Tax and retirement planning in Australia

The Swiss expat

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10 FUN FACTS ABOUT

SWITZERLAND

1. A **landlocked** 'island' cut off from neighbours by mountains and lakes.
2. There are **26 Cantons**. Laws and ways of life vary from Canton to Canton.
3. Four official national **languages** – German, French, Italian and Romansh.
4. Largely **self-governed** by the people.
5. The Swiss did not invent the cuckoo clock, the Germans did. But they did invent **Velcro, muesli and the bobsleigh**.
6. National sports include Swiss wrestling or **'Schwingen' and 'Hornussen'**, a cross between baseball and golf.
7. Switzerland's **birthday** is on 1 August – 730 years old in 2021.
8. **Walter Furst, Werner Stauffacher and Arnold von Melchtal** took an oath on 1 August 1291 to form a confederation, later to be known as Switzerland.
9. For more than two centuries, Switzerland invaded and conquered but in 1515 were trounced by France and then decided to stop fighting. **Official neutrality** wasn't recognised until 1920.
10. In Switzerland, money talks and always has. So whilst they weren't fighting for themselves anymore, mercenary armies were hired out to almost all European powers until the mid-19th century. Only the **Pope's Swiss Guard** remains.

SCALING THE ALPS OF TAX AND RETIREMENT PLANNING IN AUSTRALIA

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Introduction

It is hard to believe today that the Swiss founding father of the Red Cross, humanitarian author, co-winner of the first ever Nobel Peace Prize and the very symbol of caring for our fellow man, Henry Dunant, lived a poverty-stricken life in his later years. Other than the Nobel Peace Prize money that he pledged untouched to his Estate for people in need, Henry died largely destitute.

With the benefit of hindsight, it appears even the finest and most revolutionary humanitarian acts were not penance enough for Henry committing during his career business endeavours the seemingly ultimate sin in Swiss commerce; the oversight of, as company president, the collapse of a financial institution!

Upon this indiscretion, Henry lived the second half of his life partly in exile from Switzerland and in humble conditions. His financial affairs were crippled further in these years where, despite his personal monetary situation and poor state of health, Henry still selflessly focused on continuing humanitarian advocacy efforts and was left largely unsupported by the country to which he was born.

Switzerland, once a war mongering and pillaging nation, then a mercenary army for hire to the highest bidding battlers of Europe and now famously neutral, is clearly not immune to change. Thankfully too, in terms of its social obligations to the aged, no matter what their successes and failures during working life, Switzerland has changed considerably since those days.

So unlike Henry Dunant, all people living in Switzerland today have a strong three-pillar aging and disability support system behind them, the first pillar being the Old Age and Survivors' Insurance (OASI).

Due to its geographically migratory qualities, the focus of this piece is the first pillar, OASI, though tax outcomes for the latter two pillars will also be touched on to complete the full retirement picture for a Swiss expat living in Australia.

We will look into:

1. The three pillar swiss retirement system
2. Eligibility to voluntarily contribute to OASI
3. How much to voluntarily contribute to OASI
4. How OASI works with the Australian Age Pension
5. The pension benefit of voluntary OASI contributions
6. Tax determinants of deciding whether to voluntarily contribute to OASI
7. Performance and function determinants of deciding whether to voluntarily contribute to OASI.

So, to OASI or NOASI, that is the question.

1. THE THREE PILLAR SWISS RETIREMENT SYSTEM

Old Age and Survivors' Insurance (OASI) contribution, and thus cover, is mandatory for all people living and residing in Switzerland. The second two pillars are for working people, with only the third being truly voluntary.

OASI is the most basic of the three pillars and is designed to support somebody for the main necessities in life via a pension, much like the Australian Age Pension for Australians. The second two are professional and personal pension funds more akin to the superannuation system in Australia.

To be eligible for a part-Swiss OASI pension, a Swiss expat in Australia must have contributed to OASI (or if a non-gainfully employed, non-OASI-contributing Swiss expat, whose spouse had contributed the appropriate amount on their behalf) for at least one year before arriving on our shores.

If eligible, women receive the OASI pension from the age of 64 and men, from the age of 65.

2. ELIGIBILITY TO VOLUNTARILY CONTRIBUTE TO OASI

Also, unlike Henry Dunant in his exile years, most Swiss expats in Australia have likely had, or will have, the opportunity to consider continuing contributions to OASI voluntarily to maximise its cover in retirement and produce, on face value, a better outcome than being reliant on the Australian Age Pension.

