



Tax Power and Tax Competition

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16.1 INTRODUCTION

There are few domains as suited as taxation at expressing the particularities of the Swiss system. Various elements combine here: the smallness of the country and of its states, thus their exposure to external political and economic context, the federal system, the country's decentralization, and the Swiss system of direct democracy. The current tax system is the result of a historical evolution, which is why it so often departs from being a rational, systematic, or even theoretical construction.

Swiss fiscality offers a diversity that likely does not exist anywhere else. Over time, each of Switzerland's 26 cantons established its own tax laws and they then evolved in response to various global and local circumstances. This explains why tax bases like revenue, wealth, profit, capital, and even inheritances are taxed differently depending on the canton. In addition to this, the municipalities, like the cantons, can also choose the taxes they wish to levy and the tax rate. At the same time, the

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Confederation (the federal level) also taxes income and profit, though a large part of the federal taxes are indirect.¹

This chapter focuses on the essential characteristics of Swiss taxation. The following section discusses the legal foundation upon which taxes are based. Section 16.3 quantifies the importance of the various types of taxes for each institutional level (Confederation, cantons, and municipalities). Here the Swiss context is compared to that of the member countries of the Organisation for Economic Co-operation and Development (OECD). Section 16.4 offers an analysis of the tax burden on businesses and households, by comparing their situation in Switzerland to those of other OECD countries and by comparing the situation that exists in the different cantons. Sections 16.5 and 16.6 are dedicated to two key elements of the Swiss tax system: tax competition and the particular balance between direct and indirect taxes.

16.2 THE LEGAL BASIS FOR TAXES

The Swiss Constitution states that “The Cantons are sovereign except to the extent that their sovereignty is limited by the Federal Constitution. They exercise all rights that are not vested in the Confederation” (Art. 3). This general provision also applies to taxation, and so cantons are in principle free to select the taxes they intend to levy. However, the Constitution reserves certain indirect taxes (value added and certain consumption taxes, stamp duty, and withholding tax) to the Confederation and forbids the cantons or municipalities from raising such taxes (Art. 134). In fact, the Confederation can only levy taxes the Swiss Constitution permits it to levy, which is the case for the direct tax on the income of private individuals, and on the net profit of legal entities (Art. 128). However, the Confederation does not have an exclusive right to levy direct taxes, and as a result, the cantons levy direct taxes as well.

¹ A tax is considered indirect when collected by an intermediary—rather than by the government—from the person (legal or natural) who bears the ultimate economic burden of the tax. Examples are value added tax (VAT), tobacco tax, or custom duties. The legal taxpayer pays the tax to the government, but the burden is eventually passed on to the taxbearer. Thus the legal and the economic taxpayer (the taxbearer) are not the same person. When the tax is a direct tax, both the legal and the economic taxpayer are the same person. Examples are personal income tax or profit tax, which are collected directly by the government from the person on whom they are imposed.

In terms of indirect taxes, the Constitution gives the Confederation an exclusive right to levy a value added tax (VAT), as well as to tax tobacco, beer, distilled spirits, automobiles, and mineral oil taxes, as well as to levy stamp duties (on some commercial transactions), customs duties, and a withholding tax on capital assets, lottery winnings, and insurance benefits (Art. 130–133). The 1999 Constitution even stipulates a maximum VAT rate the Confederation may levy: 6.5%, with an additional 1.5% to contribute to financing social insurance and railway infrastructure (Art. 130 and Art. 196). Thus, in 2017, Switzerland's normal VAT was 8%. By way of comparison, the (unweighted) VAT average in OECD countries was 19.2%.

Each canton's constitution determines if the canton's municipalities have the right to levy taxes. Cantonal legislation, and thus the canton's legislative body, guarantees this right. As a result, like the cantons, the municipalities also have genuine fiscal and tax autonomy, which goes hand-in-hand with their functional autonomy. In addition to taxes, the municipalities can or must finance their local public services (water, sewage, garbage collection, etc.) through user fees.

Switzerland uses a 'piggy-back' system for taxing income and profit, which means the same tax base is tapped by all three levels of government. In most cantons, the law on direct taxation establishes tax schedules, meaning the range of applicable tax rates depending on the level of taxable income or profit. In most cantons, as in the Confederation, the income tax schedule is progressive, but the degree of progressivity varies due to cantonal tax autonomy. It is for that reason that two small cantons, Uri and Obwalden, have nonetheless adopted a flat-rate tax system (based on a proportional tax scale; FTA 2017).

A given cantonal tax schedule applies both at the cantonal and at the municipal level; the canton and each municipality define a coefficient that multiplies the tax due by the legal tax scale.

