



US Tax Implications - Novartis Pension Plans

US citizens and Green Card Holders Residing in CH

October 11, 2016

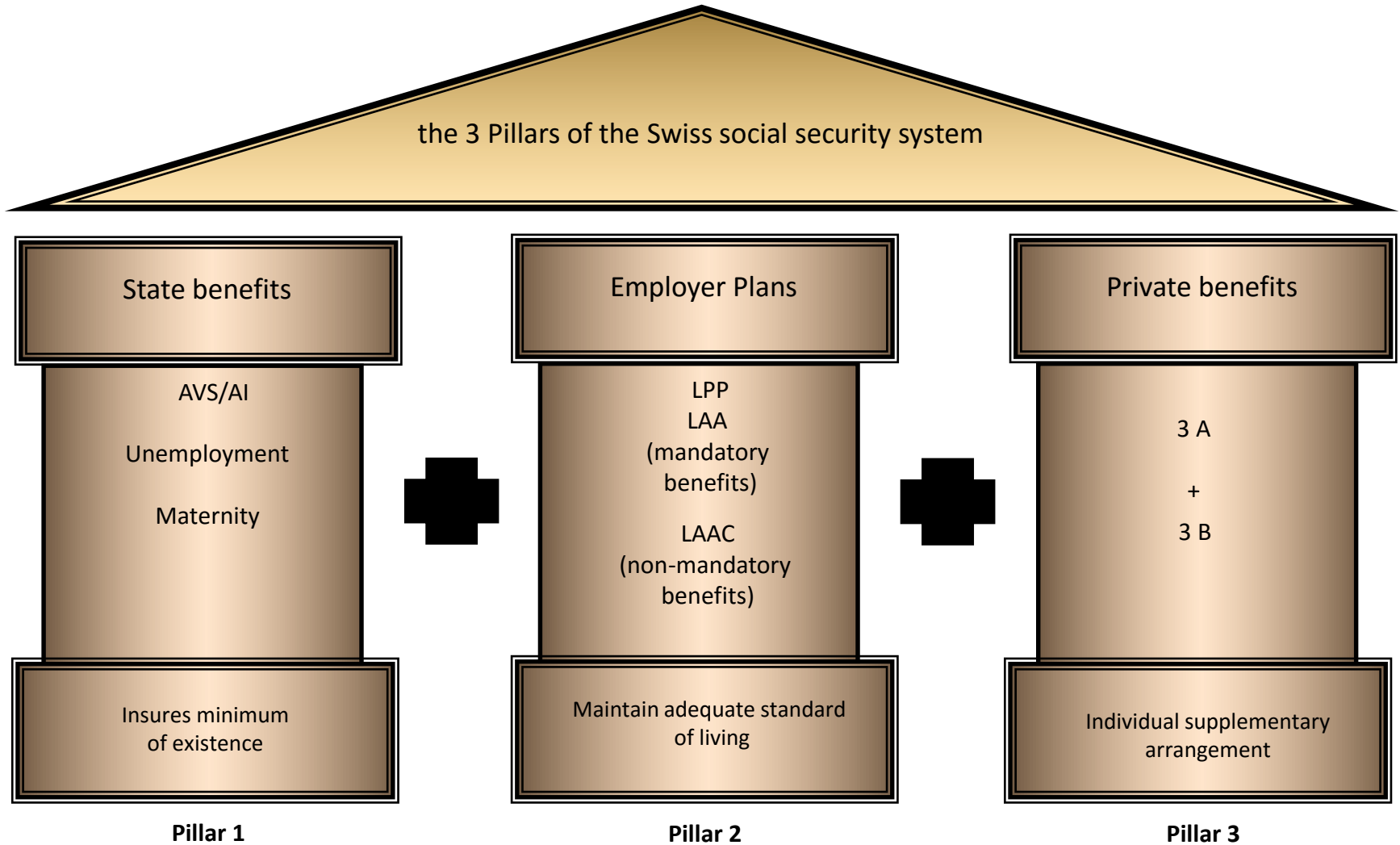
KPMG

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Agenda

- **Welcome**
- **Overview of Swiss retirement system**
- **US Taxation of Pension Contributions**
- **US Taxation of Pension Earnings**
- **US Taxation of Pension Distributions**
- **Recordkeeping and Basis**
- **Obtaining a Refund of Swiss Tax Withheld**
- **Examples**
- **Questions?**