To be eligible to voluntarily contribute to OASI, all four conditions below must be met by a Swiss expat in Australia:

- Be of Swiss or European nationality
- Reside outside of EU or European Free Trade Association (EFTA)
- Be insured in OASI for at least five consecutive years immediately before leaving Switzerland
- Apply to voluntarily contribute within one year of leaving compulsory OASI

It is not normally practical or affordable to voluntarily contribute to pillars two and three whilst living in Australia.

3. HOW MUCH TO VOLUNTARILY CONTRIBUTE TO OASI

Once a Swiss expat in Australia opts in, how much must then be 'voluntarily' contributed by them to maintain the full OASI pension?

Employed people pay 10.1% (from 1 January 2020, previously 9.8%) of their working salary. Non-gainfully employed people pay based on assets and pension income, the required contribution ranging from CHF 922 to CHF 23,050, and non-gainfully employed married spouses pay based on half of the couple's assets and pension income or the employed spouse pays twice the minimum voluntary OASI contribution.

This is, of course, on top of Australian compulsory superannuation guarantee obligations paid by employers on wages.

4. HOW OASI WORKS WITH THE AUSTRALIAN AGE PENSION

Before we dig too deep into the option of voluntarily contributing to OASI, it is important to note that if you don't qualify to do it after moving to Australia, fear not! There is a social security agreement between Australia and Switzerland to ensure people don't 'fall between the gaps'.

The Social Security Agreement's endeavor is that both countries appropriately share retirement funding of its citizens no matter where they decide to live. It works by allowing time contributed to OASI whilst in Switzerland to be applied to the 10-year permanent residence rule for the Australian Age Pension (assuming you don't cash out the balance upon moving – this option is only available for funds under 20% of the full OASI pension).

If you then qualify for the age pension per normal Australian government means testing, you will be covered by the Australian Age Pension, possibly up to its full rate.

5. THE PENSION BENEFIT OF VOLUNTARY OASI CONTRIBUTIONS

Therein lies the true opportunity of voluntary OASI contributions.

The amount of Swiss pension that can be obtained is dependent on how many years it is contributed to and the average earnings during those years. Reductions of the contribution years can be avoided by Swiss expats living in Australia by continuing OASI contributions after leaving Switzerland.

Whilst the Australian Age Pension is reduced dollar-for-dollar by the Swiss pension earned, the highest Swiss pension currently possible is CHF 2,370 per month for someone who contributed for 44 years and earned up to, or above, the appropriate average earnings threshold during their working life. Assuming a currency exchange of AUD $1 / CHF 0.68, the appropriate minimum average earnings to get the full OASI pension (if contributed to for 44 years, among other factors) is AUD $152,721 per year in wages. Using the same currency exchange, the maximum OASI pension income is over AUD $42,000 per year for an individual and over AUD $63,000 per year for a couple, almost twice the going rate of the full Australian Age Pension.

Granted, as a Swiss expat, OASI, unlike the Australian Age Pension, has been directly and personally funded by the pensioner, so it is not exactly a true likening. For a better comparison to full OASI pension eligibility by a Swiss expat in Australia, an equivalent sole-Australian resident would not likely be fully government funded in retirement. They would have been higher income earners during their working life to have made extra contributions to a superannuation fund. It would be reasonable, therefore, to expect that they would probably have other significant retirement income and assets reducing their Australian Age Pension to, potentially, as low as $nil.

Government pension-wise, the true financial benefit of OASI then is that, given it is not means tested during pension age, it could be an advantage as high as over AUD $42,000 or AUD $63,000 per year (subject to foreign exchange movement). That is, of course, less the opportunity cost of voluntarily contributing to OASI, say, Australian superannuation contributions or making other investments instead ... but more on that later.

So, there you have the simple OASI and Swiss retirement funding background and eligibility criteria. There is much more information about it online via the applicable Swiss government department website dedicated to the topic.

But what about the factors in deciding whether or not to voluntarily contribute to OASI once crossing to Australia's shores?

As with most investments, the most prominent determinants are tax and the performance and function of the investment.

We explore both in detail below.

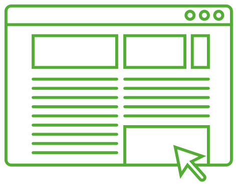
6. TAX DETERMINANTS OF DECIDING WHETHER TO VOLUNTARILY CONTRIBUTE TO OASI

Whilst not the only decider, we would be kidding ourselves if we did not consider tax in our investment decisions. It is a true cost to our actions. Only knowledge and then informed planning can minimise its impact.

