



Unfair taxation of capital withdrawals from pension plans

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The Federal Council wants to eliminate alleged “advantages” gained by withdrawing pension capital; in doing so, it is making a fundamental error and creating false incentives.

The federal government is short of cash, which is why a group of experts has also sought additional taxation options. The expert group’s proposals also include adjusting the taxation of capital withdrawals from pension plans. It is incomprehensible in many respects that the bourgeoisdominated Federal Council has adopted this proposal. On the one hand, there is a fundamental error because there are no advantages to withdrawing pension capital today – as will be shown below. On the other hand, legal certainty is being violated and false incentives are being created.

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The legal uncertainty that has been accepted is disturbing. While pensions are guaranteed, the Federal Council wants to change the rules of the game for those who take care of their own retirement provision. The effect of higher taxation of money already paid into the pension system is the same as that of a reduction in pensions; the pension plan of individuals with personal responsibility no longer works – and it is virtually impossible to make corrections. In fact, this ex-post change in taxation corresponds to an expropriation.

There are two sides to the false incentive effect: Firstly, for many, drawing a pension is becoming more attractive; for pension funds, however, capital withdrawals are not unattractive because they reduce current obligations and longevity risks. Secondly, it makes the personally managed pension via pillar 3a or purchases into the second pillar to close pension gaps less attractive. In view of the known demographic development, this false incentive is madness.

The fundamental error mentioned above is that the Federal Council is pretending to eliminate existing advantages for the «rich» by closing the «tax loophole» of lower tax rates on capital withdrawals from pension plans. In future, capital withdrawals are to be taxed at higher rates instead of at a special rate. In the vast majority of cases, there are neither significant advantages nor is it a tax loophole. This will be demonstrated using a realistic example: A person living in Zurich has pension fund assets of CHF 1,200,000 at the age of 65, but no other taxable assets. The pension fund has a conversion rate of 5%, which together with the Swiss state pension (AHV) results in a pension of just under CHF 92,000. Over 20 years up to the age of 85, this leads to a tax burden on pension income of around CHF 260,000.

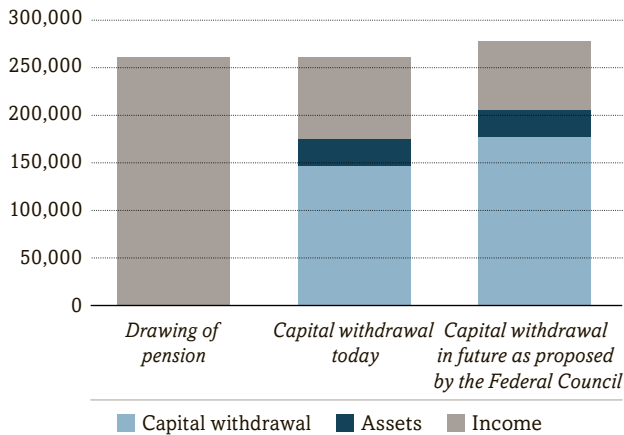
If the entire pension capital is now withdrawn and the same income of just under CHF 92,000 is to be available, the situation is as follows: a tax of around CHF 147,000 is payable on the capital withdrawal. The remaining capital is invested in a mixed portfolio, which yields an average net return of 3.9%¹. Of this, 2.3% is taxable income and 1.6% is taxfree capital gains. In order to achieve the target income, the investment income and a portion of the assets will be used in addition to the Swiss state pension (AHV). In addition to the income tax on the investment income and the Swiss state pension (AHV), the person now also pays a recurring wealth tax and the one-off tax on the capital withdrawal. The current taxes over 20 years total around CHF 113,000. Only at first glance does the tax burden appear to be an advantage over drawing a pension. That is because if the tax on the capital withdrawal is included, the total tax burden is around CHF 260,000 and is exactly the same as it would be with the drawing of the pension. Today, there can be no question of preferential treatment in the case of capital withdrawals.

If the taxation of capital withdrawals proposed by the Federal Council is applied in future, there will

¹ Assumptions: Share of 65% equities with a return of 7%, share of 35% bonds with a return of 1%, asset management costs of 1%; the portfolio allocation corresponds to the risk of Swiss pension funds, which on average have a real value share of 60% to 65%



Tax burden for drawing a pension versus capital withdrawal



Taxes on:	Drawing of pension	Capital withdrawal today	Capital withdrawal in future as proposed by the Federal Council
Capital withdrawal		147,000	177,000
Assets		29,000	27,000
Income	260,000	84,000	74,000
Total tax burden from age 65 to 85	260,000	260,000	278,000

be unequal treatment to the detriment of those who bear the full pension risk themselves through capital withdrawals: in the case of capital withdrawals, around CHF 177,000 of the CHF 1,200,000 must be paid to the state. As a result, the remaining assets and the income generated on them are lower, meaning that more assets have to be utilised. This means that the remaining assets will fall to CHF 448,000 after 20 years, while CHF 494,000 will remain with the current preferential capital withdrawal. The total tax burden from the one-off tax on capital withdrawals and recurring wealth and income taxes amounts to CHF 278,000 and would therefore be CHF 18,000 higher than today. The tax burden would then be 7% higher than the burden when drawing a pension. The effect is even more pronounced with higher amounts of pension assets.

Should the independent pension be penalised in this way? In contrast to the Federal Council's proposal, the special rate for capital withdrawals would even have to be reduced in some cases if the drawing of a pension and personally managed capital withdrawals are to be treated equally for tax purposes. If there is one thing that should be optimised with capital withdrawals, it is this: every person who makes a capital withdrawal should have to officially confirm that supplementary benefits and social assistance will be waived in the event of financial failure. That is real personal responsibility!

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