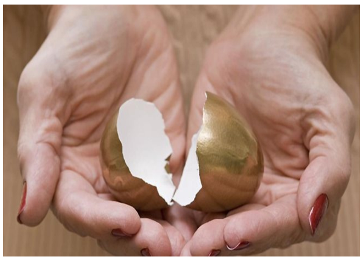

**Bonfina Treuhand GmbH**
Schaalgasse 16, CH 4500 Solothurn
Phone: +41 32 623 30 55
**www.expattax.ch**

**Information leaflet**

# Double earners

## Summary

**Swiss tax laws are based on the principle that the income and wealth of a family represent an economic unit and is taxed together. Even though different tax schedules are applied to singles and married couples the tax burden of a married couple who are both gainfully employed is generally higher than the tax burden of a comparable unmarried couple. This is called the marriage penalty ("Heiratsstrafe").**
**However this is not true as long as the married double-earners do not need to file a tax return.**
**The family taxation principle leads to practical problems when both married partners are working and having their taxes deducted from the salaries. For the determination of the applicable withholding tax tariffs an assumed income of the other working spouse with certain maxima is taken into account. This does regularly result in additional tax bills if the couple is required to file a tax return and if the effective income of the partners exceeds the assumed amounts.**

## General taxation rules

Alien employees (without permit C and not owning real estate in Switzerland) have the fiscal amount deducted directly from their salary every month. All typical deductions and allowances are standardized and directly included in the withholding tax tariffs.

The tax withheld from the salary is the final tax unless one of the following situations applies:

a) Subsequent Ordinary Tax Assessment

   Alien employees resident in Switzerland and having a gross salary exceeding CHF 120'000 per year (in the canton of Geneva: CHF 500'000) are obliged to file a tax return for their worldwide income and assets. The tax withheld from salary is credited against the assessed tax.

b) Complementary Tax Assessment and Correction of Withholding Tax

   Alien employees who are not required to subsequently file a tax return may claim additional deductions, which exceed or complement the typical deductions and allowances included in the withholding tax tariffs. Such additional deductions include:

- Cost of international weekly residence
- Debt interest (consumer loans and credit cards)
- Further education and retraining costs
- Health and accident costs
- Costs associated with disability
- Support payments
- Alimony payments

- Contributions in recognized forms to own pension provisioning (pillar 3a)
- Purchases of contribution years in a pension fund (2nd pillar)
- Exceptional travel expenses (over 10'000 km per annum)
- Childcare costs
- Donations

If a correction of withholding tax is applied for, the application has to be submitted by 31st March of the following year (for most of the cantons). This deadline cannot be extended. The deadline for filing a tax return is 31st March of the following year, too, but this deadline can be extended.

## Family taxation

Swiss tax laws are based on the principle that the income and wealth of a family represent an economic unit and is taxed together. Consequently, the income and wealth of both spouses in a joint household is aggregated.

Due to the progressive rates applied under Swiss income tax laws, family taxation may lead to a significant increase in the tax burden, particularly in cases where both spouses are employed.

Legislators have several corrective measures at their disposal to mitigate these effects:

## Ordinary tax assessment: the two-schedules system

As regards the **ordinary tax assessment**, the Confederation and the majority of the cantons apply a "two-schedules" system:

In addition to a **singles schedule**, there is a **doubles schedule** which eases the tax burden for married couples as well as for single parent families. Furthermore, there are special allowances for married couples. But still the tax burden of a married double-income couple is generally higher than the tax burden of a comparable unmarried couple. This is called the marriage penalty ("Heiratsstrafe").

## Withholding tax: the different tariffs

The cantons apply different schedules for the calculation of the withholding tax. These are similar or equal to the following tariffs.

### a) Tariffs A and B for single incomes

**Tariff A:** For **single persons** liable to tax (unmarried, effectively or legally separated, divorced and widowed persons).