Tax treatment of Swiss based retirement funds is no small topic, but we will try to briefly summarise as best we can.

Firstly, Australia and Switzerland have a Double Tax Agreement (DTA) that guides which country receives taxation revenue from income and capital receipts. This includes tax on retirement funds earned and withdrawn by people moving between the two regions.

The DTA's main objective is, as the name suggests, to avoid double taxation of the same income by two countries' governments. Where both countries levy tax on a type of income, for a similar outcome, foreign tax credits may be claimable against the resident country's tax or possible claims made direct to the relevant foreign government department to alleviate their taxation. The former can be limiting though as, in Australia, the foreign tax credit claimable is limited to the lesser of the foreign tax credit and the Australian tax payable on the income.



Typically though, and in the case of most Swiss retirement income, the DTA is clear on which country is to levy tax on which component of income.

Overall, as a resident of Australia for tax purposes, for example, you are assessable on your world-wide income in Australia. If a resident of Switzerland for tax purposes, you would only be assessable in Australia on your Australian-sourced income but there are other negative impacts such as no tax-free threshold.

Tax residency can be a grey area with many variables sometimes at play. There have been some interesting and complex cases over the years. We won't focus on these types of cases as more-often-than-not, most are simply a question of fact and usually clear i.e. where you have decided to live permanently is usually your place of tax residence.

The DTA mentioned above and tax legislation of both countries means the OASI pension income is taxable in the country of tax residence.

Pensions from pillar two and lumpsum amounts from pillars two and three of the Swiss retirement system are assessable in the country of source, though there are stops in place to prevent double taxation.

The lumpsum tax in Switzerland may be deemed final with no further tax payable in Australia where the Swiss tax already paid suffices. The pillar two pension tax can have an application for refund made to the Swiss government in order to then be taxed only once here in Australia. In either lumpsum or pillar two pension case, where deemed assessable in Australia and no refund of Swiss tax is made, a foreign tax credit can be claimed against Australian tax levied.

Below is a summary of tax impacts on retirement funds when residing in Switzerland versus in Australia from a Swiss point-of-view:

	LIVING IN SWITZERLAND			LIVING IN AUSTRALIA		
	1st pillar	2nd pillar	3rd pillar	1st pillar	2nd pillar	3rd pillar
	Working life			Working life		
Contribution	On the salary – deductible		Deductible in the tax return*	–	–	–
Redemption	n/a	Deductible in the tax return	n/a	–	–	–
Withdrawal capital	n/a	Leads to separate taxation with a reduced rate		n/a	Taxed at source (reduced rate)	
	At retirement			At retirement		
Pension	Taxable with all of your other annual income			No tax at source	Tax at source*	No tax at source
Withdrawal capital	n/a	Leads to separate taxation with a reduced rate		n/a	Taxed at source (reduced rate)	

** Note: Upon certain personal circumstances and conditions not being met to file a tax return, this may be a 'tax at source' correction instead*

So, whilst OASI pensions are assessable income in Australia if you are an Australian tax resident, the true tax issue here is that there are tax benefits of contributing to the Swiss retirement system whilst working and living in Switzerland, as illustrated above, but the same is not true if contributing to OASI voluntarily whilst living and working in Australia.

There is no tax deduction available to an Australian tax resident contributing to OASI during their working life. The question a Swiss expat considering voluntary OASI contributions might then be, "why would I contribute to OASI voluntarily, whilst receiving no tax deduction on the way in and then paying tax on the way out?". A common self-diagnosed solution then is, "can't I just become a tax resident of Switzerland upon retirement to take advantage of their lower tax rates?"

To start with the second query first, tax rates in Switzerland are complex compared to the Australian system in that they are not federally determined as in Australia.

This means there are 26 different rates of tax for each of the 26 Cantons. There are also different rates of tax for "married" and "unmarried" taxpayers, not to mention, differing tax rates on lumpsum payments compared to pension and ordinary income.