Swiss Social Security & Pension Systems



Pillars compared to US plans

Pillar 1: Swiss Government Pension

Similar to US Social Security

Mandatory for individuals employed by a Swiss entity (unless Certificate of Coverage)

Pillar 2: Swiss Employer Pension

Similar to US employer pension

Mandatory for individuals employed by a Swiss entity (unless Certificate of Coverage)

May need to be withdrawn or transferred to a 'blocked' account if an individual changes employers, retires or leaves Switzerland

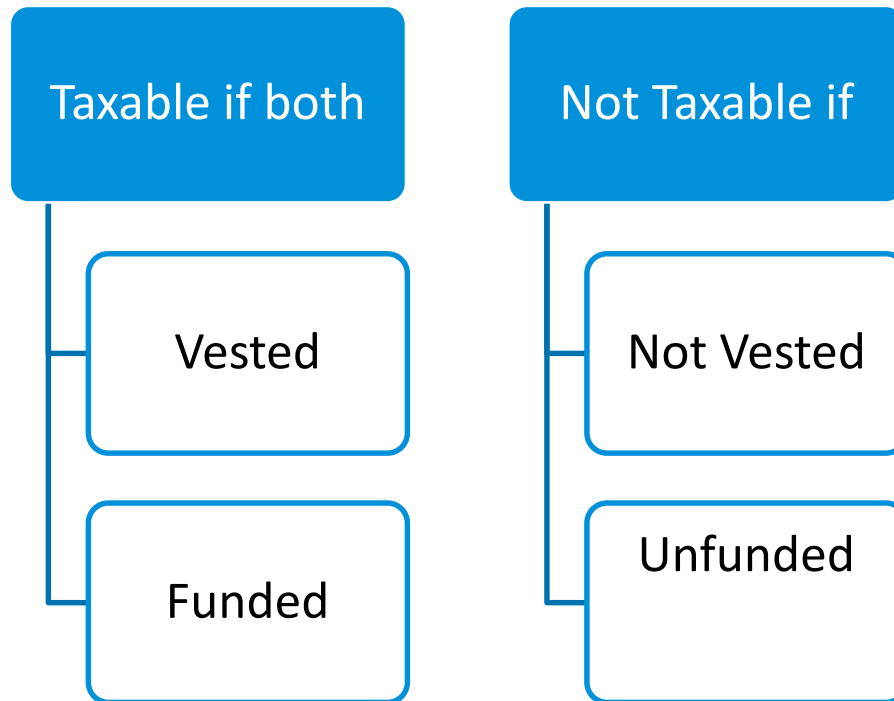
Pillar 3: Swiss Third Pillar Account

Similar to US IRA

Voluntary participation

Why Swiss pensions are taxable

Novartis Swiss pension plans do not meet the US definition of a “qualified retirement plan”



- If employer contributions to a foreign pension plan are both vested and funded a taxable benefit will arise unless an income tax treaty can be used
- In some cases the pension plan earnings may also be taxable under US law

US taxation of contributions to a Swiss pension

In Switzerland both the employee and the employer contribute

- Employee contributions - not deductible for resident of Switzerland
- Employer contributions – taxable
- Income earned on pension assets – may be taxable (next slide)
- Employee contributions, employer contributions, and earnings on pension assets must be tracked as they represent US tax basis
 - Will need your “US tax basis” to determine how much of each pension withdrawal is taxable on your US return

US taxation of pension earnings

Annual pension earnings may be taxable in the current year

- Pension plan earnings may also be required to be included in US taxable income
 - Applies to individuals who are “highly compensated”, that is your prior year compensation exceeded \$120,000 (2016)
 - Earnings reported on US tax return increase US tax basis

