valfor

value beyond legal advice

TaxPage, January 2025

New developments in pension and benefits taxation

Introduction

On 1 January 2025, legislative changes came into force concerning the taxation of pillars 3a and 3b. These changes may are outlined below.

Possibility of making buy-backs under pillar 3a

Pillar 3a, one of the three pillars of the Swiss social security system, provides for the possibility of building up an individual tax-advantaged pension fund (art. 111, para. 1 and 4, Cst.). Individuals in Switzerland who receive income from gainful employment that is subject to AHV contributions may pay contributions each year up to a maximum amount set by the Federal Council and claim a corresponding tax deduction (for 2025: CHF 7,056). Until 31 December 2024, if a person was unable to contribute for a certain period, it wasn't possible to buy back the missing years of contributions.

With the entry into force of the amendment to the Ordinance on income tax deductions for contributions to recognised forms of pensions (BVV 3), it is now possible to buy back years to make up gaps resulting from missed contributions during the previous ten years (art. 7a BVV 3).

To do so, one must (i) have a contribution deficit, (ii) meet the conditions for making an ordinary payment for the years in question and (iii) pay the ordinary contribution for the year in which the buyback is made (art. 7a para. 1 BVV 3).

It is important to note that only contribution gaps arising after this amendment comes into force on 1 January 2025 can be subject to a buyback.

Reduced taxation of life annuities under Pillar 3b

Until 31 December 2024, Pillar 3b life annuities were subject to tax on a 40% portion. As contributions to such insurance policies are not tax deductible, the Federal Parliament considered that this flat-rate taxation was unjustified and no longer in line with current interest rates.

The Federal direct tax Act (FDTA) and the Federal Act on the harmonization of direct cantonal and communal taxes (HDTA) have therefore been amended with effect from1 January 2025 to mitigate the taxation of these returns.

The legislative amendment provides that only a percentage of the guaranteed annuity, which depends on the year in which the policy was taken out, will be subject to income tax (art. 22 para. 3 let. a FDTA; art. 7 para. 2 let. a HDTA). For example, if a life annuity policy was taken out in 2024, only 1% of the guaranteed annuity will be taxable.

Excess benefits are taxed at 70% (art. 22 para. 3 let. b FDTA; art. 7 para. 2 let. b HDTA).

Conclusion

Regarding Pillar 3a payments, it will now be possible to buy back contributions for a period of 10 years for any gaps arising after 1 January 2025. This means that it is no longer as important to ensure all annual payments are made.

As far as the taxation of Pillar 3b life annuities is concerned, it may be worthwhile, depending on the individual case, to take out a life annuity policy with all or part of the capital withdrawn from the 2nd pillar at the time of retirement depending on the retirement planning objectives in mind.

Please do not hesitate to contact us if you have any questions.

valfor TaxTeam

Daniel Gatenby | daniel.gatenby@valfor.ch