

Distribution of taxes

The federal constitution endows the three levels of government – federal, cantonal and municipal – with the right to levy taxes. Generally speaking, the Confederation relies on consumption (indirect) taxes, whereas cantons and municipalities rely more on income and wealth (direct) taxes (Table 2.3). The cantons have fiscal sovereignty where it is not the domain of the Confederation. Tax bases are separated between government levels, and intergovernmental tax sharing is – with the notable exception of the federal income tax – insignificant. Federal income tax on income and corporate benefits is shared between the Confederation (70%) and the cantons (30%), the cantonal part partially being used for inter-cantonal financial equalisation. Tax base and tax rates of the VAT and federal income tax are laid down in the constitution; any tax rate change requires constitutional change, and the Confederation may not levy taxes other than those provided for by the constitution. The municipalities have derived taxing power only; their main tax income stems from setting their own tax rates based on the cantonal taxes (“mark up” or “piggy backing”). Compared to other OECD countries, Swiss subnational governments rely strongly on personal income and wealth taxes (OECD, 2000b).

Tax revenues increased sharply between 1980 and 1999, especially those perceived by the Confederation, which have risen by 169% compared to their 1980's level. As for the cantons and municipalities, the rates of tax revenue growth are

Table 2.3. **Tax revenue by level of government and type of tax, 1998**
Percentage of total tax revenue

Type of taxes	Total	Confederation	Cantons	Municipalities
Direct taxes				
Personal income tax	43.0	16.4	44.2	39.4
Personal wealth tax	4.1		53.9	46.1
Corporate taxes	12.1	41.0	37.4	23.9
Withholding tax	6.3	100.0		
Other taxes (property related, death and gift duties, others)	4.5	1.0	64.0	35.0
Indirect taxes				
Value added tax	15.6	100.0		
Mineral oils tax	5.5	100.0		
Stamp duties	3.8	100.0		
Motor vehicle tax	2.2	15.4	84.6	
Other indirect taxes	3.9	96.0	2.2	1.8
Total	100.0	47.8	30.1	23.1

Note: Total tax revenue reached CHF 85.2 billion in 1998.

Source: Swiss Federal Administration of Finance (1999).