



Fiscal Policy

Federal Finance: Capitalize on a Stronger Starting Point to Enhance Security

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At a glance

- Thanks to strong companies, the federal budget will be balanced in the coming years. However, there is still no room for luxury.
- We must now use this leeway to strengthen our defense capabilities and, consequently, to increase spending on security.
- Reforms to curb rapidly rising social spending and to ensure the country's attractiveness as a business location through corporate tax policies remain urgent.

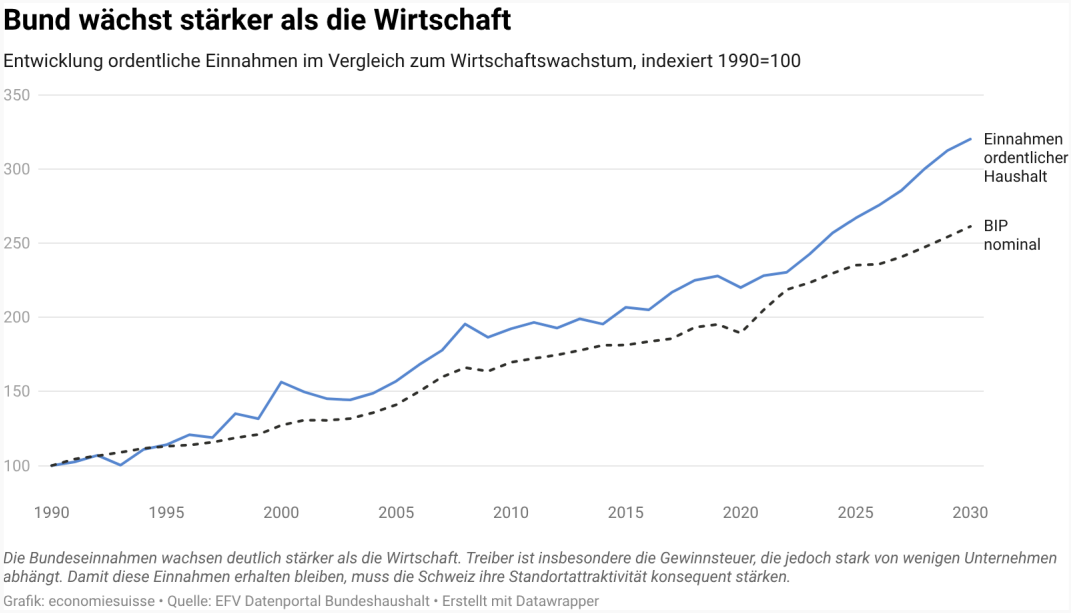
As recently as this spring, structural deficits were still expected for the coming years despite Relief Package 27 (EP27). The outlook has since improved: The 2027 budget and the financial plan through 2030 are virtually balanced. This is because the federal government now anticipates significantly higher revenues than it did in the spring. Additional relief measures to comply with the debt brake are not necessary for the time being. The Federal Council has therefore withdrawn previously announced measures to adjust the 2027 budget.

Tax revenue is growing faster than the economy

The federal government expects corporate income tax revenues in 2026 to be significantly higher than originally budgeted. This is due to unexpectedly high tax payments in the current year, which are concentrated among a small number of companies in Zurich, Lucerne, and Basel-Stadt. Because this revenue is higher than expected, the federal government also anticipates higher corporate income taxes in subsequent years. For 2027, approximately 19 billion francs are expected—about 2 billion more than was projected in the last financial plan.

Overall, federal revenues are growing strongly and at a faster rate than the Swiss economy. In addition to the positive trend in corporate income taxes, the supplementary tax and planned increases in the value-added tax are also contributing to this growth.

Although the VAT increases are already included in the budget, they still need to be approved by the voters. The additional revenue is earmarked to partially finance the 13th AHV pension and for security purposes, and therefore would not be available for other federal tasks.



