS restrictions, there may be offsetting considerations, such as complete exemption from foreign taxes, which may be more important in your financial planning. Therefore, it is extremely important that U.S. persons obtain an authoritative review of the tax implications before forming a foreign corporation for any purpose, including holding title to personal or business real estate.

Recommended Attorney

Josh N. Bennett Esq. PA
440 North Andrews Avenue
Fort Lauderdale FL 33301
Office Tel.: 954-779-1661
Mobile: 786-202-JOSH (5674)
Email: Josh@JoshBennett.com
Website: http://joshbennett.com

Specializing in all aspects of asset preservation planning, international and domestic, including: U.S. and international tax, estate, and gift tax planning; foreign investment and international business corporations, foreign trusts, offshore banking, mutual fund establishment and real estate.

CHAPTER 9

Residence & Citizenship

Zurich City & Lake Zurich

Residence & Citizenship–Difficult But Possible

Switzerland is not the easiest place in the world for a foreign national to obtain permanent residence status or full citizenship, but both goals are possible. Once accepted for residence, citizenship may be available eventually.

Obtaining the right to become a resident in Switzerland has become increasingly difficult as the Swiss have joined many Europeans in resisting the migration of workers and refugees from the Mediterranean basin, Eastern Europe, the Near East and Africa.

Switzerland has some of the toughest naturalization rules in Europe. In 2018, a revised Swiss Citizenship Act (SCA) tightened naturalization further, making grant of a prior C-residence permit (C-Permit) a prerequisite. The main focus of the 2018 law is on required prior integration of an applicant into all aspects of Swiss life and society. To prepare immigrants for the labor market, Switzerland offers year-long etiquette courses in which refugees learn that punctuality is important and the diploma awarded helps them find jobs.

Before applying for citizenship, one must live in the country as a legal resident for at least 10 years, pay taxes and have no criminal record. The application can still be turned down by your local commune and in some localities, it is customary to hold a popular vote on applications.

Birth within Switzerland does not guarantee citizenship, unless at least one parent is a Swiss national. A foreign national who marries a Swiss can obtain citizenship after a five-year residence. If it's later discovered to be a marriage of convenience, citizenship or residence is instantly revocable.

Residence permits are difficult to arrange, but not impossible. Swiss cantonal, not federal, authorities issue what can be described as a combination residence/work permit, allowing work in that canton for a specific employer.

The test to qualify for residence is the same applied to determine whether an individual is subject to Swiss personal income tax. A person is deemed a Swiss resident if that person is employed, or carries on a business in Switzerland, or lives in Switzerland for not less than 180 days in any one calendar year. If they remain in the same abode for 90 days, they are considered a resident for tax purposes.

Population Issues

Switzerland's population grew from 1.7 million in 1815, to 8.5 million in 2018. That number has increased by 1.8 million since 1990.

Switzerland has one of Europe's highest percentages of foreigners living within its borders, about 1.65 million, or about 20%. The country has been tasked with absorbing 80,000 foreigners a year, a lot for a country of eight million. Of that 20% from other countries, 85% are European, mainly workers from Spain, Portugal, Italy, and the former Yugoslavia. Since 2015 the country has admitted about 30,000 refugees from Syria, Eritrea and Africa.

One in five people living in Switzerland is a foreign national. Industry groups say foreign workers account for 45% of employees at pharmaceutical, chemical and biotechnology companies. Some 25% of Swiss bank employees are citizens of neighboring EU countries, according to the Swiss Bankers Association.

In recent years, there has been a growing resistance to immigration and to granting citizenship. Some cantons now require a public referendum on whether to admit specific lists of applicants and many individuals have been rejected in these votes.

In 2014, voters in a national referendum narrowly approved a proposal to curb immigration. The "Stop Mass Immigration" proposal was opposed by many business and labor groups but was approved by 50.3% of the votes and by a majority of cantons. The curb proposed by the conservative Swiss People's Party imposed quotas on all foreign nationals, including cross-border commuters and asylum seekers, restricted immigrant rights to social benefits and required preference for the Swiss in employment hiring.

