Recent changes in gift and inheritance tax in Vaud and Valais

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In Switzerland, the authority to impose gift and inheritance taxes rests solely with the cantonal and municipal governments; the federal government does not possess a legal basis to levy such taxes. Furthermore, gift and inheritance taxes are not governed by any federal harmonisation legislation, in contrast to income tax, wealth tax, and real estate gains tax. As a result, there can be considerable variation between cantons regarding these taxes.

In most cantons, spouses and descendants are exempt from taxation, and in certain cantons, such as Schwyz and Obwalden, no tax is imposed even when assets are transferred to non-relatives. Among the cantons that impose these taxes, the rates applicable to various relatives, in-laws or non-relatives may differ considerably. Nevertheless, several key principles can be identified within cantonal legislation regarding gift and inheritance taxation. In Switzerland, taxes related to inheritance or donations are collected based on where the deceased or donor lived. If the recipient or heir lives in a different canton than the deceased, no tax is charged at their residence. An exception applies to real estate, as any transfer is taxed in the canton where the property is located, regardless of the place of residence of the parties. If the heir or recipient lives abroad, or if the gifted or inherited assets are located in another country, taxes may still apply there. This is because some countries use broader criteria, such as the residence of the heir or recipient, or the location of movable and immovable property, to determine tax liability.

The cantons of Vaud and Valais have recently updated their laws on gift and inheritance taxation, as outlined below.

Legislative changes in the canton of Vaud

The canton of Vaud is one of the few cantons that applies a tax on the transfer of assets by way of gift or inheritance to descendants. To limit the impact of such asset transfers, the Grand Council of the Canton of Vaud amended the law on 1 January 2025. With this amendment, the tax thresholds for gifts to children (a) and inheritances received by descendants (b) have been raised, and the holding threshold for benefiting from an allowance in the context of the transfer of a family business has been lowered (c).

a. Gift tax

According to the tax legislation of the canton of Vaud, it is possible for parents to allocate an amount of money to their children each year without generating gift tax. Until

31 December 2024, this amount was CHF 50,000 per year. The legislative amendment increased this amount to CHF 300,000 per year (Art. 16 para. 1 let. c bis of the Vaud Law of 27 February 1963 on transfer tax on real estate transfers and inheritance and gift tax (LMSD-VD)). It should be noted that this amount applies per child and per parent. In other words, each child can receive CHF 300,000 tax-free from each of his or her parents if they are both domiciled in the canton of Vaud. This means that he or she can receive CHF 600,000 per year without paying gift tax. It is important to note that this threshold only applies to children. For all other donees – including grandchildren – the annual exempt amount is only CHF 10,000 (Art. 16 para. 1 let. c LMSD-VD).

b. Inheritance tax

The amendment to the inheritance tax applies to inheritance received by descendants. The law now allows a deduction of CHF 1,000,000 per branch, instead of CHF 250,000 previously (Art. 31 LMSD). A branch designates a child of the deceased and his own descendants. Thus, if a deceased leaves two children, there are two hereditary branches. The deduction of CHF 1,000,000 per branch applies as long as the total share of the heirs of one branch does not exceed CHF 1,001,000; beyond that, it gradually decreases and ceases from CHF 1,100,000. To illustrate the above, if a deceased leaves CHF 1,000,000 to his daughter A, CHF 600,000 to his son B and CHF 600,000 to his grandson C (son of B), A will pay no inheritance tax (deduction of CHF 1,000,000 for her branch), while B and C will each be taxed on 600,000, at the applicable rate of CHF 1,200,000. It should be noted here that in order to determine the rate applicable to each heir, taxable gifts made prior to death are taken into consideration (Art. 30 para. 3 LMSD).

c. Transfer of business or companies

Vaud legislation provides for a rebate of 50% of the value of a business or company that is transferred by gift or inheritance under certain conditions (Art. 29a and 29b LMSD). This provision aims to allow the transfer of family businesses or companies, thus supporting the Vaud economy. Taxing the full value of gifts or inheritances could force donors or heirs to sell or liquidate their business to be able to cover the tax. The legislator set strict rules for eligibility for this rebate. The transfer must be made to a descendant and must relate to a share of at least 25% of a business or company located in the canton (compared to a share of 33% previously). The condition is satisfied even when the transfer involves less than a 25% share, as long as the recipient or heir ultimately holds a 25% share after the transfer. In addition, the heir or donee must hold a managerial position and cannot sell the business or company for five years after the transfer. If these conditions are not met, the rebate is cancelled retroactively, and an additional tax is levied (Art. 29b LMSD-VD).