Strengthen the business environment to maintain high tax revenues

As encouraging as the trend in federal budget revenues may be, it also carries risks. Income tax is becoming increasingly important for the federal government, but a large portion of the revenue comes from just a few companies. Added to this are uncertainties regarding revenue from the OECD supplementary tax, for which there is still a lack of historical data. High tax revenues cannot therefore be taken for granted. They require a competitive economy and an attractive business environment. To secure them for the future, fiscal policy must also place special emphasis on favorable economic conditions and a strong business environment.

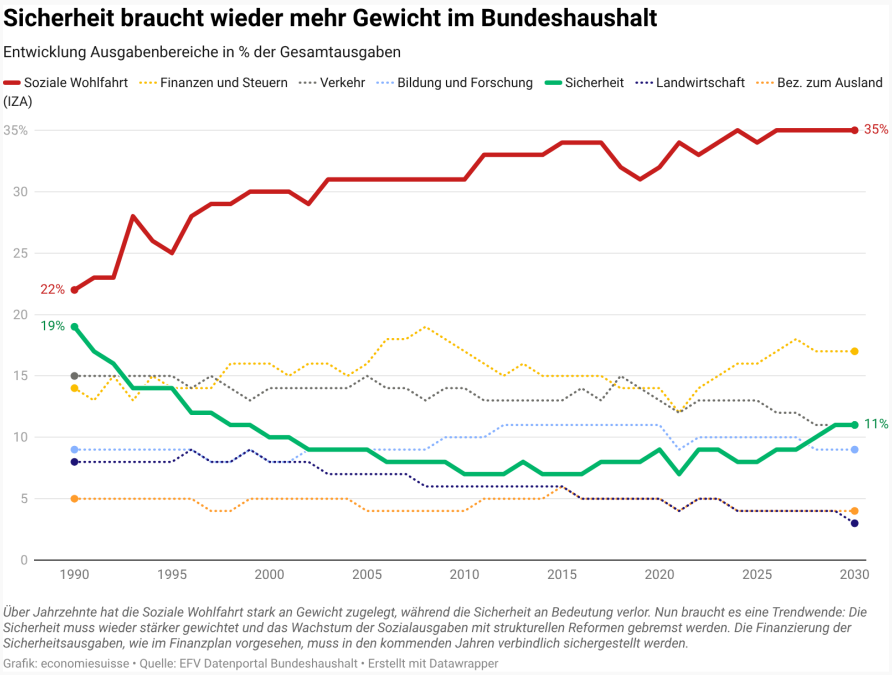
The sharp rise in spending calls for reforms

Federal spending is also continuing to rise sharply: from about 91 billion francs in 2026 to over 104 billion francs in 2030. That represents an increase of more than 13 billion francs over four years. Just under 90 percent of the increase in spending between 2026 and 2030 is attributable to social welfare, security, and fiscal equalization. Other areas, such as transportation, education, and research, are growing at a significantly slower pace.

This development is, in part, the result of political decisions. The 13th AHV pension, approved by the people, costs the federal government an additional one billion francs annually. At the same time, in light of the geopolitical situation, Parliament has decided to invest more funds in the armed forces and, consequently, in Switzerland's security.

On the other hand, many expenditures rise automatically because their amounts are set by law. This applies in particular to social welfare and fiscal equalization. The AHV is growing particularly rapidly and is thus drawing on an increasing share of federal funds. As a result, less money is available for other important federal tasks. Given rising life expectancy, it is therefore high time to stabilize the long-term financing of the AHV through structural reforms. This includes a review of the benefits package and an adjustment of the reference age. Financing rising expenditures time and again through higher taxes, levies, or federal contributions is not a sustainable solution. Even if the public rejects the planned additional financing of the 13th AHV pension via the value-added tax, financing through general federal funds is out of the question.

Action is also needed with regard to disability insurance, individual premium reductions, and supplemental benefits. These expenditures are also rising sharply and must be stabilized over the long term.



Despite the easing of tensions, Parliament must take action

Although the federal budget situation has improved significantly, financial leeway remains limited. Expenditures continue to grow strongly, and additional burdens are already on the horizon. On the revenue side, too, it is uncertain whether the trend will continue as positively as projected.

