Switzerland

Tax deductions for commuting expenses significantly reduced from January 2016

Executive summary
From January 2016 Switzerland has introduced a general limitation on the tax deductibility of the costs of travelling to work, at least for the purposes of direct federal Swiss tax. This limitation will broadly impact national or international daily and weekly commuting costs and will reduce considerably the attractiveness of company cars from a tax perspective.

Typically, commuters who travel more than 10km each way between work and home will face an increased tax cost. Employers will also be affected as they will be required to provide additional information on the annual wage certificates, and will be required to meet increased tax costs for tax equalized international assignees.

Federal tax background
Company cars were always taxable for non-commuting personal travel but now long distance travel to work will become taxable from 2016, so the taxable benefit may be higher depending on how far the employee has to travel to work.

For decades commuting expenses between an individual's home and their regular workplace have been tax deductible, either in the form of a lump-sum deduction or the deduction of such expenses. In certain cases, the use of a private car has been permitted and commuting costs were deducted at a rate of 70 cents (CHF) per kilometer (km).

In 2014 the Swiss population approved a wide-ranging package on the financing of the Swiss railway system. Part of the financing comes from the reduction of federal tax deductions for commuting between home and the regular workplace. Starting in 2016 deductible commuting expenses will be limited to a maximum of CHF 3,000 per year, compared to an unlimited deduction for all commuting costs at present.

The new limitation will apply for all commuting between home and the regular workplace, be this daily or weekly commuting, domestically or internationally. Therefore, a weekly commuter for example who lives in London and works in Switzerland Monday to Friday, will also be impacted by this new provision.

Canton tax implications
This federal change in the law is accordingly quite significant and made more so by the fact that many cantons are likely to more or less follow the federal tax. Cantons have the option to align their legislation with their own ceiling for commuting expenses as well.

To date, the following Cantons are about to introduce a limited tax deductibility for travel to work:
- Bern: CHF 6,700
- Appenzell Ausserrhoden, Nidwalden, Schaffhausen and Thurgau: CHF 6,000
- St. Gallen: CHF 3,655
- Basel-City: CHF 3,000

Other cantons, such as Vaud, Fribourg, Neuchâtel, Valais and Jura, have already indicated that they won’t follow the federal law and will continue to allow effective commuting expenses.

In Geneva, a bill has proposed a cap at CHF 500, but this has yet to be passed.

Example
The following example will illustrate the impact of the new rule: An employee resident in Basel-City with annual commuting costs of CHF 6,160 (20 km one way at 70 cents, 220 working days):
- Deduction in future limited to CHF 3,000 (instead of 6,160)
Increase of tax (at marginal rate of 39%): CHF 1,232.40

Company cars
For sake of equality between those using public transport or a private car and those benefitting from a company car, the tax authorities will require the latter to declare an additional income. They will have to declare their commuting in excess of 10 km per day each way as additional taxable income (at 70 cents per kilometer).

If the salary statement provided by the employer indicates a percentage of off-site activity, then this additional income can be reduced proportionally.

Example
The following example will illustrate the impact of the new rule:
An employee resident in the Canton of Basel-City with a company car, who lives 50 km from their regular workplace (and has no off-site work):

- 50 km * 2 * 220 work days * 70 cents/km, CHF 15,400 less CHF 3,000 maximum deduction
- Additional taxable income CHF 12,400
- Increase of tax (at marginal rate of 39%): CHF 4,836

For employees subject to tax at source (with no tax return filing obligation) should they seek a reassessment of the level of tax paid, the authorities may also seek to tax their commuting costs in excess of 10 km per day each way as additional income.

Provision of regional public transport passes free of charge
Where regional public transport passes are provided by the employer, the employer will in future be required to declare the market price of the pass as a non-cash benefit in the employee's salary certificate and to charge social security contributions, VAT and source tax for employees, subject to taxation at source. As long as the market price does not exceed CHF 3,000, the tax offset can be deducted in full in the employee's tax return.

Should business use of such regional passes prevail there may be arguments for the employer not to declare the market price as non-cash benefit in the employee's salary certificate in order to avoid VAT (for the employer) and social security charges (both for the employer and employee).

Next steps
Employers will be required to specify on the annual wage certificate (under section 15, observations) the percentage of off-site workdays for employees with company cars.

Where an employer has a company car scheme, they should review whether the provision of a company car is still advantageous. Employers should also review and if possible optimize the tax, social security and VAT treatment of regional transport passes provided free of charge to their employees.

Employers of international assignees who are tax equalized should consider whether they need to adjust the calculation of their employee's hypothetical tax for Swiss outbound assignees and assess the additional costs associated with inbound assignees where the company is liable for their Swiss tax liabilities.

Employees who commute more than 10 km single way may want to request an adjustment of their advance tax payments in 2016 in order to avoid late interest, if their tax charges increase significantly due to these new rules.

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