The following tables show some of the tax rate variations for ordinary or pension income (OASI and pillar two pensions in this case) between selected Swiss cities and Cantons:

Unmarried tax rates – Ordinary Income (e.g. OASI Pensions) for Swiss Residents (at the time of writing)				
Canton*	Taxable income			
	CHF 100'000.–	CHF 250'000.–	CHF 500'000.–	CHF 1'000'000.– and more
Zürich**	16.61%	28.20%	34.91%	37.87%
Zug**	12.27%	18.94%	21.51%	22.38%
Schwyz**	15.50%	22.35%	26.66%	27.53%
Geneva**	21.16%	33.69%	39.45%	42.56%
Lausanne	23.57%	35.42%	40.63%	41.50%
Sion	23.41%	32.09%	35.63%	36.50%

Married tax rates – Ordinary Income (e.g. OASI Pensions) for Swiss Residents (at the time of writing)				
Canton*	Taxable income			
	CHF 100'000.–	CHF 250'000.–	CHF 500'000.–	CHF 1'000'000.– and more
Zürich**	12.69%	24.47%	32.36%	36.75%
Zug**	7.49%	18.12%	21.19%	22.38%
Schwyz**	12.67%	20.78%	24.64%	27.53%
Geneva**	15.97%	29.42%	35.87%	40.28%
Lausanne	18.69%	30.77%	38.44%	41.50%
Sion	13.85%	20.90%	33.44%	35.56%

** the chief town of the canton is used*
*** Church tax in addition*

Married and Unmarried tax rates – Pension Income Taxed at Source – (i.e. Pillar 2 Pension) for Non-Swiss Residents (at the time writing)			
Canton	Only one tax rate		
Zürich	7%		
Zug	8%		
Schwyz	6%		
Geneva	10%		
Lausanne	11%		
	Taxable income		
	CHF 0.– CHF 40'000.–	CHF 40'001.– CHF 80'000.–	CHF 80'001.– and more
Sion	9%	15%	21%

Whilst some of the above Swiss tax rates may look attractive at first glance, it is worth considering the Australian tax outcome a little closer before making this assessment.

To begin with, before boarding the plane, it should be noted that leaving Australia, and becoming a tax resident elsewhere, can have capital gains consequences to investments and even your personal home. Also, the tax-free threshold and the next lowest tax bracket are lost, so these are also considerations to be made.

Furthermore, whilst you may not receive a tax deduction for voluntary OASI contributions while you are working in Australia, there is a system of reducing the tax assessment of foreign pension income when retired called Undeducted Purchase Price (UPP).

UPP is the return of personal pension contributions, including voluntary OASI, and is thus tax free to the pensioner.

The deduction is calculated by dividing the UPP by the life-expectancy of the pensioner. Without the application of a flat UPP rate, a statement of personal contribution can be obtained from the Swiss authorities and then submitted to the Australian Taxation Office (ATO) for consideration and determining the deduction available to you.

The following are the current standard tax rates at time of writing for an Australian tax resident:

Taxable income	Tax on this income
0 – $18,200	Nil
$18,201 – $37,000	19c for each $1 over $18,200
$37,001 – $90,000	$3,572 plus 32.5c for each $1 over $37,000
$90,001 – $180,000	$20,797 plus 37c for each $1 over $90,000
$180,001 and over **Medicare Levy = additional 2% on taxable income**	$54,097 plus 45c for each $1 over $180,000

These are the current non-resident tax rates at time of writing in Australia for Australian sourced income:

Taxable income	Tax on this income
0 – $90,000	32.5c for each $1
$90,001 – $180,000	$29,250 plus 37c for each $1 over $90,000
$180,001 and over	$62,550 plus 45c for each $1 over $180,000

Whilst tax rates in Australia may appear high during working life, it is kinder to the tax payer in older age.

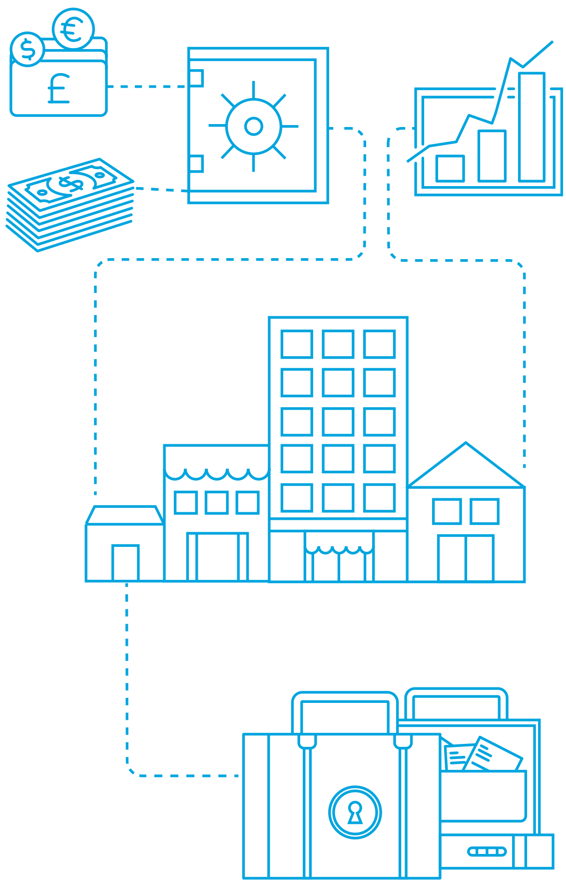
The Senior Australians Tax offset (SATO) increases the tax-free threshold considerably and leaves tax of less than $4,000 on $42,000 of assessable income (e.g. the full OASI pension for a single pensioner). Comparatively, the lowest rate on a single pension income in Switzerland is over $5,000. In combination with the Senior Australians Tax Offset (SATO), the UPP can have tax on $42,000 in Australia as low as $nil.

