BRIEF SUMMARY

Federalism is one of Switzerland’s fundamental principles. The 26 cantons and around 2,200 communes have extensive powers. Fiscal equalization is thus also important for the unity of the country. It is based on the principle of solidarity: the economically strong cantons and the Confederation help out the economically weaker cantons.

National fiscal equalization has two main objectives:

• Reducing cantonal differences in financial capacity.
• Performing state tasks more efficiently.

The current equalization system was introduced in 2008 and adjusted in 2020. It consists mainly of resource equalization and cost compensation. The Confederation finances around two thirds of the equalization payments and the cantons one third. Resource equalization ensures that the economically weaker cantons are provided with sufficient financial resources. Cost compensation offsets the excessive financial burden for Alpine and centrally situated cantons. Payments are not linked to a specific purpose: the cantons can use them to finance the fulfilment of their tasks, cut taxes or reduce debt.

National fiscal equalization is a huge achievement and undisputed in principle. Its design is nonetheless a recurrent topic of discussion. In order to ensure that it achieves the desired effect, the instruments are assessed in regular efficacy reports.

RESOURCE EQUALIZATION

Resource equalization is designed to ensure that each canton has sufficient funds to perform its tasks. This is measured by means of the resource potential, which reflects a canton’s economic power. It is calculated on the basis of the taxable income and assets of natural persons and the taxable profits of legal entities.

Comparing the resource potential per inhabitant with the Swiss average yields the resource index. Cantons with a resource index of more than 100 are deemed to be financially strong, they pay into the fiscal equalization system. Cantons with a resource index of less than 100 are financially weak, they receive funds from the fiscal equalization system.

Net equalization payments per capita in CHF

Fiscal equalization 2020

<table>
<thead>
<tr>
<th>Canton</th>
<th>CHF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zürich</td>
<td>2,885</td>
</tr>
<tr>
<td>Basel-Stadt</td>
<td>2,597</td>
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</table>

EFFECT OF RESOURCE EQUALIZATION

The distribution of resource equalization funds is concentrated in the financially weakest cantons. Thanks to the equalization, cantons with a resource index of less than 70 points receive exactly the guaranteed minimum financing of 86.5% of Swiss funds. Resource equalization is financed by the Confederation (40%) and the financially strong cantons (60%). Resource equalization significantly reduces the imbalance in financial capacity between the cantons. Thanks to fiscal equalization, it is reduced by about one third.

Since 2020, the resource equalization amount has been defined according to a set of rules and statutory requirements. Previously, the decision lay with Parliament. The financial flows of the equalization system are shown in the diagram on page 10.

EQUALIZATION EFFECT

Resource index 2020 before and after equalization

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Cost compensation is financed by the Confederation. It supports Alpine and centrally situated cantons, which face higher than average costs, which they cannot control:

- These costs are partly a result of the population structure (poverty, demographics, immigrant population) or the role of core cities, which is taken into account in socio-demographic cost compensation.
- In addition, geographical/topographic cost compensation reduces the burden on cantons facing costs because of their altitude, steep terrain or low population density.

Cost compensation is independent from resource equalization.

### EFFECT OF COST COMPENSATION

A canton receives geographical/topographic cost compensation if its financial burden exceeds the national average. Funds are distributed as follows: one third for altitude, one third for steep terrain and one third for low population density.

In socio-demographic cost compensation, two thirds of funds are distributed for a higher-than-average burden owing to population structure, and one third on the basis of the role of core cities. It measures the costs of "density" and largely concerns the urban centres of Zurich, Geneva and Basel.

### TEMPORARY INSTRUMENTS

The impact of three reforms is cushioned by three temporary instruments.

- The first instrument (cohesion fund) ensures that no financially weak canton is worse off as a result of the changeover to the new fiscal equalization system in 2008. It will expire in 2034 at the latest and, since 2016, it has been reduced annually by 5% of the original amount. A canton loses its entitlement to the cohesion fund if it becomes financially strong. The cohesion fund is financed by the Confederation (two thirds) and the cantons (one third).
- The second instrument reduces the impact of the 2020 fiscal equalization reform. Payments are distributed to the financially weak cantons in proportion to their population. Payments will be made from 2021 to 2025, and will decrease each year. They are financed by the Confederation.
- In 2024, a further temporary instrument will be introduced that will smooth the effects of the adjustments to the resource equalization as part of the AHV and tax proposals (TRAF). It will involve funds of CHF 180 million each year for a period of six years, which will be provided by the Confederation.

### FISCAL EQUALIZATION FINANCIAL FLOWS

Fiscal equalization payments in 2020 amount to around 0.8% of gross domestic product. Of this amount, 81% is accounted for by resource equalization, 14% by cost compensation and 5% by temporary instruments.

**2020 payments in CHF (in % of total equalization payments)**

- **Confederation**: 8.2% (100%)
- **Resource equalization**: 2.4% (29%)
- **Temporary instruments**: 0.4% (5%)

Cantons with geographical/topographic and socio-demographic burdens: 4.6% (86%)

Financially strong cantons: 0.4% (7%)

Financially weak cantons: 1.7% (32%)

Cantons with geographical/topographic and socio-demographic burdens: 0.7% (14%)

Financially strong cantons: 0.2% (3%)

Financially weak cantons: 0.4% (7%)

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### Main recipients

<table>
<thead>
<tr>
<th>Geographical/topographic cost compensation</th>
<th>Socio-demographic cost compensation</th>
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<tbody>
<tr>
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<td>Canton with socio-demographic burden</td>
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<tr>
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<td>Canton with geographical/topographic burden and socio-demographic burden</td>
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<td>200</td>
<td>300</td>
<td>400</td>
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