



Axe your tax

With 2008 quickly drawing to a close, it is time to take advantage of the available opportunities to save on your taxes in Switzerland. In this article we'll take a look at the primary ways to reduce your income taxes.

By Brien Donnellon | The Swiss tax system may seem daunting to someone from abroad, since the country is comprised of 26 cantons and 2,889 communities. And, while the federal tax rate is the same for everyone, there are huge differences between cantonal and community tax rates.

Under the Federal Constitution, the cantons are free to determine their own tax systems and tax rates, which results in a wide variance of tax regulations and burdens from canton to canton. For example, the cantons of Zug, Schwyz and Obwalden have the lowest cantonal tax rates, but the community rates can still differ greatly. So, one good way to save money on taxes is to invest in the country's three-pillar pension system.

The three-pillar system

The Swiss pension system is based on three pillars: pillar 1 – the state pension provision; pillar 2 – the occupational/company benefit plan; and pillar 3 – the private pension provision.

Collectively referred to as the three-pillar system, it aims to maintain an insured person's standard of living during retirement or in the event of disability, as well as the standard of living for surviving dependants upon the death of the insured. The Swiss believe in the three-pillar system and support it further by

providing tax incentives for contributions. In this article, we will explore the two pillars that can help you save on taxes.

Pillar 2 (company pension)

Ask your employer if you can make a voluntary contribution to your company's pension fund, because the contributions are tax deductible from your income tax. The objective of this allowance is to improve insurance coverage and ensure you have sufficient capital at retirement.

The voluntary contribution can be paid in a lump sum or spread out over a number of years. Opportunities for voluntary contributions can also arise following a significant pay increase or a divorce because the pension fund savings are split between the divorcees, which would create a deficit that you might want to replenish.

It is worth noting that tax is not charged on the accrued interest from a pillar 2 account. Rather, taxes are levied at a preferential tax rate when the money is withdrawn. The downside is that your pension fund savings can only be withdrawn under certain circumstances, which include:

- Deregistration when leaving Switzerland permanently
- When buying a primary residence in

Switzerland (not a vacation home)

- Giving up your employee status to become self-employed
- Retirement or death (a disability pension is also paid)

Pillar 3a

If you are employed by a company or are self-employed, and can afford to, we strongly recommend you open a pillar 3a bank account. The limited contributions (see below) are fully deductible from income and no tax is levied on the interest, which is generally higher than for a savings account. Wealth tax is also not applicable and assets in a pillar 3a account are taxable at a reduced rate once withdrawn. Like the pillar 2 pension fund, the 3a account is blocked and can only be used under certain conditions.

If you are an employee and insured by a pillar 3a account, the maximum amount you can contribute in 2008 is SFr 6,365. The maximum amount for the self-employed who do not belong to a pension fund is 20 per cent of their income, up to a maximum of SFr 31,824.

Insurance companies also offer pillar 3a policies, however they are only appropriate if you are in for the long haul since early redemption charges are substantial. For this reason, we currently recommend pillar 3a bank accounts instead of insurance policies.

It is worthwhile paying into more than one pillar 3a account to spread the capital paid out at retirement over different tax periods to reduce the tax burden. Money cannot be withdrawn until five years before the official retirement age – 65 for men and 64 for women – unless certain conditions, similar to pillar 2, are satisfied.

Moving to a new community

As mentioned, there are huge differences between the cantonal and community taxes. We recommend that before moving to Switzerland you check the differences. For example, eastern Switzerland generally has lower taxes than the west.

Moving to a different community can be an extremely effective way of reducing your taxes, because taxpayers pay tax for the entire year to the canton and community where they are registered on December 31. Thus, even if you spent most of the year in a location with a higher tax rate, you would pay less if the new location has a lower rate.

Further tax saving possibilities

Charity: Donations to approved charities can be offset against income tax; however, in most cantons the maximum deductible amount may not exceed 20 per cent of your salary, and payment receipts must be submitted.

Family support: If you are supporting a parent or relative because they are living in poverty (usually abroad), the amount given is tax deductible in most cases. Clear proof of their situation and receipts must be provided.

Home improvement: Most energy-saving alterations and improvements to your home are tax deductible, but we recommend discussing alterations with your tax advisor because certain rules may apply depending on which canton you live in.

Most importantly, take your time to decide how much you can afford, and don't wait until the last week in December to take action.

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Brien Donnellon is the owner of KEY INVESTMENT, a financial services company providing unbiased financial advice and solutions for Swiss-based expats, HR departments and foreign investors.

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