Swiss versus US taxable compensation

	Swiss tax	US tax
Base salary	100,000	100,000
Social security contributions	-5,000	
Pension contribution:		
Employee	-6,000	
Employer		12,000
Taxable compensation	89,000	112,000

Novartis pension statement



Pensionskassen Novartis
CH-4002 Basel

Beitragskonto - Kontoauszug, Alle Beiträge (interner Gebrauch): 01.01.2015 - 31.12.2015

							Employee	Employer
Name								
PersNr / VersNr								
AHV-Nr								
Geburtsdatum								
Periode	Von	Bis	Status	Beitragsart	Plan	Firma	Beitrag AN	Beitrag AG
Total: 01.01.2015 - 31.12.2015								
				1000 - PK1 - Altersplan AN	BP		7'833.00	0.00
				1010 - PK1 - Risikoplan AN	BP		2'113.60	0.00
				1020 - PK1 - Sparplan AN	BP		3'537.65	0.00
				1030 - PK1 - Altersplan AG	BP		0.00	15'665.40
				1040 - PK1 - Risikoplan AG	BP		0.00	4'227.20
				1050 - PK1 - Sparplan AG	BP		0.00	3'537.65
				1100 - PK2 - Altersplan AN	BP		3'264.60	0.00
				1110 - PK2 - Risikoplan AN	BP		307.20	0.00
				1120 - PK2 - Altersplan AG	BP		0.00	9'601.80
				1130 - PK2 - Risikoplan AG	BP		0.00	614.45
Total Beiträge: 01.01.2015 - 31.12.2015							17'056.05	33'646.50

US taxation of a pension distribution at retirement

Taxation of an annuity at retirement

- Can recover a portion of US tax basis against each monthly pension payment received
- Taxed at ordinary US income tax rates on portion that exceeds basis

Taxation of a lump sum withdrawal at retirement

- Only amount in excess of US tax basis is taxable in US
- Taxed at ordinary income tax rates (special lump-sum taxation does not exist under US law)
- **CANNOT** be rolled over tax-free into a US retirement plan or IRA!

US taxation of a pension distribution before retirement

Taxation of a withdrawal before retirement

- Amount in excess of US tax basis taxable on US return
- If tax resident in CH on date received, can claim Swiss tax as a foreign tax credit on US tax return

Taxation of transfer to another CH employer pension or to a blocked account in Switzerland

- US tax treatment for an individual who will continue to reside in Switzerland is unclear
- If you leave Switzerland permanently (with no intention to return) the transfer is considered a distribution and should be reported on the US return

Swiss taxation of pension distributions

Taxation of annuities at retirement

- Residents: taxed at ordinary rates
- Non residents: Switzerland only taxes an annuity if there is no income tax treaty with the country in which you are a resident when you receive payments

Taxation of lump sums at retirement

- Residents: favorable taxation of lump-sum – rate depends on amount of lump-sum and location of pension/account making the distribution but rates are VERY low versus US tax rates (4-12%)
- Non residents: Swiss income taxes will be withheld using lump-sum rates

US / Swiss pension taxation overview

	Switzerland	United States
Employer Contributions	Nontaxable	Taxable
Employee Contributions	Deductible	Nondeductible
Annual Earnings	Nontaxable	Potentially Taxable
Distributions	Taxable	Taxable if distribution > US tax basis

Pensions - reporting on FBAR and Form 8938

1st Pillar (Swiss social security)

- Not reportable

2nd Pillar (employer pension)

- Reportable on Form 8938
- Participants receive an annual statement showing the value in his/her pension
- Maximum value for Form 8938 is generally the December 31 value unless there were withdrawals during the year

3rd Pillar (private pension)

- Reportable on Form 8938 or Form 8621
- Advisable to also report on FBAR

Blocked accounts (rollover of employer pension)

- Reportable on Form 8938
- Advisable to also report on FBAR

Novartis pension document

Versicherungsausweis per 31.12.2015

alle Beträge in CHF

Bemessungsgrundlagen		Versicherte Löhne	PK 1	PK 2
Beschäftigungsgrad	100.00%	Altersplan	125'325.00	77'562.00
Basissalär (100%)	176'172.00	Risikoplan	151'497.00	77'562.00
Incentive/Bonus (Vorjahr)	51'390.00	Sparplan	202'887.00	
Schichtzulage	0.00			