To illustrate how this works, consider a single taxpayer who is without dependents, lives in the city of Bern, and who has no religious affiliation (Switzerland has church taxes). In 2016, this taxpayer has an income, as a professional, of 70,000 CHF, and once all deductions have been taken, is left with a taxable income of 50,000 CHF. The tax scale in the tax law gives the tax as 1973 CHF, to which the canton of Bern applies a 3.06 coefficient. So the cantonal tax is 6038 CHF. The city of Bern, by contrast, uses a coefficient of 1.54, and so the local tax is 3039 CHF. In addition, our taxpayer must pay 445 CHF in federal income tax. So together, on gross income of 70,000 CHF and net income of

50,000 CHF, our resident of Bern pays a total of 9522 CHF in local, cantonal, and federal tax—19.0% of net income (or 13.6% of gross income).

This freedom in selecting tax scales, rates, and allowances is protected by the Swiss Constitution—which explicitly says these are “matters excluded from harmonization” (Art. 129). The Confederation can only standardize the tax system in a formal way, inasmuch as it sets out tax liability and the object of a tax and its assessment. The only constitutional limitation to cantonal tax autonomy regarding the choice of tax scale is that the tax burden should be commensurate with the taxpayer’s ability to pay, provided the nature of the tax permits it (Art. 127). On this basis, the Federal Supreme Court in 2015 declared that a regressive personal income tax system with a decreasing tax scale, which one canton (Obwalden) attempted to implement, violated this basic redistributive principle.

The fact that legislation authorizes all three levels of government to decide over their own taxes is a distinctive feature of the Swiss tax system. Also distinctive is that Swiss citizens can decide whether they want the state to be able to levy a tax, and if so, at what rate. This is because the tools of direct democracy also function in the area of taxation. Any constitutional amendment, including those related to taxation, is subject to a mandatory referendum at both federal and cantonal levels. Modifications of laws, no matter what the type, can trigger optional—and in some cantons, even mandatory—referendums. Citizens can also use their right to launch an initiative to request a modification of the (constitutional or legal) tax provisions. In other words, the tools of direct democracy give the citizens the opportunity and the means to oppose the introduction of a new tax or to suppress an existing tax.

16.3 THE IMPORTANCE OF TAXES

Looking at all three levels of government, in 2015, more than 80% of their revenue comes from taxes, with 59.0% from direct taxation and 22.4% from indirect taxation (Table 16.1). These proportions differ significantly between the levels of government. Because indirect taxes are nearly nonexistent in the cantons and municipalities (accounting for only 2.4% and 0.2%, respectively), direct taxes count for that much more. Revenue from exchange transactions and fiscal equalization are all the more significant. Fiscal equalization represents 30.6% of cantonal income (their second largest source of financing) and 11.9% of municipal income (their third largest source of financing). Given that most utilities are municipally

Table 16.1 Swiss government receipts, 2015

	Total ⁽¹⁾		Confederation		Cantons		Municipalities	
	CHF bn	%	CHF bn	%	CHF bn	%	CHF bn	%
Direct taxes	94.9	59.0	30.2	43.9	42.1	48.9	27.5	58.7
Personal income tax	54.4	33.8	10.4	15.1	27.3	31.7	18.8	40.1
Personal wealth tax	6.3	3.9	–	–	4.0	4.7	2.6	5.5
Corporate tax ⁽²⁾	19.8	12.3	9.7	14.2	7.3	8.5	4.2	8.9
Withholding tax	5.5	3.4	6.5	9.5	–	–	–	–
Other direct taxes ⁽³⁾	8.8	5.5	3.5	5.1	3.5	4.0	2.0	4.2
Indirect taxes	36.0	22.4	33.8	49.1	2.3	2.6	0.1	0.2
Value added tax	22.6	14.0	22.4	32.6	–	–	–	–
Mineral oil tax	5.0	3.1	4.7	6.9	–	–	–	–
Stamp duties	2.1	1.3	2.4	3.5	–	–	–	–
Motor vehicle tax	2.1	1.3	0.0	0.0	2.2	2.5	–	–
Other indirect taxes	4.2	2.6	4.3	6.2	0.1	0.1	0.1	0.2
Receipts from exchange transactions⁽⁴⁾	19.6	12.2	3.0	4.3	10.1	11.7	8.9	18.9
Financial receipts	7.1	4.4	1.3	2.0	2.8	3.2	3.2	6.9
Transfer receipts	1.1	0.7	0.2	0.4	26.3	30.6	5.6	11.9
Investment receipts ⁽⁵⁾	2.3	1.4	0.2	0.4	2.5	2.9	1.6	3.4
Total⁽⁵⁾	160.9	100.0	68.8	100.0	86.1	100.0	46.8	100.0

^aAfter consolidation between government units

^bProfit and capital

^cProperty related, death and gift duties

^dIncluding royalties, concessions and miscellaneous receipts

^eExcluding extraordinary receipts

Source: Federal Finance Administration (2017). *Switzerland's Financial Statistics for 2015. FS Model*. Berne. According to national consolidation based on the Swiss governments' harmonized chart of accounts (FS Model)

owned, municipalities also have wide discretion over fees and user charges, and thus revenue from exchange transactions are particularly high (18.9%).

