

Three levels of taxation and the federal framework of harmonisation

*Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland), Solicitor (Hong Kong),
Solicitor (England & Wales)*

Switzerland taxes income and wealth at three levels. The Confederation levies the direct federal tax on the income of individuals and the profit of legal entities under the Federal Act on Direct Federal Taxation of 14 December 1990 (DBG). The cantons levy their own income, wealth, profit and capital taxes under cantonal statutes, while the communes levy their taxes as a surcharge on the cantonal tax, usually on the same assessment. The Federal Constitution caps the direct federal tax at 11.5 per cent of the income of individuals and 8.5 per cent of the net profit of legal entities. Because it limits the federal tax to income and profit, it leaves wealth and capital taxation entirely to the cantons.¹ The cantons assess and collect the direct federal tax on behalf of the Confederation. Since the federal reform of 2019 they retain 21.2 per cent of the revenue, a share that was raised expressly to give them room to reduce their own profit taxes.²

Until the last quarter of the twentieth century the cantonal tax laws differed in their basic concepts as well as in their rates. Each canton defined for itself who was liable to tax, what counted as income, which period was assessed and how the procedure ran. The constitutional amendment of 12 June 1977 gave the Confederation power to harmonise the direct taxes of the cantons and communes. The Federal Act on the Harmonisation of Direct Taxes of Cantons and Communes of 14 December 1990 (StHG) made use of that power. The StHG entered into force on 1 January 1993. The cantons were given eight years, until 1 January 2001, to adapt their legislation.³

The harmonisation achieved by the StHG is formal. It governs tax liability, the object of taxation, the temporal assessment, procedure and tax criminal law. It expressly leaves to the cantons the determination of tariffs, tax rates and tax-free allowances.⁴ This division explains the shape of Swiss tax competition. Because the base is broadly the same everywhere, the cantons compete almost entirely on rates, with results visible in the tables of

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effective tax burdens that consulting firms publish each spring. It also explains why the federal legislature has repeatedly used the StHG to impose or permit specific instruments, as it did in 2019 with the patent box and the research deduction. Once a measure has been written into the StHG, each canton can decide how far to use it, within the limits the federal act sets.

The communes form the third level. In Zurich, as in most cantons, the communal income and wealth tax is expressed as a percentage of the “simple” cantonal tax, the *einfache Staatssteuer*, which is the amount produced by applying the statutory tariff to the taxable income or wealth. Canton and commune each set their own multiplier, the *Steuerfuss*. The total cantonal and communal tax is the simple tax multiplied by the sum of the two multipliers, to which the church tax is added for members of the recognised churches. The system makes differences between communes easy to read. A resident of a commune with a multiplier of 71 per cent pays, on the same income, a communal tax that is some 40 per cent lower than a resident of a commune with a multiplier of 119 per cent, while the cantonal share remains identical.

The cantons and communes also levy taxes that the Confederation does not know. Zurich levies an inheritance and gift tax at cantonal level, while its communes levy the real estate gains tax on the sale of land.⁵ Indirect taxes, above all value added tax, the withholding tax and the stamp duties, are federal. For the financial centre the federal withholding tax of 35 per cent on dividends and on interest from Swiss bonds and bank deposits and the federal securities transfer tax are of particular importance, because they affect the structure of Swiss capital market products directly.⁶ Their reform has been the subject of two federal votes, discussed below.

A last element of the framework is the national fiscal equalisation system, which redistributes resources from cantons with a strong tax base to those with a weak one. Zurich belongs to the group of paying cantons. In absolute terms its contribution to resource equalisation is among the largest, although per inhabitant Zug pays far more.⁷ The equalisation system has a direct effect on the incentives of cantonal tax policy. A canton that attracts additional taxable resources loses part of the gain through higher equalisation payments. This weakens the fiscal reward that low-tax cantons obtain from attracting companies and wealthy residents.

1 Notes

1. Art. 128 paras. 1 and 4 of the Federal Constitution of the Swiss Confederation of 18 April 1999 (BV, SR 101), bilingual edition, <https://www.droit-bilingue.ch/de-fr/1/10/101-128-159.html>. The

maximum rates apply to the income of natural persons and to the net profit of legal entities. The direct federal tax is assessed and collected by the cantons, which receive at least 17 per cent of the gross yield. ↩

2. Federal Department of Finance (EFD), “Volksabstimmung zum Bundesgesetz über die Steuerreform und die AHV-Finanzierung (19.05.2019)”, <https://www.efd.admin.ch/de/volksabstimmung-ahv-finanzierung>. The page summarises the reform: abolition of the special cantonal regimes, new instruments for research and development, a cantonal share of 21.2 per cent in the direct federal tax, and dividend taxation at 70 per cent for the federal tax and at least 50 per cent for cantonal taxes. ↩
3. Federal Tax Administration (ESTV), Steuerinformationen, dossier F “Steuerharmonisierung” (October 2022), <https://www.estv.admin.ch/dam/estv/de/dokumente/estv/steuersystem/dossier-steuerinformationen/f/f-steuerharmonisierung.pdf.download.pdf/f-steuerharmonisierung.pdf>. The constitutional basis, originally Art. 42quinquies of the former Constitution, is now Art. 129 BV. ↩
4. ESTV, dossier F “Steuerharmonisierung” (October 2022), cited above, which quotes Art. 129 para. 2 BV: “Ausgenommen sind die Steuertarife, die Steuersätze und die Steuerfreibeträge.” ↩
5. Kanton Zürich, Finanzdirektion, Kantonales Steueramt, Steuern im Kanton Zürich (short overview, 30 November 2023), https://www.zh.ch/content/dam/zhweb/bilder-dokumente/themen/steuern-finanzen/steuern/steuern_zh_kurz_de_20231130.pdf. The brochure lists the state tax on income and wealth or profit and capital, the communal tax levied as a surcharge on the state tax, and the inheritance and gift tax. ↩
6. Federal Act on Withholding Tax of 13 October 1965 (VStG, SR 642.21), Art. 13 para. 1 lit. a (rate of 35 per cent on capital income), <https://www.droit-bilingue.ch/de-fr/6/64/642.21-13-17.html>; Federal Act on Stamp Duties of 27 June 1973 (StG, SR 641.10), Arts. 13 ff. (securities transfer tax), <https://www.droit-bilingue.ch/de-fr/6/64/641.10-13-18.html>. ↩

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7. Federal Act on Fiscal Equalisation and Cost Compensation of 3 October 2003 (FiLaG, SR 613.2). Federal Council, “Finanzausgleich: Die Ausgleichszahlungen steigen 2026 stark an”, media release, 11 June 2025, naming Geneva as the largest contributor to resource equalisation in 2026 ahead of Zurich and Zug and Zug as the largest contributor per inhabitant, <https://www.admin.ch/de/newnsb/xM92y-V5P94wxtSwhhVyz>. ↩

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