1. Voraussichtliche Altersleistungen (angenommene Verzinsung PK1: 2.75%, PK2: 2.75%)

Alter	Altersguthaben PK 1	Umwandlungssatz	Altersrente PK 1*	Sparguthaben PK 1	Alterskapital PK 2
60	1'013'495.60	5.350%	54'228.00	129'254.80	482'177.58
61	1'070'505.15	5.500%	58'884.00	139'910.90	511'919.48
62	1'129'082.40	5.650%	63'804.00	150'860.05	542'479.28
63	1'189'270.60	5.800%	68'988.00	162'110.30	573'879.48
64	1'251'113.95	5.950%	74'448.00	173'669.95	606'143.13
65	1'314'657.95	6.100%	80'196.00	185'547.45	639'294.08

*allfällige Kinderrente: 20% der bezogenen Altersrente

2. Versicherte Leistungen

	PK 1	PK 2
Invalidenrente	90'900.00	
Invalidenrente pro Kind	18'180.00	
Invaliditätskapital	36'509.75	310'248.00
Ehegattenrente / Lebenspartnerrente	54'540.00	
Waisenrente pro Kind	18'180.00	
Todesfallkapital	292'574.35	310'248.00

3. Freizügigkeitsleistungen

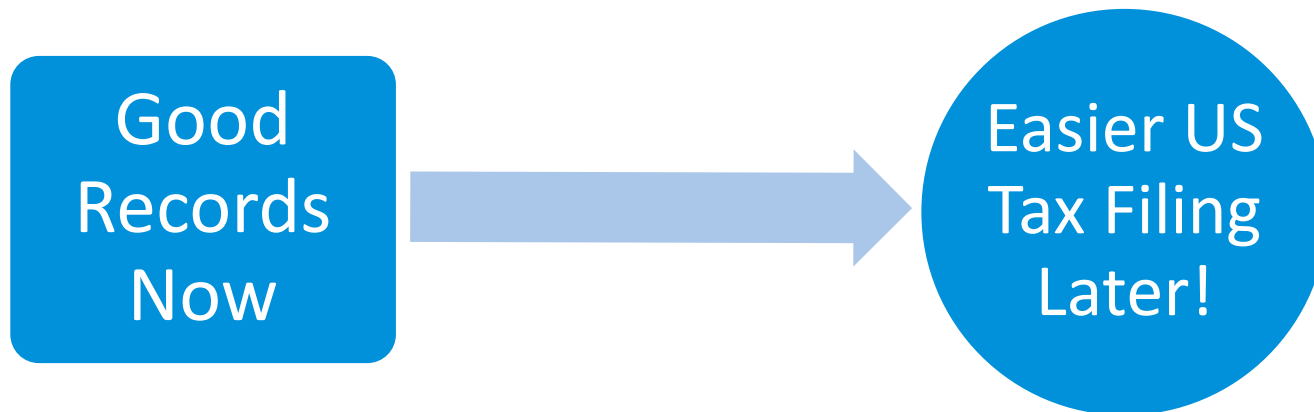
	PK 1	PK 2
Altersguthaben (davon BVG CHF 161'828.50)	503'929.65	238'741.00
Sparguthaben	36'509.75	

US tax basis – important to keep good records

Very important to keep track of the following for basis purposes:

