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In this article, the authors outline the main elements of the Swiss wealth tax system, examine the rationale behind the tax and its interaction with the overall tax system, and consider key elements that may apply to the debate over a wealth tax in the United States.

Switzerland is one of the few countries that still uses a comprehensive wealth tax and might therefore be of particular interest for the U.S. wealth tax debate.¹ This article describes how the Swiss wealth tax works and provides some empirical data; however, it does not take any policy position in the U.S. debate.²

I. Introduction

A. Historical Development

After the French Revolution, France started to tax object-related income instead of wealth because of injustices — that is, arbitrary tax exemptions and collections — of the “*ancien régime*” tax system.³ Most European countries introduced similar taxes, which were the predecessors of the modern income tax, in the 19th century.⁴

That process did not occur in Switzerland for several reasons: The different treatment of various income streams that was inherent in income tax systems at that time probably contradicted the country’s democratic concept of equality before the law,⁵ and the financial needs of Swiss cantons were limited because of the lack of a royal household, expensive public servants, or a regular army. Therefore, a simple wealth tax was sufficient back then.⁶

Until the start of World War I, the wealth tax was the main tax in Switzerland.⁷ Even when labor income grew in the context of economic development around the turn of the century, the cantons often introduced a wage tax instead of a comprehensive income tax.⁸ In 1915 the federation — that is, the central government — was given the competence by the people to levy a one-time war

³ Konrad Littmann, *Überblick über die Ertragsteuern* 572 (1980).

⁴ Ernst Raths, *Bedeutung und Rechtfertigung der Vermögensteuer in Historischer und Heutiger Sicht* 108 (1977).

⁵ Eugen Grossmann, *Die Vermögenssteuer* 526 (1956).

⁶ Wilhelm Bickel, “Die Vermögenssteuern in der Schweiz,” 15 *Public Fin.* 246, 247 (1960).

⁷ Raths, *supra* note 4, at 116-117.

⁸ Bickel, *supra* note 6, at 247-248.

¹ See, e.g., Tax Foundation, “Tracking the 2020 Presidential Tax Plans,” (Nov. 20, 2019).

² For an overview of arguments for and against individual net wealth taxes, see OECD, “The Role and Design of Net Wealth Taxes in the OECD,” OECD Tax Policy Studies No. 26, at 47-74 (2018).

tax triggered by World War I.⁹ It was a wealth tax accompanied by a wage tax,¹⁰ and it was the first time the federation had levied a direct tax.¹¹

The system changed when the canton of Zurich introduced as major tax reform a comprehensive income tax with only a supplementary wealth tax in 1917.¹² All other cantons followed (the last was Glarus in 1970), as well as the federation with the—in the meantime, permanent—war tax in 1940.¹³

However, the reorganization of the federal financial constitution, which came into force January 1, 1959, abolished the federal supplementary wealth tax as a result of criticism of the overtaxation of investment income assets.¹⁴ Since then, only the cantons, and not the federation, levy a wealth tax in addition to a comprehensive income tax.

B. Constitutional Framework

Switzerland has a clear allocation of tax competences in its current constitution: The default is that tax competences that are not explicitly reserved for the federation are left to the 26 cantons.¹⁵ The cantons can allocate tax competences between themselves and their (roughly 2,300) municipalities.

The federation has no right to levy a wealth tax, so it is a competence of the cantons. However, the Swiss Federal Constitution contains a harmonization provision for direct taxes in the sense that the federation shall set out principles on harmonization that can extend only to tax liability, the object of the tax and the tax period, procedural law, and laws regarding tax offenses¹⁶ (the cantons are sovereign to determine the tax scales, rates, and allowances). Harmonization is

achieved by the Federal Act on the Harmonization of Direct Cantonal and Communal Taxes of December 14, 1990 (FHTA), SR 642.14.