Based on this situation, economiesuisse has three key demands for Parliament:

- Security is the top priority: The focus must now be on strengthening the armed forces. The increase to 1 percent of GDP must be ensured through the regular federal budget, if necessary by further prioritizing existing federal funds. The improved financial situation also offers the opportunity to allocate funds for additional defense investments without placing a massive burden on other important federal tasks.

- Structural reforms of the social welfare system: Social spending is growing rapidly and is largely mandated by law. As a result, there is less and less leeway for other important federal tasks. Allocating even more funds from the federal budget to social security systems is not a solution. Structural reforms, including benefit reviews, are needed to secure sustainable financing and prevent an increasing burden on the state and the population.
- Ensuring Switzerland's attractiveness as a business location: High tax revenues depend largely on a strong and competitive economy. However, a large portion of corporate income taxes comes from just a few companies. It is therefore crucial to secure these revenues in the long term and maintain attractive business conditions for companies. Given the uncertain future of the OECD minimum tax, Switzerland must take targeted steps to strengthen its competitiveness. Tax incentives for research and development are a top priority.

Galerie

The federal budget is growing rapidly: By 2030, revenues and expenditures will rise to over 100 billion francs. This represents an increase of more than 13 billion francs over four years (2026–2030). Despite the significantly improved revenue trend, fiscal flexibility remains limited. Added to this are costs that have not yet been fully accounted for, such as strengthening security and continuing the special VAT rate for lodging services. At the same time, there are significant risks to revenue: corporate income taxes, in particular, depend heavily on a small number of companies, while there is still no empirical data available regarding the new OECD supplementary tax.

As recently as spring 2026, structural deficits of 0.6 to 2.0 billion Swiss francs were expected for the years 2027 through 2030. The 2027 budget paints a much more positive picture: surpluses are projected through 2029, and only a small deficit remains for 2030. Additional measures to ease the budget burden and comply with the debt brake are therefore not necessary for the time being. The federal budget is thus virtually balanced. However, this favorable starting point is not a free pass for new spending, but rather an opportunity to strengthen fiscal stability without requiring additional revenue.

Since 1990, corporate income tax has grown at a significantly faster rate than other sources of revenue and the economy. Income tax and value-added tax have also grown substantially and have outpaced nominal GDP. Stamp duties and withholding tax, on the other hand, have shown a significantly weaker and more volatile trend over the long term, respectively. As a result, corporate income tax is becoming increasingly important for the federal budget. While this trend is encouraging, it also increases dependence on corporate taxation and, consequently, the importance of attractive business conditions.

Revenues are growing significantly faster than nominal GDP. Income tax and value-added tax are rising particularly sharply. However, this growth is largely driven by one-time factors, including the supplementary tax and, starting in 2028, additional value-added tax revenues for the 13th AHV pension and the defense fund. The VAT increase to fund the pension expansion must still be approved by the electorate at the end of November 2026. Parliament is not expected to approve the additional funding for defense spending via a VAT increase, as provided for in the financial plan. Instead of additional revenue, contributions from the federal budget are currently planned. Furthermore, contrary to the original plan, the abolition of the special VAT rate will not be implemented, in accordance with a parliamentary resolution. The projected additional revenue of approximately 300 million will therefore not materialize and must still be offset.

Federal revenue has grown faster than the Swiss economy since 1990. Generally speaking, it grows in proportion to nominal GDP. However, the widening gap relative to GDP does not mean that the same level of economic output automatically generates more and more revenue. It also reflects political decisions such as tax rate increases and new taxes. Excluding these special factors, the growth is primarily attributable to the above-average growth in corporate income tax revenue.

The trend in corporate income tax is particularly pronounced. Since 1990, revenue from the federal direct tax on legal entities has grown many times faster than economic output. This is due to the above-average growth in taxable corporate profits. Between 2010 and 2025 alone, the share of corporate income tax in regular federal revenue rose from about 13 to 20 percent. Companies are thus contributing more and more to the financing of the federal government. However, these revenues depend heavily on the business success

of a few large companies. To secure this revenue in the long term, competitive framework conditions are crucial.