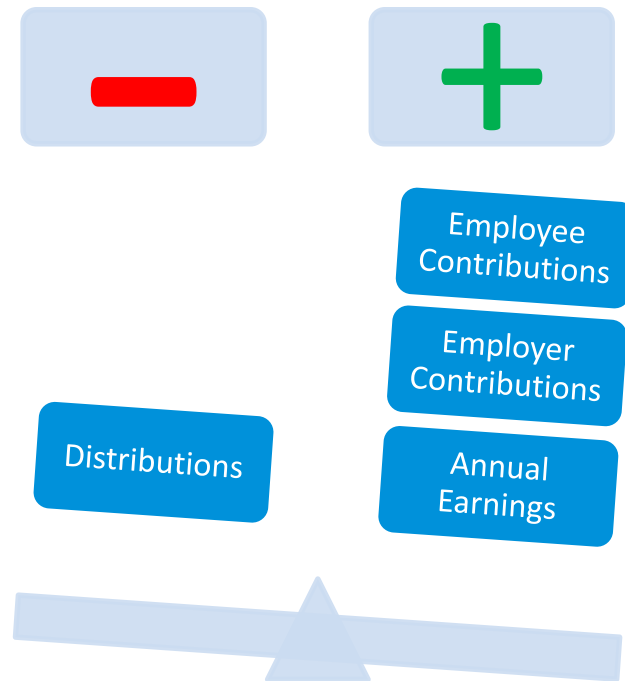
- Employer contributions included as taxable income on US returns
- Employee contributions not deducted on US tax returns
- Annual pension earnings included as taxable income on US returns
- Any distributions taken

Keep good records now – can be very difficult to reconstruct US tax basis for things that happened years ago



Calculation of US tax basis

	Starting Pension Basis
PLUS :	Employee Contributions
PLUS :	Employer Contributions
PLUS :	Annual Earnings
LESS:	Distributions Taken
	Ending Pension Basis



Example - Basis Calculation

Calculation of US Tax Basis in Employer Pension Plan

		CHF	USD
Cumulative personal contributions through 31 December	2015	CHF 15,000.00	\$15,306.12
2016 additions:			
Employee contributions		CHF 5,000.00	\$5,102.04
Voluntary contributions		CHF 0.00	\$0.00
Amount included in US taxable income (employer contributions)		CHF 5,000.00	\$5,102.04
	Total for 2016:	CHF 10,000.00	\$10,204.08
2016 Exchange rate	0.98		
US tax basis at 31 December 2016			\$25,510.20
2017 additions:			
Employee contributions		CHF 5,000.00	\$5,102.04
Voluntary contributions		CHF 0.00	\$0.00
Amount included in US taxable income (employer contributions)		CHF 5,000.00	\$5,102.04
	Total for 2017:	CHF 10,000.00	\$10,204.08
2017 Exchange rate	0.98		
US tax basis at 31 December 2017			\$35,714.29

Swiss taxes withheld on Pension

Swiss withholdings on pension distributions

- If you are a nonresident of Switzerland when the distribution occurs Swiss income taxes will be withheld from your pension distribution
- If you are a resident of the US (for tax purposes) when you receive a pension distribution on which Swiss tax is withheld the taxes **are not** eligible to be claimed as FTC since refundable

Obtaining a refund of Swiss taxes withheld

Obtaining a refund of Swiss taxes withheld

- File your US return reporting the gross pension distribution and the US taxable amount
- 8 weeks after filing the above tax return, file Form 8802, *Application for U.S. Residency Certification* in order to obtain Form 6166, *US Residency Certificate*
- After receiving the residency certificate (it actually is a computer generated letter) attach Form 6166 to the Swiss withholding tax refund claim form which the pension fund administrator provided

Example - Withdraw as annuity at retirement

- Annual payment of 20,000
- 30 years of payments (assumed life expectancy)
- Pension basis of 300,000 when payments commence

	Switzerland	US
Annual payment	20,000	20,000
Basis applied to payment – total basis ÷ 30 years - \$300,000/30	zero	(10,000)
Amount taxed on return	20,000	10,000

Example - Withdraw lump sum at retirement

- Lump sum payment of 350,000
- Pension basis of 300,000

	Switzerland	US
Amount received	350,000	350,000
Tax Basis	zero	(300,000)
Taxable amount	350,000	50,000

