

Swiss taxation

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The Swiss tax treatment of life insurance distinguishes between periodic premium policies and single premium policies, and between policies that serve pension provision and those that do not. Benefits from periodic premium capital insurance under pillar 3b are generally tax-free for income tax purposes, since the federal income tax exempts income from capital insurance, with the exception of policies with single premiums that do not serve pension provision. For single premium policies with a surrender value, the yield is taxed as income from movable assets on surrender or on survival, unless the policy serves pension provision.¹

A single premium policy is deemed to serve pension provision when the benefit is paid after the insured person has completed the age of 60, on the basis of a contract of at least five years that was concluded before the insured person completed the age of 66. If these conditions are met, the yield is tax-free. If they are not met, for example because the policy is surrendered after three years or because the insured person is younger than 60 at the payment, the yield is taxable as income. The Federal Tax Administration has issued a circular that addresses in particular unit-linked policies with single premiums and the question of whether a policy that consists essentially of a managed portfolio still qualifies as insurance.²

The tax authorities do not accept every contract that bears the name of life insurance. Where the insured risk is negligible and the policyholder controls the investment of identifiable assets, the Swiss authorities may treat the contract as a direct holding of the underlying assets, with the result that the income is taxed annually. The practice has developed in response to policies that offered Swiss residents the advantages of single premium insurance while maintaining the substance of a custody account. A minimum risk component and limits on the policyholder's investment influence are therefore relevant in Switzerland as well, although the Swiss rules are less formalised than the German ones.³

Three further taxes complete the picture. The federal stamp duty on insurance premiums levies 2.5 per cent on single premiums for redeemable life insurance concluded by Swiss residents, which is a substantial charge on a policy of several million francs. Capital benefits from life insurance paid to Swiss residents are subject to the withholding tax at 8 per cent, which the insurer may avoid by reporting the payment to the Federal Tax Administration if the recipient does not object. Finally, the surrender value of the policy is subject to cantonal wealth tax every year. Where the beneficiary receives the benefit on death, the cantonal inheritance tax applies. According to the current laws of both Basel cantons, spouses and direct descendants are exempt, while more distant relatives and unrelated beneficiaries pay tax on the benefit received.⁴

1 Notes

1. Art. 24 lit. b DBG (exemption of benefits from private capital insurance, except for single-premium policies under Art. 20 para. 1 lit. a DBG) and Art. 20 para. 1 lit. a DBG (taxation of the yield of single-premium redeemable capital insurance). Corresponding provisions in the Tax Harmonisation Act (Art. 7 para. 1ter, Art. 7 para. 4 lit. d StHG). To be verified. ↩
2. The conditions (benefit after completion of the 60th year of the insured person, contract of at least five years, concluded before completion of the 66th year) are laid down in Art. 20 para. 1 lit. a DBG. On the practice of the Federal Tax Administration concerning single-premium capital insurance and insurance wrappers, see its circulars on the subject. Wording and current circular to be verified. ↩
3. On the treatment of insurance wrappers (Insurance Wrapper, Mantelversicherung) as transparent investments under Swiss tax law, see the practice of the Federal Tax Administration and the cantonal tax authorities and the case law of the Federal Supreme Court. Status to be verified. ↩

4. Art. 21 ff. StG (stamp duty on insurance premiums, 2.5 per cent on single premiums for redeemable life insurance, Art. 22 lit. a and Art. 24 para. 1 StG); Art. 4 para. 1 lit. c and Art. 7, Art. 13 para. 1 lit. a and Art. 19 VStG (withholding tax on insurance benefits, 8 per cent on capital benefits, reporting procedure); cantonal inheritance tax laws of Basel-Stadt and Basel-Landschaft. Rates and cantonal exemptions to be verified. ↩

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