In 2009 Switzerland joined the EU Schengen accord that was designed to allow EU multi-nationals free movement and residence. Since then, many Schengen countries have adopted measures to exclude unwanted refugees and migrants.

Schengen

Switzerland is a party to the 1985 European Union Visa Waiver Program called the "Schengen Area" which takes its name from a Luxembourg village in where the agreement was signed.

Under the original EU law, anyone with an EU country passport could live, move and work permanently in or out of any of 26 European countries that had abolished border passport control. Only 22 of 28 EU member states joined the Schengen area, the UK and Ireland declined. Four non-EU members of the European Free Trade Association (EFTA), Iceland, Switzerland, Norway and Lichtenstein, also joined, for a total of 26.

In 2009, non-EU member, Switzerland, joined the Schengen Agreement, but with the restriction that it would only accept foreigners as residents on an individual, case-by-case basis.

By 2015 the Schengen area included over 400 million people in an area of about 1.7 million square miles. The Schengen passport-free travel among almost all EU States and the few associated non-EU countries was challenged by a huge influx across Europe of 1.3 million migrants, many refugees from the Islamic State (ISIS) war in Syria, Iraq and the Middle East.

EU states re-imposed what were said to be "temporary" border controls. Suddenly, even legitimate EU state and Schengen area residents were required to justify border crossings. Another blow to Schengen came with multiple terrorist attacks in Europe in 2015 and 2016. The full impact these events on liberal immigration policies within the Schengen area lies ahead.

For current information on the Schengen Area and the 26 countries involved, see https://www.schengenvisainfo.com/schengen-visa-countries-list.

Entry

Financially independent individuals, business investors and entrepreneurs may obtain Swiss residence in two principal ways:

1. **Business Investment**: Each canton makes its own rules, but all offer some tax breaks or subsidies for foreign nationals who agree to relocate a business or new enterprise in the area that create new jobs and promotes economic development. If the business is substantial, residence permits for the foreign director/owner and family usually are granted without delay. Some cantons allow individuals to open an office and work on their own. One option is starting a company which employs the individual seeking residence.
2. **Retirement**: Financially independent foreign applicants over 55 years of age, who can show close Swiss ties, also may be eligible for residence. On an individual basis and at the discretion of cantonal authorities, such persons may negotiate an agreement for a reduced annual lump sum income tax payment based on worldwide income; see Swiss Taxes, Chapter 7.

Residence & Work Permits

Residency and work permits are issued jointly by the government. Types of permits include the "120-day" permit, the class A, B or C permits, the fiscal deal permit and the political refugee permit. Permits other than the "120-day" are subject to a quota system.

The "120-day" permit allows a managerial or specialist worker to work in a specific job for up to 120 days in a particular year. The EU-Swiss Agreement on the Free Movement of Persons (AFMP) eases restrictions on EU citizens living or working in Switzerland. Those who qualify receive recognition of professional qualifications and have the right to buy property, and the coordination of social insurance systems.

1. **Annual Residence "B" Permit**: This s a one-year residence permit issued to foreigners during their first years of residence in Switzerland. After 5 or 10 years, depending on bilateral treaties, the "B" permit holder may be eligible for a permanent resident or "C" permit. The "B" permit allows specific employment and is renewable annually. Issuance usually requires about three months.

The Class B permit, the most common, gives the right to live and work in country. It is the permit for professional and managerial people and for the self-employed starting their own company.

Class B permit characteristics include:

- Usually granted for a period of up to one year at a time.
- If the permit is for work, applicant already must have secured a job.
- The grant of this permit must not deprive a Swiss national of employment. Many trades are protected by guilds that prohibit the recruitment of foreign workers, so a class B permit may be denied.
- The B permit allows applicant to bring a spouse and children into the country, but not extended family.
- Inability to speak one of the official Swiss languages does not prejudiced the application.