Interestingly, there is no dispute about whether the wealth tax is a direct tax, at least for tax harmonization purposes. In Switzerland, there is a consensus that the federation has the right to harmonize direct taxes, which includes wealth taxes.¹⁷ According to FHTA article 2[1][a], all cantons are obliged to levy a wealth tax.¹⁸

C. Further Important Swiss Legislative Elements

To better understand the Swiss wealth tax, some general aspects of the country's tax system should be considered:

- Capital gains are income tax exempt for individuals holding an asset as a private asset.¹⁹ For instance, a person selling 10 Nestlé shares with a gain is not taxed unless he is considered a professional securities dealer. Therefore, there is an incentive to achieve capital gains instead of dividends or other income from movable assets in Switzerland.²⁰ However, it is crucial that an asset belongs to the private sphere of a taxpayer and not to the business sphere, which would be the case with self-employment — that is, if the individual were a professional securities dealer.
- Donations and inheritances are exempt from income tax in Switzerland.²¹ Even though nearly all cantons have special gift and inheritance taxes, gifts and inheritances are tax exempt in most cantons if in direct line (from the parents to the children).
- The effective Swiss income tax rates differ depending on individuals' places of residence. The top marginal tax rates are between 22.3 percent (Baar, canton of Zug)

⁹ See Bundesbeschluss betreffend Erlass eines Artikels der Bundesverfassung zur Erhebung einer einmaligen Kriegssteuern (Apr. 15, 1915).

¹⁰ *Id.*

¹¹ See Botschaft des Bundesrates an die Bundesversammlung betreffend Aufnahme eines Art. 42-bis in die Bundesverfassung, 165 (Feb. 12, 1915).

¹² Bickel, *supra* note 6, at 248.

¹³ Rath, *supra* note 4, at 117.

¹⁴ Bickel, *supra* note 6, at 250-251.

¹⁵ See Federal Constitution of the Swiss Confederation of Apr. 18, 1999, SR 101 articles 47[2] and article 3.

¹⁶ *Id.* at article 129.

¹⁷ From a U.S. perspective, see Ari Glogower, "A Constitutional Wealth Tax," 118 *Mich. L. Rev.* (forthcoming 2020).

¹⁸ See Federal Supreme Court, BGE 128 I 240, consid. 3.1.1 (July 10, 2002).

¹⁹ See Federal Act on the Direct Federal Tax of Dec. 14, 1990 (FDTA), SR 642.11 article 16[3]; and FHTA article 7[4][b].

²⁰ However, gains from selling real estate are subject to a special real estate capital gains tax at the cantonal level if the real estate is held as a private asset.

²¹ See FDTA article 24[a] and FHTA article 7[4][c].

and 46 percent (Avully and Chancy, canton of Geneva).²²

- About half the municipalities levy a recurrent tax on real estate in addition to the wealth tax. The tax base is the gross value of the property — that is, without mortgages — and the statutory rates go up to 3 per mille.

II. Personal Scope

Subject to wealth taxation are both persons resident in Switzerland with an unlimited tax liability and persons resident abroad with a limited tax liability in Switzerland through real estate, business operations, or a permanent establishment in Switzerland.²³ A married couple is assessed together — that is, they are treated as one taxpayer and their wealth will be added up.²⁴

However, corporate taxpayers are not subject to the Swiss wealth tax but instead to a capital tax that is in simplified terms a wealth tax for corporations, levied on net equity. Because Switzerland generally treats partnerships as transparent, the assets held by a partnership are subject to wealth taxation at the partner level depending on their share in the partnership.

As shown below, there might be a difference when some assets are held through a partnership because that might be an indication that they belong to the business and not the private sphere of a taxpayer.

III. Tax Base

A. Overview

The two most important categories of wealth to be disclosed in the tax return are securities and real estate. However, the law requires that a comprehensive wealth tax be levied,²⁵ so all taxpayer assets are subject to the wealth tax (beyond securities and real estate). As a result,

Switzerland has a broad base for wealth tax purposes.²⁶

Further, only a taxpayer's net assets are considered taxable wealth.²⁷ That means the taxpayer's debt is deductible. Most importantly, the taxpayer may deduct mortgages and other loans from his taxable wealth.