The Confederation is almost wholly financed through taxes, 49.1% from indirect taxes among which 32.6% comes from VAT, and 43.9% from direct taxes. It is the Confederation which benefits from indirect taxes and from the withholding tax, not the other levels. Overall, its taxes are also the largest, at 64 billion CHF (10% of gross domestic product (GDP)), followed by the cantons at 44 billion CHF (7% of GDP) and the municipalities

at 28 billion CHF (4%). But because the Confederation redistributes a large part of its tax revenue through transfers to the cantons, this kind of comparison is a little misleading.

In terms of individual categories of direct tax, and regardless of the level, the tax on individual income is the largest, followed by the corporate tax. Together, these two taxes generate nearly half of all cantonal and municipal tax revenue.

Overall, the tax share at the sub-central level in Switzerland is close to 52%, one of the highest degrees of tax decentralization among industrialized democratic countries (OECD 2002). Canada is “the only country with a similarly high degree of tax decentralization” (Schmidheiny 2017, p. 74).

In Switzerland, the tax-to-GDP ratio is weak compared to the level recorded in other OECD countries (Fig. 16.1). In 2015, Swiss government units collected taxes equal to 21% of GDP. Social security contributions (which include mandatory contributions for old-age and survivors’ insurance, disability insurance, compensation for loss of earnings and unemployment insurance, agriculture family allowances, and maternity insurance in the canton of Geneva) represent an additional 7%. Although mandatory, health insurance, accident insurance, and pension fund contributions are not taken into account. According to the sectoring principles of the European System of Accounts, these go to enterprises (either public or private) and thus do not belong to the general government sector. Therefore, the Swiss tax-to-GDP ratio is not to be understood as the ratio of compulsory payments. Nevertheless, the 28% Swiss tax-to-GDP ratio can still be compared to the OECD (unweighted) average of 34%. It means that Tax Freedom Day was April 12, 2015, in Switzerland, compared to May 4, 2015, on average in the OECD countries.

The OECD (2000) stresses that there are important limitations when using the tax-to-GDP ratio as a comparative measure of tax burdens. However, ranking seventh out of 35 OECD countries still indicates that comparatively speaking, the Swiss government overall uses a significantly lower proportion of GDP to finance its tasks using taxes and contributions, than many other countries. This correlates with its comparatively low government expenditure-to-GDP ratio.

16.4 TAX BURDEN LINKED TO DIRECT TAX

Measured by the tax-to-GDP ratio, the tax burden in Switzerland is thus lighter than elsewhere. The same conclusion can be reached when looking at households and companies.