2. **Permanent Residence Permit**: This "C" permit gives full residence status with most rights of Swiss citizens, excluding political rights such as voting or holding office, but it allows the applicant to buy real estate. To obtain a class C permit one must have had a class B permit for from 5 to 10 years, depending on country of origin. The class C permit also is subject to conditions of the class B permit and is the last step before applying for Swiss citizenship.
3. **Seasonal Work Permit**: This "A" permit is limited to nine consecutive months within a 12-month period, usually for seasonal employment in the building, hotel and tourism industries. Entry and exit dates are strictly enforced.
4. **Border Commuter Work Permit**: The "L" permit is issued only to foreign nationals who are residents near the Swiss national border and who commute to work in Switzerland.

EU Citizens

In 2002, Swiss-EU bilateral agreements allowed a qualified financially independent EU citizen to become a Swiss resident. There is no age requirement or need of evidence of close ties to Switzerland, but proof of sufficient funds and adequate health insurance coverage is required. The EU person is not allowed to work without a work permit, unless employed by a family member. Eventually, the goal is for both EU and Swiss citizens to have reciprocal freedom of movement.

Purchasing Real Estate

Because of a continuing historic foreign demand for Swiss real estate, Switzerland long has restricted rights in such purchases. Despite false rumors, there is no blanket prohibition against such sales.

Foreign purchase of residential real estate must have prior approval from cantonal authorities, often difficult to obtain. In cantonal designated holiday resort areas, vacation homes can be bought by a foreign individual, but not by a corporation.

These foreign purchases are deducted from an annual federal quota assigned to the canton, limiting vacation homes and hotel or condominium units. Cantons and local communes may impose even tougher restrictions. Restrictions, tax and local planning limit options for holiday homes for foreigners.

Foreigners who hold an official Swiss residence permit can purchase real estate without restrictions. Even if a foreigner leaves the country, they can retain property. Financially independent EU citizens with a residence permit can also buy residential real estate for personal use.

In spite of these residential real estate rules, the purchase of commercial real estate by foreigners or foreign legal entities is unrestricted in Switzerland.

Citizenship

After 10 years of Swiss residence, a foreign national with "C Permit" resident status may apply for naturalization as a citizen.

For foreign national children, any years spent in the country between the ages of 10 and 20 years count double for application purposes. Conditions for granting citizenship depend on laws and rules of the canton and community where the foreign person lives. Generally, the applicant must be acquainted with national customs, be well integrated in society and usually be fluent in one of the three national languages.

The application process may involve an in-depth investigation, plus detailed personal questioning of Swiss neighbors. Special rules allow instant citizenship for "Persons of International Stature," including noted poets, authors, deposed royalty, movie stars, scientists, ex-heads of state, and religious leaders, but very rarely is citizenship granted on this unique basis.

Switzerland accepts the principle of dual nationality, but foreign citizens who also have Swiss citizenship may be subject to compulsory military service and other requirements while living in Switzerland.

Travel to Switzerland

Switzerland has a liberal attitude toward foreign tourists, allowing visits twice a year for up to three months each time, so long as visits are separated by an adequate time period. U.S. visitors should have a passport valid for at least six months beyond stay. A visa is not required for tourism or a student stay of less than 90 days, nor for a business or medical stay of up to 90 days.

Stays exceeding three months do require a visa and a residence permit. To obtain a visa to visit Switzerland, requirements include a valid passport, one additional passport photo, proof of residency, an onward/return airline or other travel ticket, proof of sufficient funds, and a letter from an employer stating occupation and salary.

For more details, visit https://www.schengenvisainfo.com/switzerland-visa/us.

Embassy of Switzerland
2900 Cathedral Avenue N.W.
Washington, DC 20008
Tel.: 202-745-7900
Email: washington@eda.admin.ch / was.visa@eda.admin.ch (Visa inquiries)
Website: http://www.swissemb.org

U.S. Consulates: Atlanta, GA; Boston, MA; Chicago, IL; Dallas, TX; Denver, CO; Detroit, MI; Honolulu, HI; Houston, TX; Indianapolis, IN; Las Vegas, NV; Los Angeles, CA; Miami, FL; New Orleans, LA; New York, NY; Orlando, FL; Philadelphia, PA; and Salt Lake City, UT; San Francisco, CA; and Settle, WA.

