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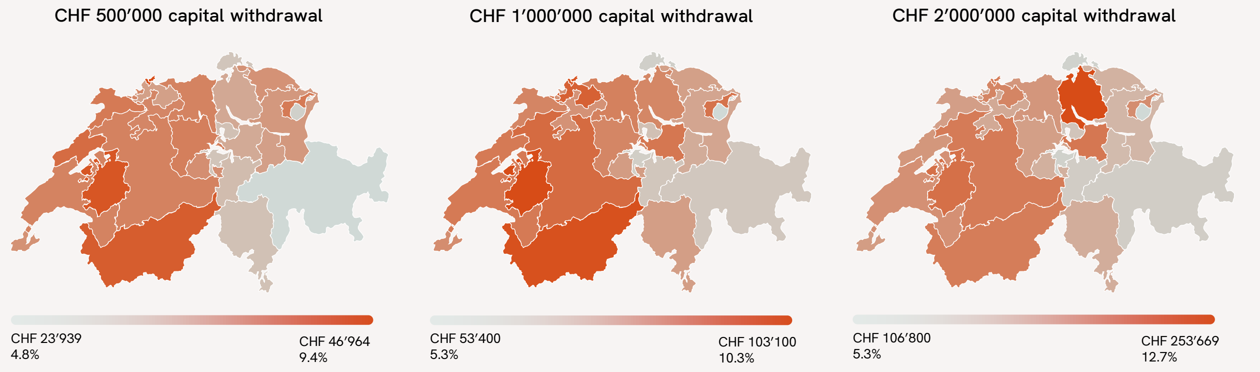
Economico Flash ⚡#12

BVG and pillar 3a: smart capital withdrawal

Chart of the week: Capital gains tax in a cantonal comparison



Source: Own calculations, based on the federal tax calculator and a presentation idea by RothGygax
Parameters: Year 2024, married (=reduced rate), no denomination. Cantons are represented by their cantonal capitals

In this Flash, we look at how you can withdraw your pension capital in the best possible way - i.e. while minimizing the resulting tax burden (=> if you are still undecided as to whether you want to withdraw a lump sum or a pension, we recommend that you read Flashes 4-8). As capital withdrawals from the second and third pillars are consolidated for the applicable lump-sum benefit tax, it is worth taking a holistic view.

The credo here is the same: Break tax progression, i.e. spread capital withdrawals from the second and third pillars as evenly as possible over several reference years. As you can easily see from the illustration, both the level and the progression of capital benefit taxes vary considerably between cantons. This means that both your domicile at the time of capital withdrawal and the amount of capital withdrawn are relevant for the amount of capital benefits tax owed. For example, if you live and pay taxes in the canton of Zurich, the capital benefits tax is moderate for small capital withdrawals, but then rises sharply with higher capital withdrawals.

The legal framework offers the option of staggering lump-sum withdrawals in both the second and third pillars. Lump-sum withdrawals from the third pillar and assets in vested benefits foundations may be withdrawn 5 years before reaching the so-called reference age (currently 65) and - if employment continues after this age - up to a maximum of 5 years beyond the reference age (see Art. 3 para. 1 BVV 3). In order to benefit from this staggering option, several 3a accounts must be opened during the savings process so that they can be closed in stages when the lump sum is withdrawn.

The staggering of lump-sum withdrawals from the pension fund is possible by means of partial retirement. The legislator allows a maximum of three partial retirement steps with corresponding staggering of the lump-sum withdrawal (Art. 13a BVG).

If you want to take tax minimization to the extreme, move your place of residence abroad when you retire. In this case, withholding tax will be payable on the lump-sum withdrawal instead of lump-sum benefit tax. This depends on the (tax) domicile of the pension fund making the payment. If your pension fund is domiciled in the canton of Schwyz, for example, the withholding tax deduction on the lump-sum withdrawal is just 2.5%, without progression! However, the tax treatment in your new country of domicile must also be taken into account in this scenario. And: If you return to Switzerland early, the relevant tax authorities may suspect tax evasion and demand additional tax.

Takeaways

- The tax domicile and amount of the capital withdrawal determine the tax liability.
- This is why capital withdrawals from the second and third pillars should be staggered over several years.