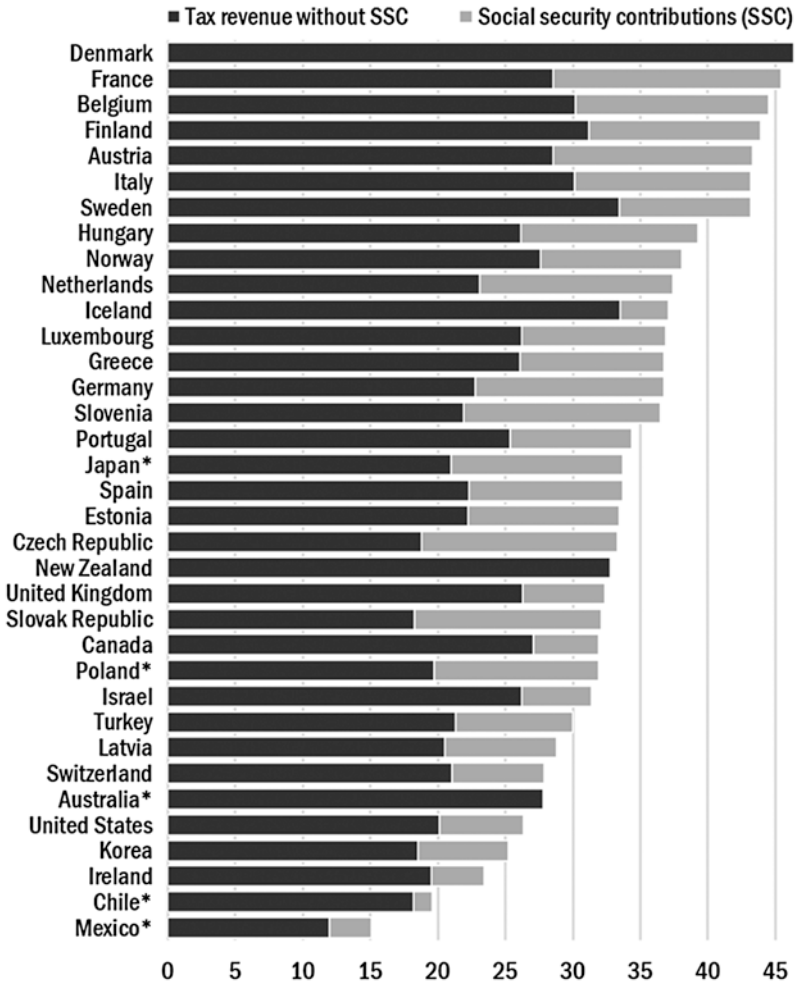


Fig. 16.1 Comparative government tax-to-GDP ratios in the OECD countries, 2015. (Source: OECD. Stat. Revenue Statistics. Revenue as % of GDP. * 2014 figures)

Figure 16.2, based on OECD (2017), presents the situation of a single taxpayer without dependents whose income is that of an average employee, defined as the average full-time adult gross wage earnings in each OECD economy (it corresponds to 86,000 CHF in the city of Zurich, the city used in OECD data for Switzerland). The figure indicates, with respect to

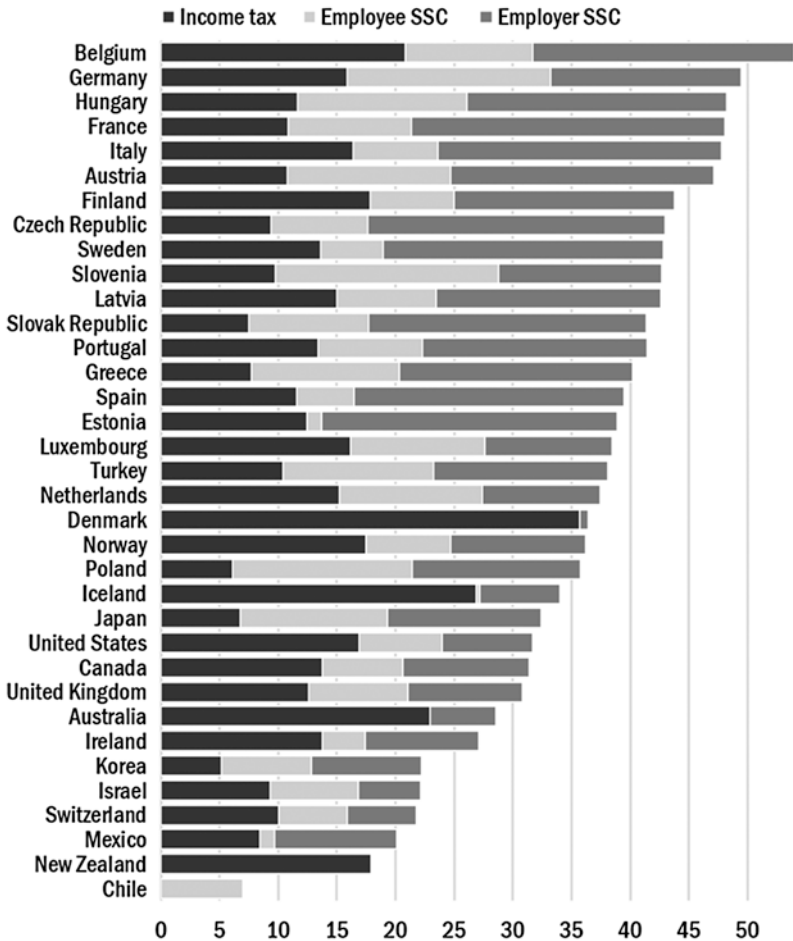


Fig. 16.2 Tax wedge as % of labor costs in the OECD countries, 2016. (Source: OECD. Stat. Tax wedge decomposition. Income tax plus employee and employer social security contributions (SSC) as % of labor costs. Single individual without children at the income level of the average worker)

the labor costs to the employer, the corresponding net take-home pay of the employee. Differences stem from personal income tax, social security payments, other contributions, and payroll taxes (aggregated with employer social contributions), and correspond to how the OECD defines

the ‘tax wedge’. Other taxes (corporate income, net wealth, and consumption) are not taken into consideration.