**Tariff B: For married sole earners**, living in a legally and effectively intact marriage (whose spouse is not gainfully employed or has an insignificant income), **as well as widowed, effectively or legally separated, divorced and unmarried persons living with children.**

### b) Tariff C for double incomes

**Tariff C: For spouses** who are married, living together in legal and effectively intact marriage and who are **both gainfully and regularly employed** in Switzerland. The wife is assessed with a different tax rate than the husband. The number of any dependent children is considered for the spouse who receives the child allowance.

The tariffs are taking into account whether the individual is subject to church tax and the number of dependent children.

## Practical problems

**The system of family taxation gets to its limits when both spouses are working and having their taxes deducted from the salary (withholding tax, double income, tariff C).**

Under the principle of family taxation the income of both spouses in a joint household is aggregated and taxed together. Because the employer of spouse 1 does not know the income of spouse 2 the tariff C takes into account an **assumed income of the other working spouse**:

The tariff C of the husband takes into account an assumed income of the wife with a ratio of 3:2 (husband's income : wife's income) with a maximum of CHF 4'075/month for the wife's income.

The tariff C of the wife takes into account an assumed income of the husband with a ratio of 2:3 (wife's income : husband's income) with a maximum of CHF 5'525/month for the husband's income.

The employer needs apply the official scales even if both spouses are working for the same employer.

If the husband earns a gross income of more than CHF 6'125/month then the assumed income of the wife stays on the maximum amount of CHF 4'075. On the other hand, if the wife earns a gross income of more than CHF 3'675/month then the assumed income of the husband stays at the maximum amount of CHF 5'525.

This leads to the following problems:

1) The assumption that the husband earns 3/5 of the joint income and the wife 2/5 does in most cases not meet the reality.

2) The tax withheld from the salary is too low in situations where the other spouse's income exceeds the assumed maximum. This is not a problem if the withholding tax is the final tax. But if the couple needs to file a tax return (e.g. subsequent ordinary taxation) then the tax withheld from the two salaries does not cover the full tax due based on the tax return and the couple must face a significant additional tax bill.

## Recommendations

1) Not married partners who are subject to withholding tax would pay lower tax when they get married, if the other partner's monthly gross employment income is more than CHF 5'525 (husband) and CHF 4'075 (wife) as long as none of the partners' gross income exceeds CHF 120'000/year.

2) Married partners who are subject to withholding tax should carefully consider whether a salary increase or a bonus might lead to a subsequent ordinary tax assessment (i.e. requirement to file a tax return) and as a consequence to an additional tax bill. If the annual gross salary (line item 8 in the salary statement) is close to the threshold of CHF 120'000 (or CHF 500'000 in the canton of Geneva) then it might be more profitable to postpone a bonus or a salary increase until you need to file a tax return anyway (e.g. receipt of Permit C or purchase of real estate in Switzerland).

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If you have any questions, please do not hesitate to contact us

by email: backoffice@bonfina.ch

or by phone: +41 32 623 30 55

# Taxes of a double earners (example)

*all amounts in CHF*

## 1. not married vs. married / without subsequent ordinary taxation

| | | | | |
|---|---|---|---|---|
| civil status | | not married | | |
| place of residence | | Allschwil / BL | | |
| religion partner 1 | | none | | |
| religion partner 2 | | roman catholic | | |
| children | | none | | |
| **gross employment income:** | | Jan-Nov | Dec | Total |
| *(line item 8 in salary statement)* | | per month | | per year |
| partner 1 | | 9'000 | 18'000 | 117'000 |
| partner 2 | | 7'000 | 14'000 | 91'000 |
| **withholding tax** | Tariff | Jan-Nov | Dec | Total |
| | | per month | | per year |
| partner 1 | Ad | 1'366 | 4'315 | 19'343 |
| partner 2 | A+ | 887 | 3'045 | 12'801 |
| **Total taxes** | | | | **32'144** |
| *in % of gross employment income* | | | | *15.45%* |