United States Embassy
Sulgeneckstrasse 19
CH 3007 Bern, Switzerland
Tel.: +(41 0) 31 357 70 11
Emergency Tel.: +(41 0) 31 357 77 77
Email: bernacs@state.gov
Website: https://ch.usembassy.gov

U.S. Consular Agency
Dufourstrasse 101 3rd Floor
Zurich, Switzerland
CH-8008 Zurich, Switzerland
Tel.: +(043) 499-2960
Email: Zurich-CA@state.gov
Website: https://ch.usembassy.gov/u-s-citizen-services/ca-zrh-contact

For Residence & Citizenship Assistance:

Henley & Partners Switzerland AG
Henley Haus
Klosbachstrasse 110
8024 Zurich Switzerland
Tel.: +41 44 266 22 22
Website: https://www.henleyglobal.com/residence-switzerland
World offices list: https://www.henleyglobal.com/worldwide-offices

APPENDIX A

Tax Treaties

Switzerland currently has double taxation treaties with nearly 90 countries. Some of those countries are listed below. For more details, visit: https://www.lowtax.net/information/switzerland/switzerland-tax-treaty-introduction.html.

Albania
Algeria
Argentina
Armenia
Australia
Austria
Azerbaijan
Bangladesh
Barbados
Belarus
Belgium
Bulgaria
Canada
Chile
China
Colombia
Croatia
Cyprus
Czech Republic
Denmark
Ecuador
Egypt
Estonia
Finland
France
Georgia
Germany
Ghana
Greece
Hong Kong
Hungary
Iceland
India
Indonesia
Iran
Ireland
Israel
Italy
Ivory Coast
Jamaica
Japan
Kazakhstan
Kuwait
Kyrgyzstan
Latvia
Liechtenstein
Lithuania
Luxembourg
Macedonia
Malaysia
Malta
Mexico
Moldova
Mongolia
Montenegro
Morocco
Netherlands
New Zealand
Norway
Pakistan
Peru
Philippines
Poland
Portugal
Qatar
Romania
Russia
Serbia
Singapore
Slovakia
Slovenia
South Africa
South Korea
Spain
Sri Lanka
Sweden
Taiwan
Tajikistan
Thailand
Trinidad & Tobago
Tunisia
Ukraine
United Arab Emirates
United Kingdom
United States
Uruguay
Uzbekistan
Venezuela
Vietnam

APPENDIX B

Useful Websites

Banks:
http://www.swconsult.ch/cgi-bin/banklist2.pl
https://thebanks.eu/banks-by-country/Switzerland

CIA World Fact Book on Switzerland:
https://www.cia.gov/library/publications/the-world-factbook/geos/sz.html

Embassy of Switzerland:
https://www.eda.admin.ch/countries/usa/en/home.html

Federal Department of Foreign Affairs FDFA:
https://www.eda.admin.ch/eda/en/home.html

Henley & Partners (Residence and Citizenship Planning):
https://www.henleyglobal.com

Rough Travel Guide:
https://www.roughguides.com/destinations/europe/switzerland

Swiss-American Chamber of Commerce:
https://www.amcham.ch

Swiss Federal Government:
https://www.admin.ch/gov/en/start.html

Swiss Federal Statistical Office:
https://www.bfs.admin.ch/bfs/en/home.html

State Secretariat for Economic Affairs SECO:
https://www.seco.admin.ch/seco/en/home.html

SwissInfo (Major News Source):
http://www.swissinfo.ch/eng

Swiss Legal Sources:
http://www.washlaw.edu/forint/europe/swiss.html

Swiss Tourism:
https://www.myswitzerland.com/en-us/home.html

U.S. Department of State, Background Notes on Switzerland:
https://www.state.gov/r/pa/ei/bgn/3431.htm

U.S. Embassy in Switzerland:
https://ch.usembassy.gov