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flash Alert

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Switzerland – Government Submits Commentary on Totalization Agreement with China

by KPMG AG, Zurich (KPMG AG in Switzerland is a KPMG International member firm)

The Swiss federal government submitted its commentary on the Social Security Agreement ("SSA") between the People's Republic of China ("China") and Switzerland to parliament on 3 February 2016.[1] This is an important step in the legislative and ratification process from a Swiss perspective.

The SSA was signed by the two countries in September 2015. It will come into force once the Swiss parliament has ratified the agreement.

Why This Matters

The bilateral agreement between China and Switzerland will allow posted workers to be exempt for a maximum of six years from the obligation to contribute to the social security system of the other state, thereby potentially avoiding double coverage of social security contributions for temporary assignments in the other country.

In addition, the execution of the SSA should provide social security protection for international assignees, so that they do not lose their social security benefits entitlement in their home country when they go to work in the other country.

The ratification of the agreement should also simplify the administration of assignments from China to Switzerland and vice versa, thereby making it easier for international companies to deploy their employees in the other country.

Key Benefit under the SSA for International Assignees and Their Employers

Under the SSA, employees seconded by their employers in one country to work in the other country on temporary assignments, but who remain covered by their home country's social security system, should be exempt from contributing to the social security system of the host country. This exemption from contributions in the host country is available when the employee obtains a Certificate of Coverage (CoC) from the relevant authority in the home country.

In General: Content of the SSA

In particular, the SSA seeks to eliminate the obligation to pay social security contributions for posted workers in both countries. They remain in the pension system of the home country and continue to pay these contributions. They should not be subject to social security contributions in the country in which they are temporarily employed.

From a Swiss perspective, the agreement covers the Old-Age and Survivors Insurance (OASI) and Invalidity Insurance (II).

Even after the ratification of the SSA, it is intended that Chinese nationals currently contributing to OASI in Switzerland and who permanently leave Switzerland can request a refund of their OASI contributions. Conversely, Swiss nationals currently working in China and subject to Chinese social security contributions can request repayment of their Chinese social security contributions when leaving China on a permanent basis. Additionally, transitory rules in the SSA may allow retroactive applications to remain in one's home country social security system.

Similar to the agreements with India and South Korea, no export of Swiss state pensions is stipulated in the agreement with China.

Next Steps

Although the conclusion of the totalization agreement with China marks an important step, the SSA will only come into force once it has gone through the proper steps in the Swiss legislative process. With submission of the comments from the federal government to parliament, the SSA is to be discussed in the Swiss parliament and discussions with the Swiss cantons, media, and stakeholders can be held. The Swiss legislative process can take several more months. Once agreement has been reached between the national council and the cantonal representatives, the treaty can be ratified. It is not expected that the SSA will encounter any major opposition; therefore ratification of the SSA is expected in 2016 and the agreement may be in force in January 2017.

Footnote:

1 See: https://www.news.admin.ch/message/index.html?lang=de&msg-id=60448 .

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For more information or assistance, please contact your usual GMS or People Services professional or one of the professionals noted below with the KPMG International member firm in Switzerland:

Richard Zürcher, tel. +41 58 249 53 05; e-mail: rzuercher@kpmg.com

Stephen Turley, tel. +41 58 249 54 21, e-mail: stephenturley@kpmg.com

Patrick Allemann, tel. +41 58 249 36 68, e-mail: patrickallemann@kpmg.com

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The information contained in this newsletter was submitted by the KPMG International member firm in Switzerland.

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