Third Pillar accounts – be careful how you invest

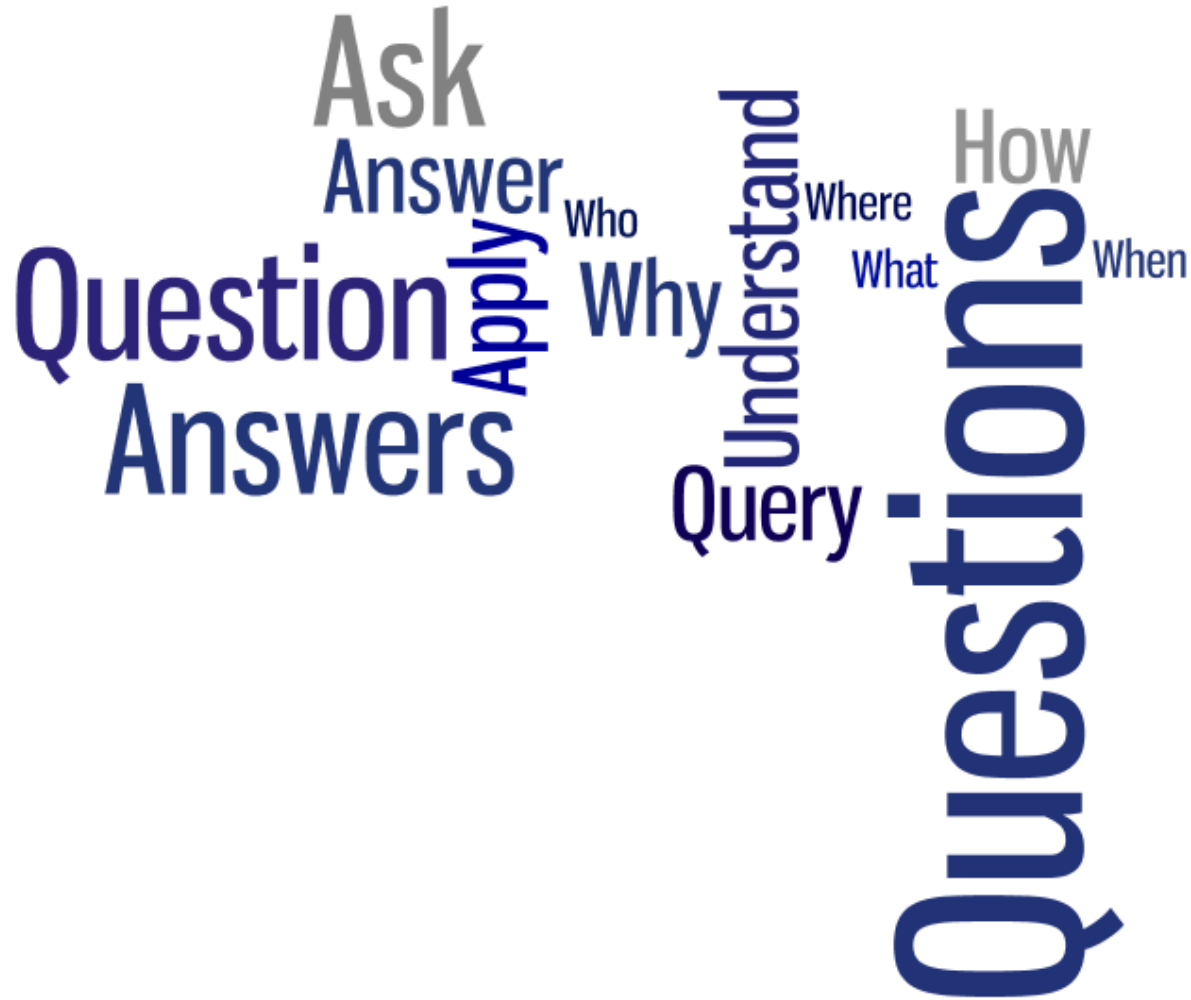
Investments may require onerous reporting on your US tax return

- Foreign mutual funds are generally classified as Passive Foreign Investment Companies under US law!
 - Can cause acceleration of income on US return and different classification of income
 - Income may be taxed at highest US tax rates instead of at favorable qualified dividend or long-term capital gain tax rates

Reporting Requirements

- Form 8621 may be required to be filed

What Questions Do You Have?





Thank you

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