avenir analyse

Real Bracket Creep in Switzerland

Quantifying the impact at all three levels of government

Due to real bracket creep, the tax burden on households automatically increases over-proportionally if the whole country is more productive. The middle class is particularly affected. For the first time, Avenir Suisse has calculated the effects of real bracket creep not only at federal level, but also at cantonal and communal level. The authors present detailed evaluations for nine cantons: BE, BS, GE, GR, SH, TI, VD, ZG and ZH.

Three figures that one must keep in mind

CHF 2517 million
This is the effect of **real bracket creep for all three levels of government**, after just ten years of real wage growth. How come? Because of this real wage growth (8.43%), the tax burden for the **federal government, cantons and communes** does not increase by 8.43%, but by 13.26%. Anything above 8.43% falls into real bracket creep.

CHF 800 million
This is the effect of **real bracket creep at federal level**. In 2020, the burden on households from direct federal tax amounted to CHF 12.1 billion. Without real bracket creep, it would have been CHF 11.3 billion.

CHF 1717 million
This is the effect of **real bracket creep at the level of the 26 cantons and their communes**. In 2020, the burden on households from cantonal and municipal income taxes amounted to CHF 47 billion. Without real bracket creep, it would have been CHF 45.3 billion. The figure is based on an extrapolation of the cantons evaluated.

Our recommendation: to compensate exactly like bracket creep

What’s done is done. No one expects the federal government and cantons to compensate for real bracket creep retrospectively. However, it is important to prevent the tax rate from automatically rising and increasing further with future real wage growth without the Confederation or cantons having to justify this to taxpayers. Real bracket creep should therefore be eliminated immediately. To do so, the method would be very simple:

- In order to compensate for *bracket creep*, the tax rate scales are regularly adjusted to the national consumer price index. To this end, the income limits of the tax rates are increased by the inflation rate.

- A proper compensation for *real bracket creep* would simply take place based on the development of the nominal wage index (nominal wage growth being the combination of real wage growth and inflation).

Three common counterarguments that are not valid

1. *"The canton has lowered the tax rate. Therefore, there is no need to compensate for the warm progression."*
   A reduction in the tax base may compensate for the volume effect. However, real bracket creep not only influences volume, but also the distribution of the tax burden: the share borne by the middle class increases whilst the share borne by the richest households decreases. Why ? Because real bracket creep has less of an effect on incomes that are already in the highest tax brackets than on incomes in the range of rapidly rising brackets. Compensating for real bracket creep by reducing the tax rate therefore leads to less redistribution.

2\. *"The canton has increased tax deductions. Therefore, there is no need to compensate for real bracket creep."*
Deductions benefit a specific clientele (e.g. parents, commuters, the self-employed), whose goodwill is thus secured by politicians. If the volume effect is offset by increasing deductions, the redistributive effect of the tax system increases, but only in favor of the population groups benefiting from the deductions. Overall, this makes the tax system less transparent and more distortive.

3\. *"The constitution stipulates taxation according to economic performance. This increases with real wage growth. Therefore, the effect of real bracket creep is justified."*
Economic performance refers to the differences between individuals. It is therefore about interpersonal tax justice and not about giving the state a disproportionate advantage over a more productive population. The principle of taxation according to economic performance is legitimate. However, it was never intended that tax revenues would automatically increase more than general prosperity.

Our conclusion
Real wage growth has led to a real bracket creep of CHF 2.5 billion in just ten years. The middle class bears a larger share of this tax burden than before. Only a correct method for the compensation of real bracket creep, similar to bracket creep, will prevent such volume and distribution effects, that are quite undemocratic.

avenir analyse:
"Real bracket creep in Switzerland. Quantifying the impact at all three levels of government", Lukas Rühli and Eveline Hutter, 8 pages + 36 pages (factsheets), available online on 29th April 2024, 05:30 from www.avenir-suisse.ch/en.

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