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Switzerland – New Tax Treatment for Commuting Costs

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flash Alert

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Switzerland has new rules regarding commuting costs as of 1 January 2016. New caps and restrictions have been put in place regarding the tax treatment of commuting costs. The intention of these restrictions is to raise additional federal revenues as well as to curtail the trend to ever longer commutes to work by car.

Below is a brief overview of the main points:

- Commuting costs for employees driving to work by car that may be claimed as a deduction are capped, on the federal level, at CHF 3,000 as of 1 January 2016. Cantons may have a different approach.
- Drivers of company cars must include their commuting expenses over and above the federal cap of CHF 3,000 as a taxable benefit-in-kind in their tax returns. Cantonal differences may apply.
- There are no consequences for Swiss social security contributions.
- Self-employed individuals are not affected by these changes.

Why This Matters

As international assignees are typically executives who may drive company cars, they could be impacted directly by these changes.

The cap on deductible commuting costs when a company car is used have a new ceiling imposed on the federal level at CHF 3,000, thus potentially raising the tax burden in this regard for assignees using company cars and subject to Swiss law. The changes to commuting cost rules may result in an increase to employer assignment costs where assignees are tax equalized. Further, these changes may increase the Swiss tax burden for assignees who are not covered under a tax equalization policy.

Background

The Financing the Expansion of the Swiss Railway System initiative (so-called "FABI") contains provisions modifying existing rules pertaining to the tax treatment of commuters' expenses.¹

After the initial expansion plans for the Swiss railway system by the Federal Council had been extended by a parliamentary vote, it was decided that the additional funds required for this expansion be partially financed by a restriction of the tax deductible commuting costs. On 9 February 2014, Swiss voters supported the proposal. Accordingly, as of 1 January 2016, federal tax law was changed and a cap for the deduction of commuting costs for individuals commuting by car to/from work was set at CHF 3,000 (art. 26 para 1 lit a direct federal tax law²). Additionally, the cantons have the right to introduce caps.

New Rules: In Detail

Persons affected by this change to commuting costs are potentially employees who commute to/from work by car. For example, if an employee has a commuting distance of 64 km (2 x 32 km) a day for 220 days a year, he will experience costs related to 14,080 km per annum. Under the old rules, these commuting costs were fully deductible in the employee's annual tax return, e.g., 14,080 km x CHF 0.70 = CHF 9,856 of deduction.

Under the new federal law, only CHF 3,000 can be claimed as a deduction in the tax return on the federal level, the difference in our example of CHF 6,856 (CHF 9,856 – CHF 3,000) can no longer be claimed. The commuting cost cap can therefore lead to a significant increase in taxes due for individuals with a longer commute.

Shorter commutes by car up to around 20 km round-trip should not be affected by the CHF 3,000 cap, e.g., a commuter's round-trip of 18 km will lead to commuting costs of less than CHF 3,000 (18 km round-trip commute x 220 work days x CHF 0.70 = CHF 2,772).

KPMG Note

Financial Impact on Drivers of Company Cars Commuting to/for Work

During the implementation of FABI, it became clear that this would also have an impact on drivers of company cars. In the past, drivers in Switzerland have had to include the private use of the company car as a taxable benefit-in-kind and 9.6 percent of the car's value excluding VAT is included as part of the company car holder's gross salary to reflect this benefit. Based on FABI, they will now also have to declare the commuting costs over and above the CHF 3,000 cap (at the federal level) as an additional benefit-in-kind. As shown in our example above, the difference between the cap of CHF 3,000 and CHF 9,856, amounting to CHF 6,856, will be deemed to be a taxable benefit-in-kind and added to the taxable income of the company car driver in his Swiss tax declaration.

Cantonal Differences

Based on FABI, it is at the discretion of the cantons if they also want to introduce a cap on commuting costs by car or not. The cantonal tax laws need be consulted for details. In many cases, the cantons have not yet decided.

Implementation of FABI in the 2016 Tax Return

For the 2016 tax return filing (not the 2015 tax return), the commuting distance needs to be declared in the tax return as a taxable benefit – the amount over and above the CHF 3,000 cap will be deemed to be taxable income at the federal level.

Footnotes:

- 1 See: <http://www.bav.admin.ch/finanzierung/04162/04604/04606/index.html?lang=de> / <http://www.bav.admin.ch/finanzierung/04162/04604/04606/index.html?lang=fr> .
- 2 See: <https://www.admin.ch/opc/de/classified-compilation/19900329/index.html#a26> .

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