B. Taxable Wealth

The FHTA provides only minimal harmonization guidelines. For instance, it states that household assets, such as a kitchen table or a bed, are not subject to wealth taxation, so everything that is commonly part of a household is exempt. However, items such as a painting by a famous artist hanging in the living room are not considered part of an ordinary household.²⁸

Assets for personal use for everyday life, such as clothes and watches, are also not subject to wealth taxation, although very valuable assets a person might use daily, such as an expensive bracelet, are not exempt. Problematically, the distinction between those assets is not straightforward.²⁹

Finally, the cantons do not assess tax on wealth accumulation resulting from social security contributions.³⁰

As mentioned, if not explicitly exempt, all other assets are subject to the wealth tax, including securities, real estate, private loans, intellectual property, cars, boats, and horses.

C. Unilateral Exemptions

Persons resident in Switzerland are subject to wealth tax on their worldwide wealth; however, wealth attributable to a foreign PE, foreign real estate, or a foreign business operation is exempt.³¹ Therefore, the impact of tax treaties covering wealth taxation is minimal because the rules in

²² Pascal Hinny, *Steuerrecht* 2019, 2309 (2019).

²³ See FHTA article 3-4; and, e.g., Cantonal Tax Act Zurich of June 8, 1997 (CTA/ZH), LS 631.1 article 3-4.

²⁴ See FHTA article 3[3]. However, there is political debate regarding whether Switzerland will introduce a form of individual taxation for married couples.

²⁵ See FHTA article 13[1].

²⁶ For the advantages of a broad wealth tax, see OECD, *supra* note 2, 82-84.

²⁷ See FHTA article 13[1]; and, e.g., CTA/ZH article 38[1].

²⁸ See Administrative Court in the Canton of Zurich, SR.2011.00019 (May 9, 2012).

²⁹ For further details, see Daniel Dzamko-Locher and Hannes Teuscher, *Art. 13 StHG*, at points 37-45 (2017).

³⁰ See Federal Act on Occupational Pension Schemes of June 25, 1982, SR 831.40 article 84.

³¹ See, e.g., CTA/ZH article 5[1].

article 22 of the OECD Model Tax Convention on Income and on Capital generally do not deviate from what is unilaterally the allocation of taxing rights. To be more precise, those rules do not provide for more extensive exemptions than provided by domestic law. Importantly, however, the deductible debt of a taxpayer is reduced if some assets are unilaterally exempt, but the exempted wealth is taken into account for determining the applicable tax rate (exemption with progression).

D. Deductions

The wealth tax is actually a net wealth tax. It requires that the taxpayer deduct debt or other obligations, lowering her net wealth. A mortgage or any other loan is deductible.³² Because assets attributable to a foreign PE and foreign real estate are exempt, an allocation of debt either to the taxable wealth in Switzerland or to the assets abroad is needed. The attribution follows the quota between domestic and foreign assets.

In some cantons the net wealth is further reduced with social deductions, which should take into account the taxpayer's personal and economic circumstances, such as marital status and age. Most cantons also allow a lump-sum deduction; for instance, in the canton of St. Gallen the first CHF 75,000 (about \$75,000) is tax exempt.³³

E. Valuation

The FHTA provides minimal guidelines on the valuation of assets. For instance, it states that assets must be measured at FMV but does not further elaborate on how FMV should be calculated.³⁴

Only movable business assets and intellectual property of a self-employed person are valued at book value.³⁵ Further, intellectual property that

qualifies for the Swiss IP box might also receive a wealth tax reduction in some cantons.³⁶ Therefore, there is an incentive to transfer assets to the business sphere to reduce the wealth tax basis — but that comes at a price. The gain from selling those assets is taxable as income from self-employment. That is important because in practice there are few cases in which a taxpayer proactively tries to achieve the qualification as a business asset to reduce the wealth tax burden and take the risk that potential future gains are subject to income taxation.

1. Shares and Other Participation Rights

For listed shares (but also for other listed securities, such as listed bonds), the Federal Tax Administration publishes annual lists showing the FMV of a variety of listed securities. Therefore, the taxpayer can directly refer to the values therein (technically, the online tax return software is directly linked to these lists — that is, the FMV of listed shares is automatically calculated).

