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Tax cuts for some, social security cuts for others

On 16 May voters will be asked to decide on the tax reduction package, the 11th AHV revision, and an increase in value added tax to fund social security benefits.

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Patrick Lüthy/Imagopress

Families should benefit from higher child allowances.

NOT FOR SOME TIME has a Swiss referendum made such waves as the vote on 16 May. The two victors in last autumn's National Council elections – the Swiss People's Party (SVP) and the Left-Green faction – are calling the vote a decision on a change of direction. According to the SVP, the "Swiss people have the opportunity to correct the high-tax and social welfare policies of the past fifteen years". And the Social Democrats are denouncing it as "the neo-liberalist restructuring of Switzerland."

The tax package and the 11th revision of the Old Age and Survivors' Insurance (AHV) bring the two topics of the last legislature to the ballot box, and both are being put to the vote because referenda have been launched. A number of politicians and political observers are regarding the vote as a test for the new parliament and the new Federal Council: How far can politics deviate from the well-trodden path of Swiss compromise? Will voters sanction solutions that the Left in particular believes contain no characteristics of compromise whatsoever? Given the increased polarisation in Swiss politics since last year's elections, this referendum has taken on an importance far beyond the actual subjects of the vote.

Easing the tax load on families

The Federal Council approved the tax package in 2001. It is divided into three parts which have been combined by parliament in such a way that voters are obliged to vote for or against all three. The stamp duty proposals are undisputed. In a bid to maintain the competitive nature of Switzerland's financial sector, parliament forced through a measure to release foreign institutional investors from the obligation to pay stamp duty. This measure is now to be enshrined in statutory law, supplemented by rebates to promote the acquisition of risk capital. It will reduce tax revenues in the order of CHF 310 million a year.

However, the real thrust of the tax package is family taxation. Since married couples in Switzerland are taxed as a unit, they are at a disadvantage over unmarried couples due to tax progression if both are earning. This unfair situation is corrected by "part-splitting": the income of married couples will continue to be combined for tax purposes, but the tax rate will be reduced by a factor of 1.9. In addition, the Federal Council and parliament are aiming to ease the tax burden on families by substantially raising child allowances. As a result, 36 percent of all taxable persons will no longer need to pay direct federal tax as opposed to 17 percent at present. Of the remaining taxable persons, families with children will benefit most from tax concessions. Due to progression, however, the effective reduction in francs is greater for high-income groups than low-income groups. In all this will reduce tax revenues by CHF 1.2 billion a year.

The third part concerns taxes on property. Home owners will no longer be taxed on the so-called rentable value. At the same time, however, they can no longer claim deductions for mortgage interest. But this is an expensive change for the tax authority, since parliament has augmented it with high deductions for maintenance costs as well as tax incentives for new home buyers. These reforms brought things to boiling point, particularly in the cantons, for whom the new concessions would be mandatory rather than optional. So besides losing out on direct federal tax (to the tune of CHF 480 million), the cantons would lose an estimated CHF 1.1 billion in taxes. For the first time in the history of the Confederation, a cantonal referendum was successfully launched by eleven cantons (only eight cantons are required).

Added to this, a Left-Green committee gathered signatures for a people's referendum against what it calls an "antisocial" tax package. The tax package is supported by the SVP, the Radical Free Democrats (FDP) and the Christian Democrats (CVP).

AHV consolidation

The vote on the 11th AVH revision has a similar background: unions, SP and Greens launched a referendum against a proposal supported by the CVP, FDP and SVP to consolidate AHV funds. The revision will increase the retirement age for women to 65 as of 2009, bringing it into line with the retirement age for men. Widows' pensions will now be limited to widows with children of education age, and slightly reduced in favour of higher orphans' pensions. However, this will become applicable only after a transition period and does not apply to current pensions. A third cost-cutting proposal is to increase the pension adjustment cycle from two to three years. Together, these measures would save some CHF 900 million a year.

Finally, the revision provides for a more flexible retirement age. In addition to the current entitlement to retire up to five years after pensionable age, people will also be allowed to retire up to three years earlier. Early retirement can be taken from the age of 62 on a full pension or from 59 on a half pension. However, the pension is reduced by a rate based on actuarial calculations. The earlier a person retires, the greater the reduction. The Federal Council has proposed a smaller pension reduction for people on low incomes. This social cushioning effect would have cost CHF 400 million a year, but was deleted from the proposal by parliament after much discussion. This decision prompted a referendum.

Rise in VAT

The third subject up for vote is associated with the AHV revision. In a move to cushion the effects of an ageing population on AHV funds, the Federal Council and parliament propose to raise value added tax (VAT) by one percent. As things stand at present, this increase will take effect in 2009. At the same time, an additional 0.8 percent VAT will be charged from 2005 to compensate for deficits in disability insurance. At present one percent of VAT brings in some CHF 2.2 billion. Unions, the Left, Greens and the CVP support this increase in favour of social mechanisms, albeit with little enthusiasm. Business associations, FDP and SVP are against it; both of the former because they do not want a "tax on reserves", and the latter because it opposes any type of tax increase.

Translated from German

Federal People's Initiative
16 May 2004

- Amendment of 3 October 2003 to the Federal Law on Old Age and Survivors' Insurance (11th AHV revision)
- Federal decision of 3 October 2003 on funding the Old Age and Survivors'/Invalidity Insurance (AHV/IV) by raising the VAT rate
- Federal law of 20 June 2003 governing amendments to ordinances in the field of marriage and family taxation, property tax and stamp duty

Dates of forthcoming referenda

26 September / 28 November

Ban on immigration for foreigners?

The Swiss Democrats (SD) have submitted a federal people's initiative entitled "Restriction of immigration from non-EU states".

The initiative calls for an amendment to Article 121 and Article 197 (transitional provision) of the Swiss constitution and aims to raise the barrier for immigration from regions which do not share the same culture. In principle, it proposes that the number of immigrants entering Switzerland should be no more than the number of people emigrating from Switzerland in the previous year. This does not include Swiss residents abroad, short-term residents, family members from EU and EFTA countries, and relatives of persons in the diplomatic and consular services as well as international organisations. *BDK*

POLITICS / SESSION

Swissinfo: Cuts still planned

Last December, as part of the first programme of spending cuts to improve federal finances, the Federal Council and parliament decided to reduce the federal contribution to Swissinfo/Swiss Radio International from the current CHF 18 million to CHF 5 million in 2005 and cancel the subsidy completely in 2006. Swissinfo is therefore planning redundancies for 26 of its 140 employees. Originally there was talk of shedding 35 jobs.

When debating the radio and television law during this year's spring session of parliament, the National Council had the opportunity to review the cutback decision, based on an amendment which would have made it mandatory for the government to bear half the cost of the Swissinfo budget. But the National Council decided to stick to the existing wording whereby the government "as a rule" assumes responsibility for 50 percent of the budget.

As media minister Moritz Leuenberger told the Council, the status quo remains unchanged: in principle, the government acknowledges its involvement but makes it dependent on the state of the federal finances. The law now goes to the Council of States for discussion. *RL*