

TAX OPTIMISATION ADVICE

By taking a proactive approach and carefully planning your finances, you can maximise tax deductions, reduce your tax bill and optimise your overall financial situation.

Invest in continuing education

Up to a certain amount, continuing education expenses are deductible at both federal and cantonal levels. These must be actual, profession-oriented continuing education expenses. According to Art. 33 para. 1 let. J of the Federal Income Tax Act (LIFD), these costs are deductible up to a maximum of CHF 12,000.00, provided that the taxpayer holds a secondary II level qualification or is aged 20 or over and is pursuing training to obtain a qualification other than a first secondary II level qualification. These provisions are applied by most cantons in Switzerland.

Deducting travel expenses

The costs that an employee must necessarily incur to travel between his home and his place of work are professional expenses that are deductible from income, provided that they are actually incurred by the employee. At the federal level, the maximum deductible amount is of CHF 3'000.00. There are differences in treatment between cantons. Please refer to the general instructions for your canton of residence to determine the amount you can deduct for travel expenses.

Planning your renovation projects

While value-added work is only deductible from property gains tax, renovation expenses are deductible from taxable income. Each year, you can choose between a flat-rate deduction (10% of the rental value if the property has been owned for 10 years or less / 20% of the rental value if the investment period exceeds 10 years) or the deduction of actual expenses if these exceed the flat rate. In general, the date of the invoice is decisive, but some cantons take into account the date on which the work was carried out.

According to the Federal Ordinance on Building Costs, measures that contribute to energy savings or the use of renewable energies (replacement of building insulation, replacement of windows, installation of a heat pump, etc.) can be deducted from direct federal taxes. However, only investments paid for by the owners themselves and not covered by public subsidies are deductible.

Contributing to a 3a pension plan

If you have income subject to AVS, you can contribute to a 3a pension plan each year. The maximum contribution for taxpayers who contribute to a pension fund is CHF 7,056.00 (2024), while self-employed persons or employees who do not contribute to the LPP can deduct up to 20% of their income, but no more than CHF 35,280.00 (2024).

Making pension fund buy-backs

If you joined a pension fund late, have spent a long period abroad, have joined an employer whose LPP pension plan is more attractive than your previous plan, or your salary has increased significantly, there is a high probability that you will be able to buy back LPP contributions. Most pension funds indicate the amounts that can be purchased on the pension certificate you receive at the beginning of the year. The amounts allocated to a buy-back in the pension fund are fully deductible from taxable income. It is wise to plan your buy-backs carefully, as they are subject to a three-year lock-in period during which you will not be able to claim a lump-sum withdrawal of your pension fund assets. If you make a purchase and within three years you have to withdraw all or part of your pension fund capital, you will have to repay the tax savings made at the time of the purchase through a tax reassessment procedure. Your pension fund may also stipulate in its regulations that the lump sum withdrawal of the purchased amount cannot be made before the expiry of the three-year period.

In the event of divorce, there is often potential for a buy-back, as couples going through divorce proceedings normally have to share their pension fund assets equally. This results in a pension gap, which can also be bought back and deducted from taxable income for tax purposes. This buy-back is normally not subject to the three-year blocking period. However, it is important to plan any capital withdrawals carefully, as the tax authorities may, in some cases, consider withdrawals within three years to be abusive and ask for repayment of the tax savings made at the time of the buy-backs.

Paying yourself a dividend

If you own your company and hold more than 10% of the share capital (SA) or shares (Sàrl), you should plan for remuneration in the form of dividends. At federal level, only 70% of the dividend distributed is considered taxable income. The maximum allowance that can be granted by the cantons is 50%. Dividends are not subject to social security contributions.

To avoid any risk of the dividend being reclassified as income, your salary must comply with the norm (sector of activity, hierarchical position, etc.). If this is not the case and the dividend received exceeds 10% of the tax value of your company, you run the risk of it being reclassified as income.

Spread out the withdrawal of pension capital

As you approach retirement, spreading your withdrawals from your pension fund, vested benefits and pillar 3a over several years can lead to significant tax savings. The tax authorities add up the amounts withdrawn during the same year, including those of your spouse, to calculate the tax due on these payments. Spreading withdrawals over several years reduces the tax burden.

Taking your pension fund assets in the form of capital

When it comes to pension fund assets, future retirees can choose between receiving their savings as an annuity or as a lump sum. The annuity is taxed at 100% as income, while the lump sum is subject to preferential tax treatment at the time of payment. Subsequently, the lump sum is included in the calculation of wealth and is subject to wealth tax. Only dividends and interest generated by this capital are taxed as income. From a strict tax perspective, opting for capital is therefore more advantageous than an annuity.

Taking partial retirement

As part of the AVS reform, new partial retirement options were introduced in 2024. The AVS and LPP have been adapted. For pension funds, a maximum of three stages are permitted in the case of a lump-sum withdrawal (Art. 13a LPP). This new article harmonizes the cantons' tax treatment of staggered retirement and the withdrawal of LPP retirement benefits in the form of a lump sum.

As the tax rate on retirement lump sums (3a, vested benefits, pension fund assets) is progressive, it may be advisable to gradually reduce one's activity rate. The first partial withdrawal must represent at least 20% of the retirement benefit and must be proportional to the reduction in activity. The pension fund may authorize a lower minimum percentage.

Preparing your estate

In most cantons, children are exempt from inheritance and gift tax. However, in the cantons of Vaud and Neuchâtel, this exemption only applies to gifts up to CHF 50,000 and CHF 10,000 respectively. It is therefore advisable to organize gifts during your lifetime, taking these limits into account.

For unmarried couples, getting married can help avoid high inheritance taxes, as cohabiting partners are often taxed at the same rate as unrelated persons. Moving to another canton to take advantage of more favourable inheritance tax rates is also an option to consider.

Invest your savings in a tax-efficient manner

Depending on your risk tolerance, it is possible to optimize your investments from a tax perspective. For example, investing in a real estate fund that directly owns properties can reduce your tax bill, as the fund is responsible for paying income and wealth tax. Certain structured products can also reduce your tax liability, and your bank should be able to advise you on the best options.

Making a donation to a charitable organisation

For those who have the necessary means and wish to bequeath part of their estate, making a donation to a charitable organization during their lifetime is also a way of reducing their income tax. Each donation is deductible up to a limit of 20% of taxable income.