It is obviously more difficult to assess the FMV of non-listed shares. The Swiss Tax Conference, a representative association of the 26 cantonal tax authorities and the Federal Tax Administration, has published guidelines on how to estimate the value of different entities, accompanied by a more detailed commentary.³⁷ The main points in the valuation guidelines are as follows (simplified):

- the valuation should follow the practitioner's method;
- some lump-sum deductions are granted if the taxpayer has no voting rights; and
- specific valuation guidelines exist — for instance, for holding companies, real estate companies, and companies in liquidation.

The practitioner's method means two times the capitalized earnings value and one time the net asset value divided by three. Therefore, the financials of the companies for accounting purposes — that is, Swiss generally accepted

³²See, e.g., *id.* at article 46.

³³See, e.g., *id.* at article 47. See also Cantonal Tax Act St. Gallen of Apr. 9, 1998 (CTA/SG), sGS 811.1 article 64[1]. A married couple with two children can deduct CHF 190,000 (about \$190,000).

³⁴See FHTA article 14[2]. See also Federal Supreme Court, BGE 128 I 240, consid. 3.2.1 (July 10, 2002): "The FMV in the sense of tax law is not a mathematically precisely determinable value, but usually an estimated or comparative value."

³⁵FHTA article 14[3].

³⁶See, e.g., Cantonal Tax Act Grisons of June 8, 1986, BR 720.000 article 62a, which provides full relief.

³⁷The guidelines and commentary are available online in German and French.

accounting principles³⁸ and not international financial reporting standards or another international standard — are decisive in calculating the value for wealth tax purposes. The capitalized earnings value (CEV_t) for the year (t) is calculated using one of the following formulas:

$$CEV_t = \frac{NE_t + NE_{t-1} + NE_{t-2}}{3} * \frac{1}{i} \quad (1)$$

$$CEV_t = \frac{2 * NE_t + NE_{t-1}}{3} * \frac{1}{i} \quad (2)$$

Where NE = net earnings (without extraordinary revenue and expenses) in the respective tax period (t), (t-1), or (t-2); and *i* = capitalization interest rate.³⁹ The canton dictates whether formula (1) or (2) is used.

Concerning the net asset value, one must remember that Swiss GAAP allows for hidden reserves,⁴⁰ so the net asset value according to Swiss GAAP is often lower than the FMV of the assets minus the liabilities.

The above-mentioned valuation methods are also relevant for employee stock. However, if the employee needs to obey selling restrictions, the actual taxable wealth is reduced by 6 percent per year of the restriction.⁴¹

2. Real Estate

The FMV of real estate in Switzerland is calculated by the cantonal tax authorities. Technically speaking, it is not the FMV but the tax value that is often lower than the actual FMV. The cantons and communes have different methods for assessing tax value.⁴² Therefore, the purchase of a house might reduce your taxable wealth under the following logic: (1) the tax value of the

house is below FMV, and (2) the taxpayer is able to deduct the mortgage at nominal value.⁴³

Importantly, the tax value is also decisive when the real estate is part of the business assets.⁴⁴ In other words, there is no exception for situations in which real estate (versus movable assets) belongs to the business sphere of a taxpayer.

IV. Tax Calculation

The wealth tax rate depends on the canton and the municipality. In 2018 the top marginal rate was between 0.1 percent (Hergiswil, canton of Nidwalden) and 1.03 percent (Avully and Chancy, canton of Geneva).⁴⁵ Most cantons have progressive tax schedules — only eight have proportional tax schedules (which are indirectly progressive because of the lump-sum exemptions).⁴⁶

For low general returns on investments caused by low market interest or diminishing dividends, the wealth tax can actually be higher than the income from the wealth. However, the Swiss Federal Supreme Court has said that is not considered confiscatory.⁴⁷

A few cantons have a system in which a maximum combined rate applies for income and wealth tax purposes. For instance, in the canton of Geneva, the so-called *bouclier fiscal* limits the consolidated tax rate on income and wealth to 60 percent of the income.⁴⁸

V. Procedural Rules

It might come as a surprise that Switzerland applies such a comprehensive wealth tax because that obviously increases the risk that some assets

³⁸ See Code of Obligations of Mar. 30, 1911 (CO), SR 220 articles 957-963b.

³⁹ The capitalization interest rate for 2019 was 7 percent.

⁴⁰ For assets, see CO article 960a[4]; for liabilities, see CO article 960e[3]-[4].

