

Fiscal Policy

Corporate tax contributions make ***military funding possible without a tax increase***

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At a glance

- Tax payments from large companies mean that federal finances are in better shape than expected.
- The Federal Council has revised its revenue estimate upward by up to 2 billion Swiss francs. One billion is to be allocated to additional defense purchases.
- Given the improved budget situation, it should be possible to finance the military without raising the VAT.

Since early summer, it has become apparent that the federal government's finances are in better shape than expected. This is due to tax payments from large companies that have exceeded expectations. The outlook for the future is also brighter. The Federal Council has revised its revenue estimate upward by up to 2 billion Swiss francs. Thanks to Relief Package 27 and the improved revenue forecasts, the federal budget is expected to be balanced by 2030, the current planning horizon.

One billion for additional arms purchases

These facts have been known since June. They are confirmed by the projections recently published by the Federal Council for the current fiscal year. Instead of a deficit, there is a surplus so large that the Federal Council is proposing to make additional defense purchases totaling nearly one billion francs. Even with this additional spending, there should still be a surplus at the end of the year, which will be used to reduce the debt incurred due to the coronavirus pandemic. The debt that the federal government has accumulated for measures related to the coronavirus pandemic still stands at over 26 billion francs today. The Federal Council estimates that, thanks to this year's surplus, the debt can be reduced to a level below 25 billion Swiss francs. The COVID-19 debt has completely reversed the significant debt reduction achieved since the introduction of the debt brake within just a few years. The debt brake requires this debt to be reduced by 2039 at the latest.

Army Funding Possible Without Additional Funding

The fact that the Federal Council intends to use this year's surplus to make additional defense purchases shows which area the improved budget situation is primarily relevant to: national defense. Deliberations on the bill regarding the temporary increase in the value-added tax for the armed forces are set to begin in the coming days. The Federal Council is proposing additional funding of 0.5 percentage points over a period of twelve years. A total of 24 billion Swiss francs is to be allocated for defense procurement. The additional funding was originally planned to be higher, but it could be reduced because part of the required funds can now be covered by the regular budget. economiesuisse had called for this during the consultation process on the additional funding. The question now is whether the improved budget situation might allow for the entire additional funding for the armed forces without a tax increase. This amounts to 2 billion francs annually. These funds would need to be set aside in the regular federal budget specifically for national security. In a budget heading toward the 100-billion-franc mark, this is feasible. This requires neither a major austerity program nor adjustments to the debt brake nor extraordinary financing measures, as are currently being discussed in some quarters. Focusing the additional revenue on national defense—and, if necessary, making smaller contributions from other areas that are currently lower on the priority list—is sufficient.

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