--> no subsequent ordinary taxation (tax return) because gross employment income does not exceed CHF 120'000 / year

| | | | | |
|---|---|---|---|---|
| civil status | | married | | |
| place of residence | | Allschwil / BL | | |
| religion partner 1 | | none | | |
| religion partner 2 | | roman catholic | | |
| children | | none | | |
| **gross employment income:** | | Jan-Nov | Dec | Total |
| *(line item 8 in salary statement)* | | per month | | per year |
| partner 1 | | 9'000 | 18'000 | 117'000 |
| partner 2 | | 7'000 | 14'000 | 91'000 |
| **withholding tax** | Tariff | Jan-Nov | Dec | Total |
| | | per month | | per year |
| partner 1 | C0d | 1'065 | 3'622 | 15'333 |
| partner 2 | C+ | 831 | 2'633 | 11'773 |
| **Total taxes** | | | | **27'107** |
| *in % of gross employment income* | | | | *13.03%* |

--> no subsequent ordinary taxation (tax return) because gross employment income does not exceed CHF 120'000 / year

**Result: The withholding tax taken from the double-income married couple in this example is much lower than the taxes paid by the non-married partners.**
**Reason: The withholding taxes of married double-earners are not accurate. They are based on an assumed and limited income of the other partner.**

## 2. not married vs. married / with subsequent ordinary taxation

**--> same situation as above, but partner 1 gets a bonus of CHF 5'000 in December**

| | | | | |
|---|---|---|---|---|
| civil status | | not married | | |
| place of residence | | Allschwil / BL | | |
| religion partner 1 | | none | | |
| religion partner 2 | | roman catholic | | |
| children | | none | | |
| **gross employment income:** | | Jan-Nov | Dec | Total |
| *(line item 8 in salary statement)* | | per month | | per year |
| partner 1 | | 9'000 | 23'000 | 122'000 |
| partner 2 | | 7'000 | 14'000 | 91'000 |

--> with subsequent ordinary taxation (tax return) for partner 1 because gross income does exceed CHF 120'000 / year
--> no subsequent ordinary taxation for partner 2

| | | | | |
|---|---|---|---|---|
| **withholding tax** | Tariff | Jan-Nov | Dec | Total |
| | | per month | | per year |
| partner 1 | Ad | 1'366 | 6'113 | 21'142 |
| partner 2 | A+ | 887 | 3'045 | 12'801 |
| **Total taxes paid** | | | | **33'943** |
| **final tax due** | | | | Total |
| | | | | per year |
| partner 1 | | **single tax return** | | 21'800 |
| partner 2 | | stays on withholding tax | | 12'801 |
| **Total taxes due** | | | | **34'601** |
| *in % of gross employment income* | | | | *16.24%* |
| **Additional tax bill** | | **partner 1** | | **658** |

| | | | | |
|---|---|---|---|---|
| civil status | | married | | |
| place of residence | | Allschwil / BL | | |
| religion partner 1 | | none | | |
| religion partner 2 | | roman catholic | | |
| children | | none | | |
| **gross employment income:** | | Jan-Nov | Dec | Total |
| *(line item 8 in salary statement)* | | per month | | per year |
| partner 1 | | 9'000 | 23'000 | 122'000 |
| partner 2 | | 7'000 | 14'000 | 91'000 |

--> with subsequent ordinary taxation (tax return) for the couple because gross income of one partner does exceed CHF 120'000 / year

| | | | | |
|---|---|---|---|---|
| **withholding tax** | Tariff | Jan-Nov | Dec | Total |
| | | per month | | per year |
| partner 1 | C0d | 1'065 | 5'249 | 16'960 |
| partner 2 | C+ | 831 | 2'633 | 11'773 |
| **Total taxes paid** | | | | **28'734** |
| **final tax due** | | | | Total |
| | | | | per year |
| partner 1 & 2 | | **joint tax return** | | 37'700 |
| **Total taxes due** | | | | **37'700** |
| *in % of gross employment income* | | | | *17.70%* |
| **Additional tax bill** | | **jointly** | | **8'966** |

**Result:**
**The tax due by the non-married partners in this example does not significantly change when one of the partner's employment income gets over the threshold of CHF 120'000.**

**Result:**
**The tax due by the married couple in this example is considerably higher than the taxes due by the comparable non-married partners, and extremely higher compared to the situation when no tax return needs to be filed.**