⁴¹ See FHTA article 14a in connection with FHTA article 7d[2].

⁴² The FHTA gives a high amount of leeway to the cantons in this matter (see Federal Supreme Court, BGE 134 II 207, consid. 3.6 (May 15, 2008)).

⁴³ Even so, the cantons must respect constitutional restrictions (equality before the law) when assessing the tax value of real estate — that is, a lump-sum reduction of 40 percent of the FMV is unconstitutional. See Federal Supreme Court, BGE 124 I 145, consid. 6 (Mar. 20, 1998).

⁴⁴ The only exception applies for real estate used for agriculture and forestry, which are valued with the (even lower) capitalized earnings method.

⁴⁵ Hinny, *supra* note 22, at 2315.

⁴⁶ The cantons must respect constitutional restrictions (the ability-to-pay principle) when defining the wealth tax rates; a degressive wealth tax schedule is unconstitutional. See Federal Supreme Court, BGE 133 I 206, consid. 12 (June 1, 2007).

⁴⁷ See Federal Supreme Court, BGE 106 Ia 342, consid. 6 (Feb. 29, 1980); and BGE 143 I 73, consid. 5 (Jan. 5, 2017).

⁴⁸ See Cantonal Tax Act Geneva of Sept. 27, 2009, D 3 08 article 60a. For details, especially regarding the 1 percent minimum return on net assets, see Federal Supreme Court, 2C_869/2017 (Aug. 7, 2018).

are not disclosed by accident. Our experience is that it is not as easy as it seems to disclose all assets owned in relatively straightforward situations, and it might even be impossible to disclose everything in complex situations. However, a comprehensive wealth tax is efficient only if the tax rates are reasonable and if the penalties on tax evasion are rather moderate compared with other jurisdictions. Therefore, because the punishment is less harsh than in other states, declaring one's comprehensive wealth is still possible without major annual (and inefficient) taxpayer efforts.

Further, because wealth taxes are levied, taxpayers must report their assets and liabilities at regular intervals. Those declarations allow the cantonal tax authorities to make comparisons over several tax periods and draw conclusions about the taxpayer's income (the wealth development test). Thus, the wealth tax has a control function for income tax purposes.

VI. Mitigating the Wealth Tax Burden

From a policy perspective it is essential to limit the ability to legally circumvent taxation. There are indeed strategies to reduce the Swiss wealth tax burden, but because the burden is low, the planning costs might often exceed the actual tax savings.

Even so, there are several strategies to reduce wealth tax liability, including:

- transferring assets into an irrevocable fixed interest trust or foundation for beneficiaries that are directly related with the settlor (so the 0 percent gift tax rate applies in some cantons);
- transferring assets into the business sphere, which would mean the movable assets would be valued at book value, not FMV;
- transferring assets into a foreign PE, thereby making them exempt;
- buying foreign, rather than Swiss, real estate because foreign real estate is exempt;
- transferring movable assets (for example, high cash reserves and securities) into real estate because the tax value of real estate is often lower than the FMV;
- using voluntary social security contributions to reduce taxable income and taxable wealth, at least temporarily; and

- transferring tax domicile to a canton with a low wealth tax (for example, the canton of Nidwalden, Obwalden, Schwyz, or Uri).

VII. Disputed Elements

From a U.S. perspective, it might be useful to know what the most disputed aspects are, both judicially and politically.

The lower the tax burden, the less likely that there will be related court decisions. Therefore, it is unsurprising that wealth tax cases are rarely filed. Even without an empirical study, it seems obvious that (corporate) income tax and VAT decisions would be more common. In the last five years, the Federal Supreme Court has decided only a few wealth tax cases. For instance, because of the unilateral exemption of foreign business operations and foreign PEs, it is crucial that the necessary condition of a business activity or PE abroad is fulfilled. According to the Federal Supreme Court, simple asset management does not qualify as a business activity, so the assets located abroad are subject to the Swiss wealth tax even though a person might manage the assets through a fixed place abroad.⁴⁹