Legislative change in the canton of Valais

The Valais legislative amendment concerns the taxation of the allocations made to non-married partners. In Valais, the Tax Act of 10 March 1976 (LF-VS) provides that spouses and relatives in the direct ascending and descending line are exempt (Art. 112 para. 1 let. a LF-VS). Other relatives are taxed at fixed rates depending on the relationship between the donor or deceased and the donee or heir. Thus, the attributions made to the line of the parents (brothers, sisters and their descendants) are taxed at 10%; the attributions made to the line of the grandparents (uncles, aunts and cousins) are taxed at 15%; Allocations made to the line of the great-grandparents (great-uncle, great-aunt), are taxed at 20% and attributions made to any other person are taxed at 25%. The LF-VS has recently been amended to adapt to the increasing diversity of families and the decline in marriages. Art. 112 para. 1 let. a LF-VS exempts gifts and inheritances to unmarried partners (cohabiting partners) who have cohabited for at least 5 years or share children. Previously, such transfers were taxed as unrelated parties at a rate of 25%.

It is worth highlighting the enormous disparities that exist between cantons in this regard. In the French-speaking cantons, Vaud and Geneva do not have any specific provisions for cohabiting partners, who are treated as non-relatives with a tax rate of up to 50% in the canton of Vaud and 54.6% in the canton of Geneva. Bern (up to 15%), Fribourg (up to 14.025%), and Jura (up to 14%) set specific rates for cohabiting partners who have lived together for at least 10 years at allocation. Finally, the canton of Neuchâtel provides for a specific rate of 20% for the allocations made to cohabiting partners who have lived in a common household for at least five years.

Although Valais fully exempts cohabiting partners, it takes a stringent approach when it comes to allocations made to stepchildren. In fact, Valais tax law does not include any rules specifically addressing the taxation of assets transferred to children from a spouse's earlier relationship. In the case of blended families, this means that half-brothers or sisters who have potentially grown up together in the same family nucleus are treated very differently, with the natural child of the deceased or donor being exempt while the half-brother or half-sister would be taxed at 25%. In certain cantons, there are clear tax rates for children of a married spouse. For example, Vaud uses the same rate as for parents, up to 15%. Bern exempts them from taxation altogether. Fribourg applies a specific rate that can go up to 13.175%, while Geneva taxes them at rates reaching 12%. In Jura, the fixed rate is 7%, and it also covers children of an ex-spouse. Neuchâtel, on the other hand, treats stepchildren as if they were non-relatives and taxes them at 45%.

Only the canton of Jura provides for a specific rate of 14% for the descendant of the cohabiting partner (after at least 10 years of living together). It also provides that this rate applies if the cohabiting partners are no longer in a couple but have been in a relationship for at least 10 years.

Conclusion

The legislative amendment in the canton of Vaud is to be welcomed as it allows greater flexibility in the transfer of assets to children during the parents' lifetime. The amendment also facilitates the transfer of family businesses and will thus be beneficial to the Vaud economy. These changes are all the more welcome as the Canton of Vaud remains one of the few cantons to impose the attributions on descendants. The new Valais provision concerning the exemption of cohabiting partners goes beyond what is provided for in most French-speaking cantons. However, in view of changes observed in the family structure, it would be desirable for the cantons to reconsider their legislation on the taxation of stepchildren, not only for the descendants of the spouse but also, as the canton of Jura does, for the descendants of cohabiting partners. Given the differences in cantonal legislation, blended families are advised to consult local regulations carefully when considering asset transfers or inheritance planning. ■