Income tax cuts into a Swiss taxpayer’s income by 10%. Though this is higher than what prevails in about ten other OECD countries, it is less than what taxpayers face in France (11%), Germany, or Italy (16%), or the OECD average (13%). Including social security contributions into the comparison only reinforces these findings: in Switzerland, the tax wedge is one of the lowest, with 22% compared to an average of 36% in other OECD countries. This remains true even if we modify the composition of the household or the income level.

Figure 16.3 looks at the situation of companies and presents the statutory corporate tax rate. In this way, it only offers a simplified vision of the reality given the fact that the effective situation of companies varies considerably² and that the tax rate can vary within a single country. Thus, for Switzerland, the table indicates that a company based in the city of Zurich can be subject to a rate of 21.15% (of which 8.5% goes to the Confederation). Even if this is one of the highest rates in Switzerland (see the following), this tax burden remains lower than what is seen in the majority of OECD countries.

These aggregated figures obscure the vast differences between cantons, a direct result of cantonal tax autonomy. Figure 16.4 presents the statutory tax rate for companies operating in each of the principal cities of the 26 Swiss cantons. A Zurich-based company is subject to a statutory rate of 21.15%. This rate is one of the highest, though a company in Geneva is subject to the highest at over 24% while a Lucerne company pays only a little more than 12%.

The rates given in Fig. 16.4 do not even reflect the extremes, inasmuch as municipalities can impose lower or higher coefficients than the principal cities of the canton.

The strong tax autonomy Swiss municipalities have creates of significant differences in tax burdens from canton to canton as well as between municipalities in the same canton. The effects of municipal autonomy in the choice of a tax coefficient are well-illustrated in Fig. 16.5, in this case for personal income tax. As shown before, the case shown is of a single taxpayer without children, with a gross income from labor of 80,000 CHF. The tax burden is the overall amount levied by all three levels of government.

²We prefer to present here the statutory tax rate, that is, rates which are specified in law, since the estimation of effective tax rate is sensitive to several analytical choices.

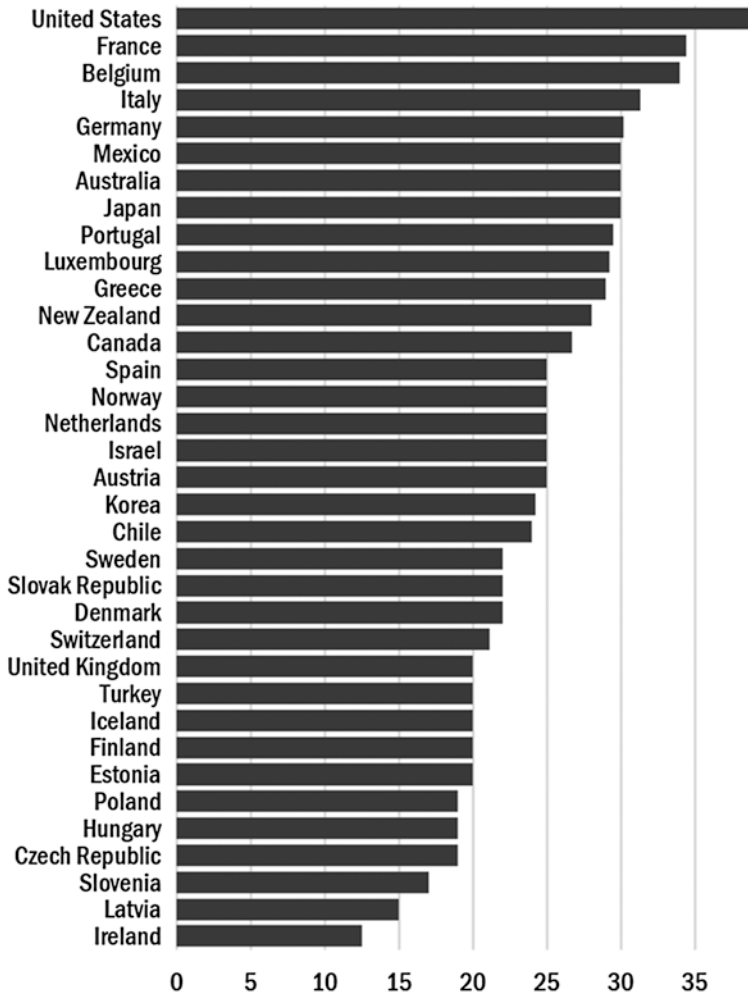


Fig. 16.3 Switzerland statutory corporate tax rate compared to the other OECD countries, 2016. (Source: OECD. Stat. Statutory corporate income tax rate)

The cantons are listed in increasing order, based on the tax burden imposed by the median commune. To take the example of the canton of Zurich again, if the taxpayer lives in the city of Zurich, she pays an income tax equivalent to 10.7% of her gross income. This is more than if she lived