Not surprisingly, the valuation of assets in isolated cases is probably the most disputed topic in court proceedings. For example, the Federal Supreme Court ruled that the capitalized earnings value is not considered when assessing the FMV of real estate rented to a related party even though that would be the appropriate method if the real estate were rented to a third party.⁵⁰ According to the court, the rent payments were not in line with the arm's-length principle, which would result in a capitalized earnings value that was too low. In another case, the effect of a building restriction on the FMV of building land was disputed.⁵¹

The most recent dispute was about the wealth tax treatment of a capital payment from insurance to compensate future damages stemming from a severe disability. The Federal Supreme Court ruled that even though that income stream is not taxable income because the payments do not

⁴⁹ Federal Supreme Court, 2C_707/2016, consid. 3 (Mar. 23, 2018).

⁵⁰ Federal Supreme Court, 2C_1118/2014, consid. 5 (June 22, 2015).

⁵¹ Federal Supreme Court, 2C_660/2018, consid. 3 (Apr. 5, 2019).

Table 1. Tax Burdens in Various Tax Brackets

Tax Bracket in CHF	Number of Taxpayers in %		Share of Wealth Tax Revenues in %	
	Canton of Vaud (2015)	Canton of Thurgau (2016)	Canton of Vaud (2015)	Canton of Thurgau (2016)
0-99,000	68.05	74	0.58	2
100,000-499,000	21.19	16	13.12	15
500,000-999,000	5.91	6	15.26	15
> 1,000,000	4.85	5	71.03	68

Table 2. Tax Statistics Switzerland 2016

Tax Bracket in CHF	Number of Taxpayers in %	Net Wealth in %	Accumulated Number of Taxpayers in %	Accumulated Net Wealth in %
0	23.93	0	23.93	0
0-50,000	31.12	1.47	55.05	1.47
50,001-100,000	9.54	1.97	64.59	3.44
100,001-200,000	10.03	4.12	74.62	7.56
200,001-500,000	12.68	11.64	87.3	19.2
500,001-1,000,000	6.82	13.57	94.12	32.76
1,000,001-2,000,000	3.46	13.52	97.58	46.29
2,000,001-3,000,000	0.99	6.81	98.57	53.1
3,000,001-5,000,000	0.7	7.55	99.27	60.65
5,000,001-10,000,000	0.43	8.41	99.7	69.06
> 10,000,000	0.3	30.94	100	100

increase the ability to pay, there is no exception like that for the wealth tax.⁵²

One highly disputed question is how to value start-up shares. Investment rounds regularly increase a start-up's FMV, with wealth tax consequences for both founders and new investors. As a result, the founders face a liquidity problem. It seems that some cantons tend to apply the net asset value for start-ups until the end of the

start-up phase, neglecting investment rounds because of high valuation uncertainty.⁵³

