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Adjustments of tax deductions as of 2016

Dear Sir or Madam,

In this newsletter, we would like to inform you about the two most important adjustments concerning tax deductions coming into effect in the tax year 2016.

Education Costs

So far it was possible to deduct costs of education if they were directly related to a current job or to re-entry into employment. However, differentiating between education and further training used to be problematic. In practice, this distinction regularly led to discussions: was an education relevant to remain up-to-date or could it be considered as further training as the knowledge was increased significantly? Each canton had a different approach, which made it elusive for the taxpayers. Furthermore, the costs of education were deemed to be professional costs; if there was no income, it was not possible to claim any such tax deductions.

The law has now been changed: both, the distinction between first education and further training as well as the income requirement have become obsolete. Therefore, all employment-related costs for further training after the upper-secondary level school exams are tax-deductible. However, training, which is not employment-related but only undertaken out of personal interest, still cannot be deducted.

At federal level, costs up to a maximum of CHF 12'000 can be claimed annually; almost all cantons (incl. Baselland) adopt this amount. The canton of Basel-Stadt is more generous: with a narrow majority, the Grand Council decided that up to CHF 18'000 may be deducted annually.

Another change is that costs covered by the employer, irrespective of the amount, are not considered to be a pecuniary advantage and therefore are no taxable part of one's income.

Commuting Costs

The second adjustment affects the commuting costs. As the Federal Decree on Funding and Expansion of the Railway Infrastructure has been accepted in a public vote, constitutional changes and related edicts at federal level come into effect from 2016 onwards. One of the measures to finance the railway infrastructure fund is a reduction of tax-deductible commuting costs.

After originally even considering abolishing commuting cost deductions for good, the maximum tax-deductible amount is now set at CHF 3'000 at federal level. The cantons handle this adjustment differently. Basel-Stadt will be adopting the federal amount from 2016 onwards, after a number of discussions about the option to set the maximum deduction to CHF 3'800, which is roughly the price for second-class GA travel card. The flat-rate deduction for professional expenses remains at CHF 4'000.

Baselland is planning to introduce a maximum deduction of CHF 3'000 as well, whereas Aargau plans to allow a deduction of CHF 6'000 per year. Both cantons plan the introduction in the tax period 2017; however, neither cantonal parliament has yet officially confirmed these amounts. Other cantons, such as Solothurn, are currently not planning to cut travel cost deductions at cantonal level.

Thanks to this adjustment, the canton of Basel-Stadt is anticipating additional revenue of almost CHF 3m per year; Baselland is even anticipating additional revenue amounting to CHF 10m. According to the Federal Office for Transport, around 22 percent of all taxpayers throughout Switzerland will be affected.

Employees with a company car should be aware of a novelty. Covering these transportation costs by the employer was not subject to taxation so far, in contrast to private usage of a company car. However, all travel costs, which exceed the maximum possible tax-deductible amount, will now be considered as salary component.

An example:

Let us assume the distance from your home to your workplace is 30 km. Thus, the distance travelled annually for work is 13'200 km. Under the currently valid travel scheme with CHF 0.70/km, your employer covers costs of CHF 9'240. However, as now only CHF 3'000 are tax-deductible, the difference of CHF 6'240 is considered as salary component. Please note that the employer does not need to adjust the salary statement; you will have to calculate this salary component independently and declare it in your tax declaration. Lower amounts than the simple formula number of workdays times distance times CHF 0.70 need to be explained (e.g. directly visiting a client).

This adjustment may possibly affect international commuters who have their primary residence abroad. Whereas it was possible, under certain circumstances, to deduct costs for journeys to and from home by car or even by plane, now only CHF 3'000 may be deducted. This could certainly have a major effect for international commuters who rely on expensive flight connections.

Kind regards
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