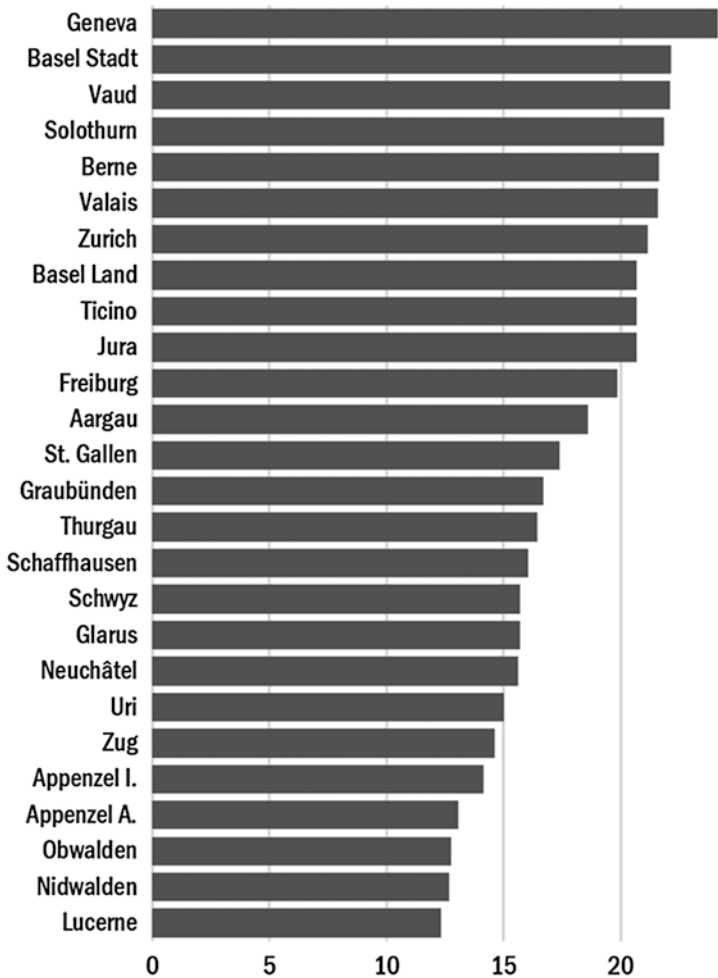


Fig. 16.4 Cantonal statutory corporate tax rate, January 2016. (Sources: PwC (June 2016). Corporate Tax Reform III)

in the cantonal municipality with the lowest burden (8.9%) or even the median burden (10.4%), but less than where the burden is the highest (11.5%). The Swiss municipality with the lowest burden (5.6%) is located in the canton of Zug, while the one with the highest (18.4%) is in the

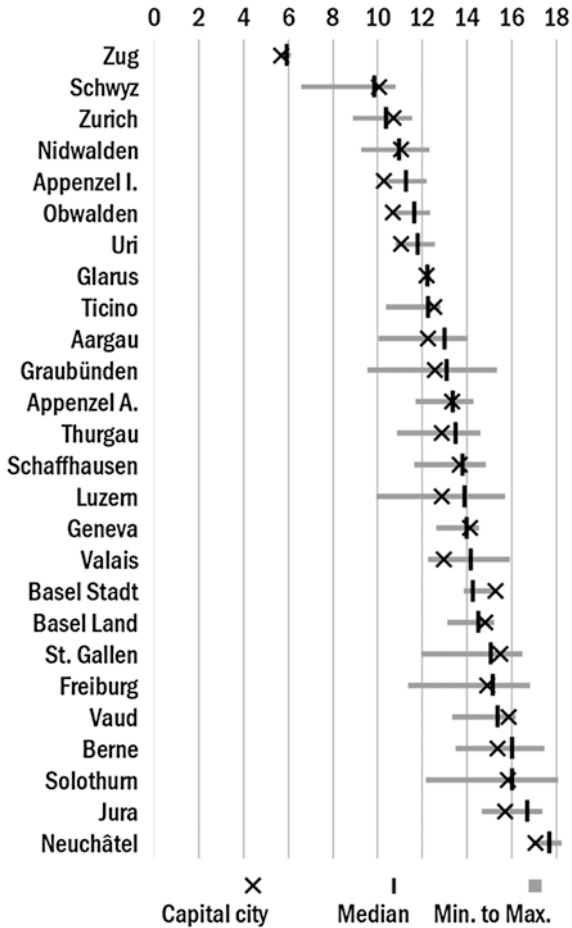


Fig. 16.5 Tax burden by canton and variation between municipalities as % of gross labor income, 2016. (Source: Federal Tax Administration. Single individual with gross income of 80,000 CHF)

canton of Neuchâtel. In other words, as for Tax Freedom Day, depending on whether a taxpayer lives in the most fiscally advantageous municipality or the most expensive, he will have fulfilled his income tax requirement either by January 20 or not until March 18, 2016.