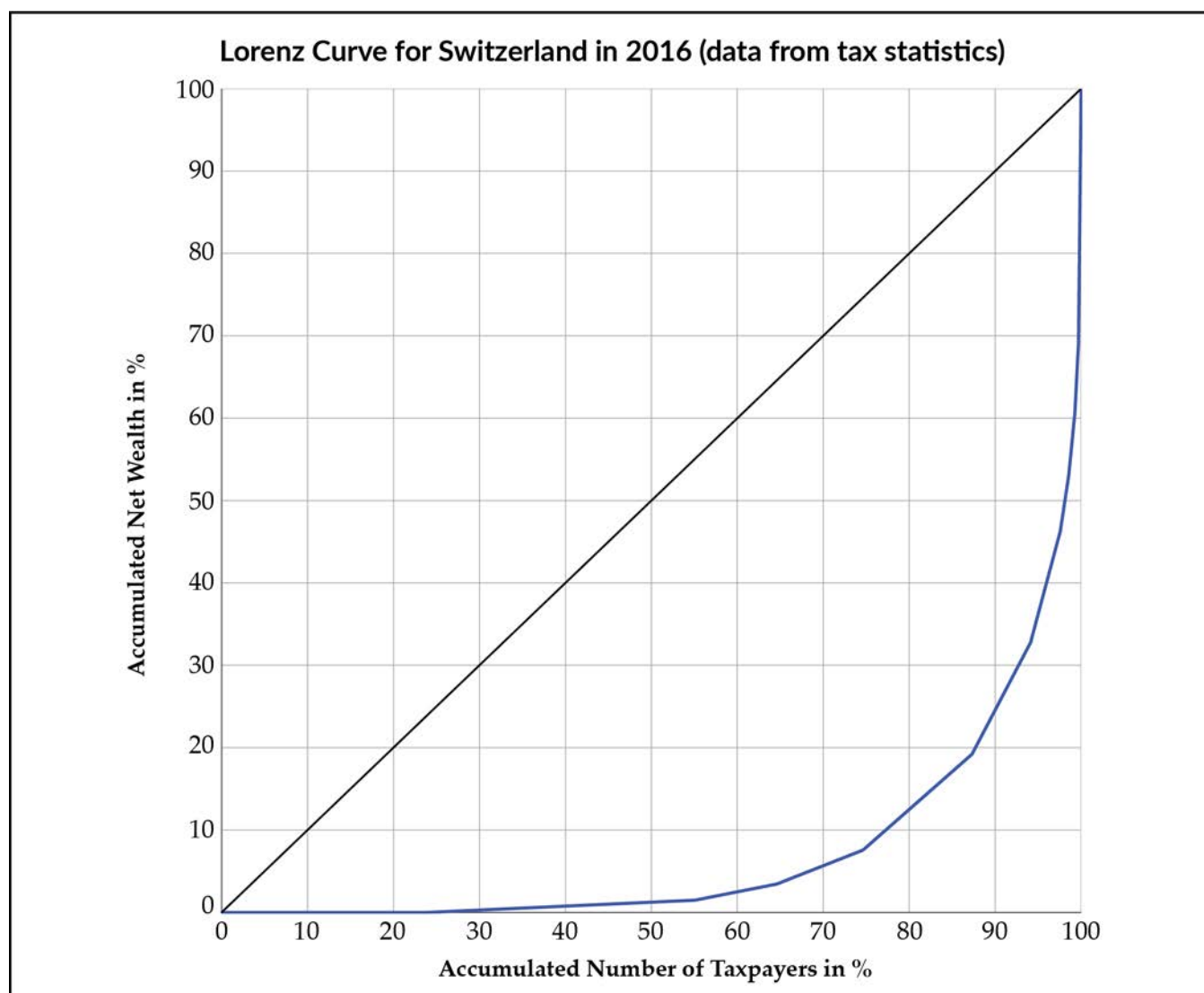
Politically, the wealth tax is disputed like any other tax in Switzerland, but it seems unlikely that it will be abolished or significantly amended. The determination of the tax rates is always subject to political discussion at the cantonal and municipal level.

VIII. Empirical Data

Wealth tax revenue amounts to approximately 5 percent of all state revenue (including at the

⁵² Federal Supreme Court, 2C_203/2017, consid. 4 (Oct. 4, 2019). However, the court noted that this exceptional case might be eligible for relief under the general hardship provision.

⁵³ See, e.g., Department of Finance Canton of Zurich, Weisung über die Bewertung von Wertpapieren und Guthaben für die Vermögenssteuer (Nov. 1, 2016).



cantonal and municipal levels) and 6.3 percent of all tax revenue.⁵⁴ In 2018 the Swiss wealth tax brought in around CHF 9.3 billion of revenue.⁵⁵ Unfortunately, there is no detailed data available on the tax burdens in the various wealth brackets because wealth taxation is in the competence of the cantons. Table 1 is based on data from the cantonal tax authorities of Vaud and Thurgau.⁵⁶

Among OECD members, Switzerland has the highest wealth tax revenue-to-GDP ratio,⁵⁷ which rose from 0.6 percent in 1965 to 1 percent in 2017. The wealth tax statistics also reveal important findings regarding inequality in Switzerland⁵⁸ (see Table 2).

With those data, one can draw a Lorenz curve (see figure).

This curve shows that the inequality of wealth distribution seems high; the respective Gini coefficient is about 0.855. In the international context, however, the following must be considered. First, tax statistics neglect

⁵⁴ Federal Finance Administration, "GFS: Ertrag — Bund, Kantone und Gemeinden" (2019).