Australian superannuation withdrawals (in taxed funds) on-top of OASI could often be tax free once you are over 60 and thus tax outcomes can look very good indeed.

In contrast, as mentioned earlier, capital amounts (lumpsums) for Swiss pillars two and three retirement withdrawals are, at the very best, taxed to some extent by Switzerland, with the possibility of more tax in Australia if not sufficient.

As can be seen from the below tables, there are differences between Swiss tax rates on pillars two and three lumpsum withdrawals when you are a tax resident of Switzerland compared to an Australian tax resident. These need to be considered as well as the treatment of OASI pensions before determining your residency at time of withdrawal.

It should be mentioned that with pillar two, extra contributions (buybacks) can be made while living and working in Switzerland but these are limited to 20% of their taxable income for non-Swiss nationals. More relevant to this discussion, no capital withdrawal can be made for three years from these buybacks. The latter is an important point for people planning to leave Switzerland.



Lumpsum withdrawals in Switzerland can attract the following rates of tax:

Unmarried tax rates – Pillars 2 & 3 Lumpsums for Swiss Residents (at the time writing)				
Canton*	**Taxable withdrawal**			
	CHF 100'000.–	**CHF 250'000.–**	**CHF 500'000.–**	**CHF 1'000'000.– and more**
Zürich**	4.95%	6.90%	11.26%%	16.09%
Zug**	3.93%	5.01%	6.00%	6.41%
Schwyz**	2.69%	6.46%	9.55%	11.80%
Geneva**	4.66%	6.73%	7.88%	8.50%
Lausanne	7.47%	10.73%	12.70%	13.62%
Sion* (men 65 years old)**	4.77%	6.37%	9.26%	10.30%

Married tax rates – Pillars 2 & 3 Lumpsums for Swiss Residents (at the time writing)				
Canton*	**Taxable withdrawal**			
	CHF 100'000.–	**CHF 250'000.–**	**CHF 500'000.–**	**CHF 1'000'000.– and more**
Zürich**	4.77%	5.90%	8.26%	13%
Zug**	2.05%	4.85%	5.98%	6.44%
Schwyz**	1.71%	4.19%	7.08%	9.91%
Geneva**	3.18%	5.89%	7.17%	8.05%
Lausanne	5.97%	9.24%	11.44%	13.02%
Sion* (men 65 years old)**	4.51%	6.19%	9.05%	10.14%

** the chief town of the canton is used*
*** Church tax in addition*
**** Wallis canton uses different rates according to gender and age (for the example, we considered a 65-year-old man)*

Unmarried tax rates – Pillars 2 & 3 Lumpsums for Non-Swiss Residents (at the time writing)				
Canton	**Taxable withdrawal**			
	CHF 100'000.–	**CHF 250'000.–**	**CHF 500'000.–**	**CHF 1'000'000.– and more**
Zürich	6.90%	8%	8%	8.30%
Zug	5.90%	6.25%	6.25%	7.30%
Schwyz	3.40%	4.50%	4.50%	5.10%
Geneva	4.46%	6.60%	7.65%	8.45%
Lausanne	7.22%	10.54%	12.52%	13.42%
Sion	4.81%	6.68%	9.64%	10.30%

Married tax rates – Pillars 2 & 3 Lumpsums for Non-Swiss Residents (at the time writing)				
Canton	**Taxable withdrawal**			
	CHF 100'000.–	**CHF 250'000.–**	**CHF 500'000.–**	**CHF 1'000'000.– and more**
Zürich	6.90%	8%	8%	8.30%
Zug	5.90%	6.25%	6.25%	7.30%
Schwyz	3.40%	4.50%	4.50%	5.10%
Geneva	3.18%	5.89%	7.18%	8.05%
Lausanne	6.59%	9.10%	12.52%	13.17%
Sion	4.81%	6.68%	9.64%	10.30%

With Australian tax outcomes looking competitive to Switzerland's, it is fair to say then that tax cannot really be the driving determinant of the decision on whether to voluntarily contribute to OASI or not.