16.5 TAX COMPETITION

Tax competition can be defined as a public policy to attract a mobile tax base and companies to boost economic development, employment, and output growth within the jurisdiction implementing it. This can be done by setting tax rates at a relatively low level, by allowing more generous tax deductions, or by introducing tax breaks or tax holidays in order to enlarge the tax base at the expense of other jurisdictions. Tax competition between countries has long existed, and Switzerland clearly participates, as demonstrated.

Furthermore, and together with the United States and Canada, Switzerland is one of the rare countries in which subnational jurisdictions take advantage of a fiscal autonomy that is large enough to allow them to engage in tax competition (OECD 2002, p. 59). The small size of cantons and municipalities makes it possible for private and corporate taxpayers to move to areas with weaker tax burdens. Tax competition has increased because of the well-developed infrastructure in the country which allows for considerably labor mobility and commuting.

Schmidheiny (2017) demonstrates that taxes have been falling in most cantons since the mid-1980s. Of course, it is not enough to observe differences or modifications of the tax burden to conclude that tax competition exists. In order to conclude this, the targeted tax base must be mobile and react to tax incentives. Feld and Kirchgässner (2001) showed that competition is stronger between municipalities than between cantons, due to the lower transaction costs of moving between neighboring towns. For these two authors, corporate and personal income taxation are an important factor in understanding the regional distribution of companies and regional employment differences, even if location-based decisions depend on many factors. A higher proportion of high taxable income is observed in cantons with a low tax burden than in cantons with a high tax burden.

Eugster and Parchet (2013) analyze the situation in bilingual cantons and show that the tax rates in French-speaking municipalities are higher than in German-speaking municipalities in the same bilingual canton. However, the difference vanishes in municipalities close or right on the language border. This spatial convergence of tax rates indicates the presence of tax competition, at least between neighboring jurisdictions. Feld and Reulier (2009) also find that cantons set their income tax rates strategically, depending on the tax rates of other cantons.

Other authors look at corporate fiscality. For example, Rossi and Dafflon (2004) show that tax competition between cantons which is meant to attract companies does not much occur at the level of the business sector, taken as a whole, since all jurisdictions will lose part of their revenues from openly lowering taxation.

The competition takes place at a more micro-level, with particular companies being granted ad hoc advantages (at the time of writing, such arrangements are still permitted although Switzerland is under international pressure to limit or even to suppress them). A further micro-level for tax competition is when cantons or municipalities offer particular tax arrangements, not to corporate taxpayers but to a company's managers—in the form of a somewhat negotiable tax base.

Tax competition between cantons has intensified in the last 15 years. A favorable economic climate brought cyclical budget surpluses, and several cantons took advantage of this situation to reduce their tax rate in the hope of attracting high-income individuals and companies.

This raised fears of a 'race to the bottom', since it is legally possible for cantons and communes to fiscally compete with one another. Earlier, an analysis by Kirchgässner and Pommerehne (1996) had concluded that tax competition between cantons had no harmful effects on the provision of public services. But the recent disappearance of cyclical budget surpluses make it no longer possible to compensate for the cyclical budget deficits brought on by lowered taxes, in particular when the new taxpayers are not as numerous as expected. Faced with this situation, the hard budget constraints introduced make fiscal consolidation packages inevitable. Several cantons have been affected, at different levels, but the cantonal population frequently opposes, via referendum, an increase in the tax rate in order to balance the budget. The only solution remaining to the government is to reduce the provision of public services, that is, unless substantial efficiency gains can be achieved within the government.

These recent developments seem to support the idea that tax competition may be detrimental, at least in terms of public service provision. Tax competition is also seen as harmful by the OECD, since it leads to "fiscal externalities among subnational entities, to a distortion of corporate and residential location choices, to fiscal unfairness and to a race to the bottom with respect to social or environmental standards" (OECD 2002, p. 58).

Many years ago, Brennan and Buchanan (1977) used the 'Leviathan argument' to object: the state has a tendency to excessive taxation, and tax competition applies a downward pressure which enhances efficiency. From

this perspective, fiscal decentralization and the tax autonomy of Swiss municipalities, as well as the tax competition they allow, should be judged positively. That being said, Feld and Kirchgässner (2001) or Krishnakumar et al. (2010) demonstrated that direct democracy itself was probably a more effective restraint on ‘Leviathan’, because popular approval, by referendum, is needed to increase tax rates and in deciding to engage in large public expenditures.