⁵⁵ *Id.*

⁵⁶ Statistics Department Canton of Thurgau, "Steuerstatistik 2016," at 4 (2019); and Cantonal Tax Authority Vaud, "Contribuables et Impôt sur la Fortune en 2015," at 18 (2018).

⁵⁷ OECD, "Revenue Statistics, Tax Revenue as Percent of GDP" (2019).

⁵⁸ Federal Tax Administration, "Gesamtschweizerische Vermögensstatistik der Natürlichen Personen 2016" (2019).

Table 3. Wealth Pattern Worldwide

Country	Mean Wealth Per Adult In US \$	Median Wealth Per Adult In US \$	Distribution of Adults in % by Wealth Range in US \$				Gini
			< 10,000	10,000-100,000	100,000-1,000,000	> 1,000,000	
Switzerland	564,653	227,891	13	20.7	54.5	11.8	0.705
United States	432,365	65,904	26.9	31	34.5	7.6	0.852
Europe	153,973	24,742	38.2	33.9	25.7	2.3	0.824
World	70,849	7,087	56.6	32.6	9.8	0.9	0.885

accumulated pension wealth stemming from mandatory and voluntary social security contributions, so wealth at the lower end is especially underestimated. Second, only the lower-tax value instead of the FMV is used for real estate, which constitutes a large part of the net wealth of middle-income earners.⁵⁹ That adds to the before-mentioned underestimation.

Correcting for those factors, the Swiss Gini coefficient is lower (0.705, see in comparison to other jurisdictions in Table 3).⁶⁰ However, wealth at the upper end of the distribution may be underestimated because of tax evasion by high-wealth individuals, as new research from tax leaks seems to indicate.⁶¹ Unfortunately, no detailed estimates for Switzerland exist so far.

In contrast to other countries, which reveal a U shape in the evolution of wealth inequality over the 20th century, the long-run evolution in Switzerland has been relatively stable, with an increase in the top 1 percent and top 0.1 percent since the mid-1990s.⁶²

Finally, it seems that in Switzerland reported wealth holdings are responsive to wealth taxation.⁶³ However, the cost for moving to a canton with lower wealth taxes is small.

IX. Conclusion

Capital gains in the private sphere are exempt in Switzerland, which partially justifies having a wealth tax to (indirectly) tax those gains. The same argument holds for the absence of inheritance and gift taxes in most cases (in direct line).

The wealth tax is disputed, as are other taxes, but it seems the majority of Swiss taxpayers still find it legitimate. Also, the wealth concentration in Switzerland is high — although not as high as in the United States — so the wealth tax is not mainly meant to achieve redistribution in Switzerland but is instead an actual source of fiscal revenue levied from a broad base of taxpayers.

There might be strong policy arguments against wealth taxation, but a wealth tax might increase social cohesion and solidarity. In Switzerland tax increases and decreases need direct or indirect citizen approval, which guarantees that the regime (including wealth taxes) is based on a broad consensus. A reasonable mix of taxes with broad social support seems key for a legitimate tax system in a Habermasian sense. ■

⁵⁹ Reto Föllmi and Isabel Z. Martínez, "Volatile Top Income Shares in Switzerland? Reassessing the Evolution Between 1981 and 2010," 99 *Rev. Econ. & Stat.* 793, 805 (2017).

⁶⁰ Credit Suisse Research Institute, *Global Wealth Databook 2019*, 120 (2019); see 4-8 for the underlying assumptions.

⁶¹ Annette Alstadsæter, Niels Johannesen, and Gabriel Zucman, "Who Owns the Wealth in Tax Havens? Macro Evidence and Implications for Global Inequality," 162 *J. Public Econ.* 89, 97 (2018).

⁶² Föllmi and Martínez, *supra* note 59, at 805-806.

⁶³ Marius Brülhart et al., "Behavioral Responses to Wealth Taxes: Evidence From Switzerland," CESifo Working Paper No. 7908 (2019). That finding does not hold for inheritance taxes. See Brülhart and Raphaël Parchet, "Alleged Tax Competition: The Mysterious Death of Bequest Taxes in Switzerland," 111 *J. Public Econ.* 63 (2014).