The question is far bigger, what will be the performance outcomes of OASI and how will it function when compared to other options?

7. PERFORMANCE & FUNCTION DETERMINANTS OF DECIDING WHETHER TO VOLUNTARILY CONTRIBUTE TO OASI

To consider the performance and function of the investment in OASI via voluntary contributions, we have a very clear opportunity cost to consider: What is the outcome of investing the 10.1% voluntary OASI contribution elsewhere?

There is a myriad of possible landing places for our hard-earned dollars and so a good financial planner should be consulted prior to making any decisions. Contributing the extra 10.1% voluntary OASI to an Australian superannuation fund instead could be a comparison given the original intention of placing the funds into OASI would be retirement planning. After-all, the Superannuation Objectives Bill of 2016 defines the objective of superannuation as 'to provide income in retirement to substitute or supplement the Age Pension'.

But, of course, non-superannuation investments like publicly listed shares and managed funds, property, bonds, cash etc. should be considered too. Alternatively, you may just choose to spend the funds on living and entertainment.

Before looking further, it's very important to note that if Swiss expats living in Australia won't be here long-term, or plan to retire back in Switzerland after their careers, they may not benefit from locking up contributions from their working income in Australian superannuation. Indeed, a Swiss-based OASI / investment focus may be a more suitable option there.

Australian Superannuation is not typically accessible until the person has reached preservation age (currently as low as 55) and retired, or reached the age of 65, even if still working. With the Swiss system, women receive the OASI pension from the age of 64 and men, from the age of 65. Therefore, accessibility to funds needs to be taken into consideration when comparing the options. Again, a good financial advisor should be consulted to assist in making this determination.

Firstly, it is important to define what it is that you create by investing in OASI versus other investments. OASI is an insured pension stream or lifetime annuity that ends once you and your survivors (usually spouse) die, nothing more, nothing less.

In fairness, Switzerland's pillars two and three are far more comparable to the Australian superannuation system and so when comparing OASI to Australian superannuation, we are not comparing products in a pure sense.

As it is not usually practical or affordable to contribute to pillars two and three whilst no longer living in Switzerland, we are simply looking at the opportunity cost of contributing extra cash into a foreign annuity pension (OASI – pillar one) whilst in Australia. Therefore, we are in no way suggesting one country's retirement system and products are better than the other. They are both strong systems in their own right.

Where a Swiss person retires at 65 years of age, they have 18 years to their average life expectancy of 83. If their lifespan follows that average, and they are entitled to the full OASI pension, that is a benefit of AUD $752,824 OASI pension that they will have received up to their date of death (i.e. 18 years x the maximum annual OASI pension AUD $41,823.53, ignoring pension indexation, future foreign exchange movement and time value of money for simplicity).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In a basic example, ignoring inflation and other real-life variables for simplicity, where somebody earning AUD $152,721 per year in wages (the current minimum average salary level to get full OASI pension if contributed to for 44 years, among other factors) contributed to OASI (4.35% of Swiss wage from 1 January 2020, previously 4.2%) for five years whilst in Switzerland and then voluntarily contributed to OASI (10.1% of Australian wage from 1 January 2020, previously 9.8%) for 39 years after moving to Australia while still earning the same salary, that's AUD $664,861 that they have contributed into the OASI system for their AUD $752,824 OASI pension to date of death, a premium on top of their input of AUD $87,963.

That may look fine if life follows the script, but what if they die at the age of 66, one year after retirement? In the case where there are no survivors eligible to get the deceased's OASI benefit, a paid benefit of AUD $41,824 on a AUD $664,861 investment does not look so great anymore!

Of course, the above example of somebody working in Switzerland for five years and 39 years in Australia could be flipped to the opposite extreme. Somebody working in Switzerland for 39 years and then spending their final five years of working-life in Australia will be less impacted should they decide to voluntarily contribute to OASI in those final five years instead of focusing on Australian-based investments. Also, as stated earlier, other factors like length of, and long-term plans of, the stay in Australia and retirement location will play a major part in which strategy to take.