The effects of tax competition should also be put in context. The research noted (Feld and Kirchgässner 2001; Eugster and Parchet 2013) certainly shows that competition exists, but it also shows that this competition is geographically limited. This explains that the differences in Figs. 16.4 and 16.5 persist despite the tendency of the tax burden to diminish. As the OECD suggested, “a tax equilibrium affecting location-based choices might have been achieved. One explanation could be that tax rates and public services are in line with the preferences of the population [...]. Another explanation could be that locational decisions may be affected by factors other than tax rate differentials. This might partially offset competition on tax rates...” (2002, p. 59).

16.6 THE BALANCE BETWEEN DIRECT AND INDIRECT TAXATION

A repeated criticism of the Swiss tax system is that it uses direct taxation too much and indirect taxation too little, notably with the VAT. The OECD (2012) thus recommends that Switzerland shift taxation from direct to indirect taxes to reduce economic distortion and boost economic activity. To do this, the OECD suggests reducing the personal income tax since this tax discourages entrepreneurial activity and investment. It suggests instead that the base of the VAT be widened and the standard VAT rate be increased. It is true that the VAT represents 17% of the tax receipts of all Swiss government units (Table 16.1), while the average of the OECD countries is well above it (at 27% in 2014). While tax receipts from personal income tax are 41% of Swiss governmental tax receipts, this is rather lower (33%) in OECD countries.

If, in theory, VAT engenders fewer tax distortions compared to other taxes, it is also important to consider the institutional context. Studies like that of Keen and Lockwood (2010) show empirically that an increase in VAT receipts is not linked to a decrease in other tax receipts, and that as a result, the tax-to-GDP ratio increases.

In Switzerland's case, and no matter what the OECD says, the fact that personal income tax dominates compared to VAT should be seen positively. In Switzerland, personal income tax, unlike VAT, is a tax mostly levied by the cantons and the municipalities, making it one of the drivers of fiscal federalism and tax competition. To reduce its predominance would weaken both of these advantages of Swiss institutions.

Direct democracy is another advantage of the Swiss system, and its proper functioning is conditioned by the fact that voters pay more direct than indirect taxes. In essence, direct taxation requires taxpayers to fill out a self-assessed tax return, receive notification of tax assessment, and see to it that their tax bill gets paid. This process gives voters a better price signal regarding the cost of public services and the cost of their decision in a referendum or an initiative. The signal is more perceptible than the one indirect taxation sends: it affects, in an intransparent way and at homeopathic dose levels, the many transactions in which a taxpayer participates.

Finally, one should not ignore the role progressive scales for personal income tax play in terms of redistribution and macroeconomic stabilization. Because of these tax scales, the tax system contributes to the state's mission of redistribution, not only between individuals but also between cantons and different regions. This element of spatial and automatic redistribution of wealth should not be underestimated in terms of its effect on the sustainability the Swiss federalist system. Progressive tax scales also contribute more effectively to macroeconomic stabilization, more than if the tax system relied more heavily on indirect taxation. Essentially, the effect of cyclical variations of the tax bases (contraction during economic downturns and expansion during economic boomtimes) on income tax is amplified when the tax scale is progressive. As a result, the effect on overall demand is also amplified. In other words, the more the tax system relies on direct taxation with progressive tax rates, the greater are the automatic stabilizers, thus facilitating the smoothing out of economic business cycles.

16.7 CONCLUSION

The Swiss tax system offers genuine advantages. Those advantages, however, are intricately linked to and dependent on the country's institutional characteristics. Having said that, it remains perfectable, both in terms of its overall design and in the subtleties of its execution. We hope that there could soon be an end to the special cantonal tax regimes for companies that carry out limited commercial activities in the country and whose income

from foreign sources is taxed less than Swiss-source income. This would allow Switzerland to reduce the possibilities for corporate profit-shifting.

The OECD has also provided some recommendations regarding the Swiss tax system (2015). For instance, individual as opposed to family taxation should be introduced to promote women's participation in the work force; the deductibility of mortgage interest and maintenance outlays for property owners should be limited so as not to exceed the amount of declared imputed rent.

Nonetheless, these changes will not help in reducing the differences in the cantonal and municipal tax burdens. Initiatives have been launched on several occasions to harmonize tax burden, either between cantons or between municipalities within the same canton. Each time, however, these initiatives were overruled through popular vote either nationally or cantonally. This demonstrates how important cantonal and municipal tax autonomy is to the Swiss population—or at least to those who vote. It also demonstrates the need for fiscal equalization to prevent tax burden difference between rich and poor jurisdictions from becoming too big. The next chapter will take up this issue.

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