16.01.2025

Economico

info@economico.ch

Dr. Ueli Mettler, c-alm AG

Follow us on Linkedin

Economico Flash ⚡#13:

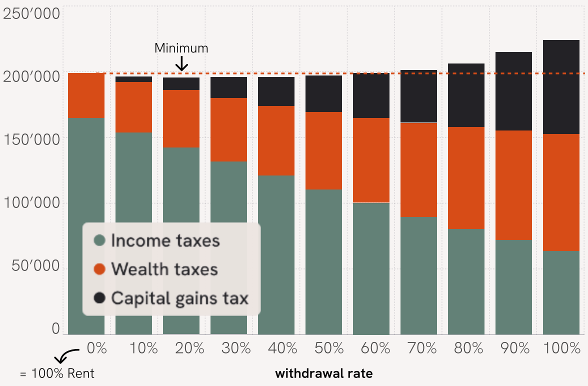
Do you really save taxes when withdrawing capital?

Chart of the week: Tax burden as a function of the capital withdrawal rate

Assumptions Example household

- Married, non-religious, resident in Meilen (ZH)
- Retirement assets: CHF 1 million.
- Conversion rate: 5%
- BVG pension (with 0% lump-sum withdrawal): CHF 50’000
- Wealth: CHF 500’000
- Other income per year (OASI): CHF 45’360
- Annual expenditure (excluding taxes): CHF 80’000
- time period (remaining life expectancy): 22 Jahre
- Investment:
    - Yield: 2.1% p.a. (of which taxable capital gains: 1% p.a.)

Source: Detailed tax analysis from Economico



Oops! For years, banks and insurance companies have been telling us that we can save on taxes by withdrawing a lump sum compared to drawing a pension. The higher the lump-sum withdrawal, the lower the taxes. However, the example calculation above shows that, depending on the situation, more lump-sum withdrawals do not necessarily mean lower taxes.

We already pointed out in Economico Flash 8 that the tax advantage of lump-sum withdrawals is reduced if the indirect tax effects are also taken into account. This is because the following indirect tax effects are added to the one-off capital gains tax on lump-sum withdrawals: The capital withdrawn leads to a higher wealth tax burden each year and the capital income generated on the capital withdrawn is also subject to income tax.

Depending on the situation, this can effectively mean that a mix of pension and capital over the life cycle results in a lower tax burden than a pure capital withdrawal. This is the case if, on the one hand, you have above-average BVG retirement assets and, on the other hand, you live and pay taxes in a municipality with a moderate income tax rate and a (highly) progressive tax rate on lump-sum benefits.

We have constructed such a constellation in the sample example for a married couple living in Meilen (ZH) with BVG retirement assets of CHF 1 million on retirement. For this case study, it can be shown that the tax burden over the expected life cycle is similarly high with a capital withdrawal rate of 0% to 60% and increases thereafter. The minimum tax burden is achieved with a lump-sum withdrawal of 20%. If the capital can be spread over several tax periods through partial retirement and the progression of the lump-sum benefit tax can thus be broken, the optimum capital withdrawal rate would increase.

Now it's your turn! On January 14, we expanded the tax tool in the Economico portal so that you can calculate the above tax comparison for your situation or place of residence. To use this detailed tax analysis function, you need to register as an Economico user. This registration takes one minute and is (and remains!) free of charge.

Takeaways

- Depending on your situation, a (pure) lump-sum withdrawal is not always the best tax solution!
- Analyze the tax effects for your situation with the new Economico tax calculator.