The point is, where a Swiss expat's stay is considerable, long-term and with an Australian retirement endpoint, investments that can outlive us, our spouse and even our immediate family should, at least, be considered.

Obviously, non-OASI investments in Australia (and Switzerland) contain risk of investment value movements and tax legislation changes and are thus dependent on each person's risk tolerance. OASI, on the other hand, is guaranteed by the Swiss government and derives a formula-based pension. But OASI in Australia is not without risk either. The amount receivable in Australia is, of course, subject to foreign exchange risk. Whilst both currencies are relatively stable, exchange rate movement is a factor. And with the choices of investment mix available in Australian superannuation funds today, the former, at least, can be managed according to our risk tolerance and stage of life.

Whilst we have already looked at the taxation of OASI pensions and retirement capital amounts (Swiss and Australian) as well as the tax outcomes of contributions to OASI as a Swiss tax resident and of contributing to OASI whilst an Australian tax resident, we also need to mention the tax outcomes of contributing to superannuation and subsequent withdrawals. Why here? Tax is a cost that impacts superannuation's performance, during the individual's working and retirement years.

Up to $25,000 of superannuation contributions per year (reduced by superannuation guarantee received on wages, if applicable) is tax deductible against working income. Contributions are taxed at 15% in the superannuation fund, where the individual's income is under $250,000 in the respective financial year, and 30% if over. There are extra catch-up provisions in future years if the full $25,000 is not claimed in the current year.

Also, once retired and over 60, Australian superannuation withdrawals will be tax-free, if from a taxed fund. The tax rate on the earnings in the superannuation fund is capped at 15% and can be as low as $nil when in pension phase.

Below is a summary showing the Australian tax rate differences between individual investment versus that in superannuation funds:

	Capital	Income
Individual* (resident)	MTR 0% – 47%	MTR 0% – 47%
Superannuation (accumulation)	10% – 15%	15%
Superannuation (pension) $1.6m	0%	0%

Asset mix choices within Australian superannuation can be broad, from cash to bonds, shares to property, domestic and international. Indeed, with a self-managed superannuation fund, the control of what a fund invests in, including their own commercial premises for business people, lies with the member/s of the fund, and is self-customisable to the individual's desires and needs.

Australian superannuation funds can also be drawn in whatever form needed, be it pension style or lumpsum. It should also be noted that life, Total Permanent Disability (TPD) and income protection insurances can be housed in superannuation funds adding cash flow assistance to the retiree during their working life.

For a Swiss expat in Australia, whose stay is considerable, long-term and with an Australian retirement endpoint, contributing 10.1% of gross working income to an Australian-based investment plan instead of to OASI should at least be considered. The questions to ask may be, "do I want to spend the 10.1% on living and entertainment costs now OR accumulate it in an investment environment with the possibility of capital growth and income, but also with the risk of loss OR contribute it to a government funded annuity pension in retirement which doesn't offer capital growth or a true asset, but contains less risk?"

Voluntary OASI may be the right strategy for Swiss expats in Australia; certainly tax on the income in Australia is favourable for it. However, it is worth looking closely at each situation to ensure the individual has a complete and accurate understanding of what they will receive when contributing to the scheme and that the true cost of contributing to OASI voluntarily whilst in Australia is understood, given the alternatives available.

Speaking to a professional to make up your mind is the key.

