Taxation of first and second pillar pensions transferred abroad
Comparative examination of the system of taxation

Key facts

First and second pillar pensions can be transferred to beneficiaries living abroad. What happens in terms of taxation to these "exported" benefits? Is there a risk of double non-taxation (or of double taxation)? What would be the tax effect of a modification intended to reduce these risks? The Swiss Federal Audit Office (SFAO) compared the taxation of first and second pillar pensions because these two systems are very different.

In 2014, more than 800,000 old-age and survivors' insurance (AHV) pensioners, i.e. one third of beneficiaries, received their pension while residing abroad. The amount of these pensions "exported" has reached CHF 5.6 billion per year, i.e. 14% of the total volume of pensions from AHV.

For the insured persons in the first pillar, the contributions are deducted from the taxable income. Tax is levied on the benefit transferred for beneficiaries resident in Switzerland. However, the benefit may differ for pensioners resident abroad. Some countries have systems which do not allow contributions to be deducted and sometimes exempt pensions. As Swiss tax law does not make provision for withholding tax on first pillar "exported" pensions, the pensioner is not taxed at all if his/her country of domicile does not make provision for taxation of this type of income.

Examine withholding tax on first pillar pensions

The overwhelming majority of pensioners resident abroad live in countries which have a bilateral double taxation agreement (DTA) which makes provision for taxation in the country of residence, very often in the European Union. As for the remainder, the introduction in Swiss legislation of the principle of withholding tax on first pillar pensions would avoid the risk of non-taxation. Withholding tax on first pillar pensions is conceivable if the person lives in a country with which no DTA has been concluded or in a country which has an agreement which allows Switzerland to levy tax. In 2014, these cases accounted for slightly more than 7% in terms of numbers and 9% of the amount of AHV pensions "exported" (57,000 pensions amounting to a total of CHF 480 million).

In the long term, the SFAO believes that this modification would contribute to additional annual tax receipts of between CHF 25 million to CHF 30 million with 10% of these going to the Confederation. The canton of Geneva, seat of the Swiss Compensation Office (SCO) would be the beneficiary of this measure.

The SFAO recommends examining the introduction of withholding tax on first pillar pensions. That is moving in the same direction as the taxation of the reimbursement of AHV contributions recently decided by the Federal Parliament. The aim of this decision is also to fill the tax gap. At the international level, the trend towards withholding tax is gaining ground and the new governance in tax matters is seeking to find instruments to avoid double non-taxation of revenue.

Before any changes are introduced, it is, however, necessary to assess the consequences for tax administrations and the SCO. The implementation of withholding tax on the reimbursement of AHV contributions should provide some initial findings.

Second pillar: a functional tax system but statistically opaque

The authority to tax second pillar pensions is determined by the DTA between Switzerland and the country of residence of the pensioner. Without this agreement, Switzerland will levy a tax. The pension schemes are responsible for withholding the tax. Implementation is more complex for institutions under public law because of characteristics inherited from the model convention of the Organisation for Economic Co-operation and Development (OECD). Supervision will be carried out by the auditing body of the pension scheme.

This system reduces the risk of non-taxation. It seems to work well in spite of an organisation which is complex and highly decentralised. However, there is a lack of transparency. Neither the number nor the volume of the "exported" benefits nor the number of benefits subject to withholding tax, nor revenues are known. The Federal Tax Administration (FTA) and the Federal Statistical Office (FSO) underlined the difficulties and the administrative costs which would be linked to the gathering of this information from the cantonal tax offices (FTA) and directly from the pension funds (FSO). For this reason, the SFAO has refrained from making a recommendation on this point.

Original text in French