

Audit of the economic sustainability of tax relief within the framework of regional policy

State Secretariat for Economic Affairs

Key facts

Within the framework of regional policy, the Confederation supports strengthening competitiveness and increasing value added in structurally disadvantaged regions. One of the instruments for this purpose is the granting of direct federal tax relief to industrial companies or production-related service companies. This supports projects that create new jobs or maintain and realign existing jobs.

The Swiss Federal Audit Office (SFAO) conducted an audit with the aim of examining the sustainability of the impact achieved by direct federal tax relief. It found that the positions supported often continue to exist after the relief has ended. Although projects would probably also have been conducted without federal support, the costs to the Confederation are justifiable.

Costs to the Confederation are falling

The hypothetical loss in tax receipts for the Confederation from 2007 to 2016 was between CHF 330 million and CHF 1.7 billion per year, amounting to a total of around CHF 12 billion. During the same period, companies that benefited from this instrument paid direct federal tax of CHF 2.5 billion.

The tax loss of CHF 330 million in 2016 was significantly lower than in previous years. It can be assumed that the costs for the Confederation will continue to fall. This is due not only to the instrument being used less but also to the unequal distribution of tax relief. Two-thirds of the reduction in tax receipts between 2007 and 2015 benefited three companies that had committed to creating fewer than 400 jobs. This relief has now been withdrawn. With the newly introduced cap, such extreme cases are now virtually impossible. For the same level of relief today, more than 8,000 jobs would have to be created.

Most projects supported would have been implemented even without relief

A company's decision to realise a project at a certain location does not depend solely on taxes. According to a survey of companies that benefit from tax relief, the tax burden is one of several very important criteria. At the end of the decision-making process, tax relief can make the difference in the choice of location in individual cases.

It is likely that the instrument is used even in cases when it would not have been necessary. According to information provided by the companies, around two thirds of the projects would probably have been realised at the same location without relief. The jobs created or retained in this way cannot be attributed to the instrument. This deadweight effect increases the cost per job actually created or retained.

The Federal Statistical Office estimates the annual value added per job at CHF 143,000. The annual cap on relief for a new job is CHF 95,000. Model calculations by the SFAO based on

company data, taking into account the deadweight effect, result in an amount per job that is far below these values. Measured against these reference values, the costs to the Confederation can be considered to be justified.

Supported jobs often continue after relief ends

No evidence was found of widespread relocations within three years of the end of the tax relief for tax optimisation reasons. 200 of the tax relief measures introduced since 2001 were terminated in an orderly fashion. According to the commercial register, in 80 % of these cases the companies are still active at the same location. An analysis of workplace data showed no noticeable reduction in the number of jobs at companies shortly after the end of the tax relief.

Overall, therefore, a certain sustainability can be observed; jobs supported often exist beyond the duration of the relief.

Fewer relief measures, Swiss companies now the main beneficiaries

The relief instrument has been revised several times. Its scope of application has been adapted on several occasions, most recently in mid-2016, when the aforementioned cap and increased transparency were introduced.

In addition to the legal framework, use of the instrument has also changed. While relief was granted on average 40 times a year between 2000 and 2010, this number has fluctuated between four and ten since 2011.

Moreover, the instrument is no longer used for the same target group. In the past, it was mainly companies headquartered abroad that benefited from the relief, but since the last revision these are mostly companies based in Switzerland. Since 2011, the focus has also been primarily on manufacturing companies.

Application differs between cantons

The use of the relief instrument is also the responsibility of the cantons. Not all cantons that could use it, do so. In any case, the instrument is only one of several means of promoting a location. When it is used, the impact on fiscal equalization payments is always taken into account, which restricts the use of the instrument.

However, the instrument is not actively advertised to existing companies. In the case of new arrivals, it is used selectively in some cases. Here, the relief can serve as a marketing tool beyond its area of application, even if it is ultimately not used.

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