CONCLUSION

Key takeout points

- If eligible, the decision to voluntarily contribute 10.1% (from 1 January 2020, previously 9.8%) of their working salary to Old Age and Survivors Insurance (OASI) by a new Swiss expat must be made within one year of arriving in Australia
- Whilst OASI reduces the Australian Age Pension dollar-for-dollar, if eligible for the full OASI pension, the annual payment can be as high as over AUD $41,000 for singles and over AUD $63,000 for couples, which is greater than the Australian Age Pension
- OASI pensions are assessable in Australia by a tax resident of Australia though the amount can be as low as $nil with tax-free thresholds, the Senior Australians' Tax Offset (SATO) and the Undeducted Purchase Price (UPP) at play, whereas tax is likely payable on OASI in Switzerland if a Swiss tax resident
- As an Australian tax resident, pillars two and three lumpsums are assessable in Switzerland which may be final tax in Australia, or can be claimed as a foreign tax credit if components are assessable in Australia at a higher rate
- With competitive tax rates and outcomes on Swiss retirement income in Australia compared to Switzerland, the decision to continue to voluntarily contribute to OASI is not swayed negatively by tax.; however
- For a Swiss expat in Australia, whose stay is considerable, long-term and with an Australian retirement endpoint, voluntary Australian superannuation contributions or non-superannuation investments could be considered as an alternative to voluntary OASI contributions because they provide:
  - an investment in an asset that outlives the investor and their immediate survivor/s, rather than an income stream that ceases with the death of the foresaid
  - for retirement, as with OASI (pillar one) and pillars two and three, but specifically for Australian life needs and legislation
  - a potentially more favourable tax environment for contributions, income, capital gains and withdrawal
  - flexibility of investments and insurance policies outside of, or within, a superannuation fund and withdrawal style upon retirement from superannuation funds (i.e. pensions versus lumpsums)
  - the possibility of capital gains and income, though with associated risk of loss
- Unlike OASI (pillar one), Switzerland's pillars two and three are similar to the Australian superannuation system and so when discussing OASI and Australian superannuation, we looked at the opportunity cost of contributing extra cash into OASI whilst in Australia, one possibility being, but not limited to, Australian superannuation, and are therefore not comparing products. Accordingly, we are in no way suggesting one country's retirement system and products are better than the other. They are both very strong systems in their own right.

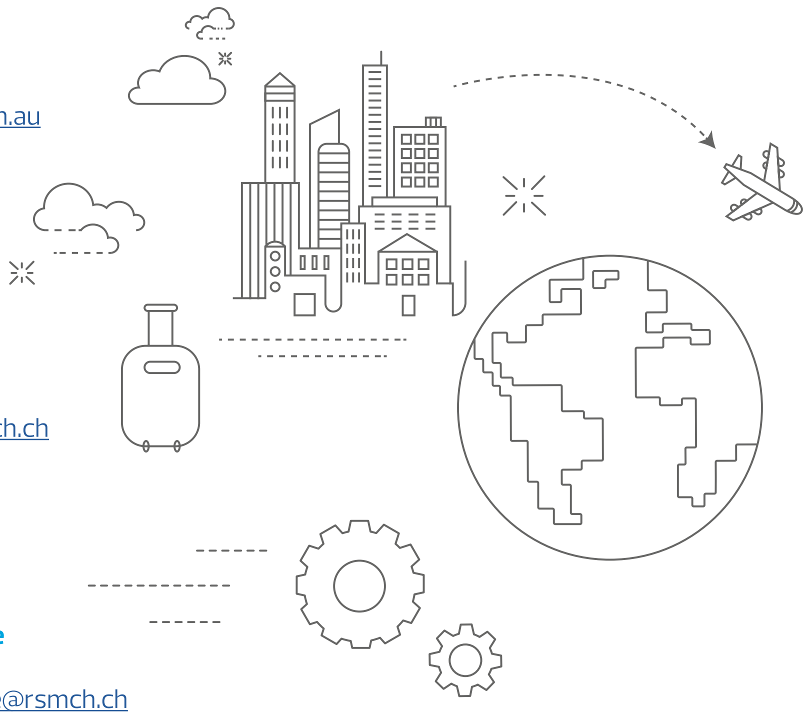
Of course, the decision to OASI or NOASI is completely up to the individual. As mentioned, there are many varying situations in personal circumstances as well as economic and risk variables that can throw a curve ball at the expected outcomes discussed above.

Accordingly, for some people, continuing voluntary OASI contributions is the right outcome. Even where other options may appear better than voluntary OASI contributions, some people see safeness in the hub of OASI over other avenues here. Also, sometimes these decisions are beyond just the tax or financial, and more in line with Swiss allegiance or patriotism, and to that we cannot comment here.

Each person should seek their own personal taxation and financial advice before making their decisions around this area.

We hope this has provided some insight into what is a common topic in the Australian Swiss expat community. If you need any assistance on this matter, please contact:

AUSTRALIA



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Disclaimer

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- The opinions expressed in this paper are those of the authors and not necessarily those of RSM Australia or RSM Switzerland.
- This thought-piece contains general commentary by the authors of a broader topic, it has been prepared without taking into account your individual objectives, financial situation or needs. You should assess whether the information is appropriate for you in light of your own personal circumstances. Speak to a financial adviser before making a decision in relation to any financial product decisions.
- Taxation outcomes outlined in the presentation are to assist you in understanding the implications of financial strategies, detailed personal tax advice should be sought from a Registered Tax Agent.

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