Income tax revenues are highly concentrated: a very small proportion of companies accounts for the bulk of tax revenue. Because income tax simultaneously finances an ever-larger share of the federal budget, dependence on a few companies is increasing. This concentration poses a risk to revenue growth and underscores the importance of attractive business conditions.

Federal spending has grown faster than the economy since 1990. Social welfare spending has increased particularly sharply. The main drivers are the AHV, IV, premium subsidies, and supplementary benefits. Education and research, transportation, and finance and taxes have also grown faster than nominal GDP. In the area of finance and taxes, spending is driven in particular by the cantons' share of growing federal revenues and fiscal equalization.- Security is the major exception: following a sharp decline since 1990, its spending level has only returned to its previous level in the last few years and is now expected to rise significantly. EP27 curbs spending growth primarily in the non-earmarked areas of education and research, international cooperation, and agriculture.

Social welfare, accounting for about 35 percent of total federal spending, is by far the largest area of federal expenditure. Because a large portion of this spending is mandated by law and continues to grow rapidly, this area is absorbing an ever-increasing share of general federal funds, leaving less and less leeway for other tasks. To stabilize spending growth, structural reforms of the social security system are needed—in particular, an increase in the reference age for the AHV.

The emphasis of federal responsibilities has shifted significantly since 1990. The share of social welfare in total expenditures has risen from about 22 percent to 35 percent. At the same time, the share allocated to security fell from about 19 percent to, at times, less than 10 percent. Other areas of responsibility have changed comparatively little. This trend suggests that the funds freed up after the end of the Cold War—and a significant portion of the additional fiscal leeway—have been directed primarily toward expanding social welfare. Now a reversal is needed: Security must once again be given greater priority, and

the growth in social spending must be curbed through structural reforms. The planned strengthening of security is a step in the right direction, but its funding must still be secured in a binding manner.

FAQ on the Debt Brake

Why are sound public finances important?

A balanced budget prevents new debt, which incurs annual interest costs and places a burden on future generations. In addition, stable spending ensures reliable services, and the risk of sudden tax increases to finance the government is relatively low. Sound public finances are therefore an important competitive advantage for Switzerland.

What opportunities do sound public finances open up?

A country with manageable debt has significantly more room to maneuver than a heavily indebted nation. This can be crucial, especially during challenging or extraordinary times. If a country must steadily increase its debt even during economically favorable times, not only do annual interest payments rise, but so does the risk that it will be unable to act decisively enough in a crisis.

Where does Switzerland stand in terms of debt?

Switzerland's national debt is moderate by international standards. One of the main reasons for the lower debt level is the debt brake.

What is the debt brake?

The debt brake is a rule designed to ensure a stable budget. It ensures that, in the long term, the federal government does not spend more money than it collects. This not only prevents Switzerland from falling deeper and deeper into debt. Public spending must also be continually scrutinized and prioritized. This promotes an efficient government. Debt, on the other hand, encourages waste.

Why was the debt brake introduced?

In the 1990s, the federal government ran high deficits. Debt rose sharply. To halt this trend, the debt brake was created. In 2001, 85 percent of eligible voters voted in favor of it. It has been in effect since 2003.

What has the debt brake achieved so far?

Since its introduction, the federal budget has been stabilized. Switzerland has been able to avoid taking on new debt and has even managed to reduce part of its debt burden. While the federal government's COVID-19 emergency measures did lead to another rise in debt, Switzerland is overall in a better position today than it was before the debt brake was introduced.

Can the federal government spend additional money during a crisis despite the debt brake?

Yes. The debt brake expressly allows the federal government to allocate additional funds in extraordinary situations.
This was evident, for example, during the COVID-19 pandemic: The federal government was able to allocate billions within a short period of time to address the crisis. However, the debt incurred by this extraordinary spending must be reduced.

Does the federal government always have to cut spending because of the debt brake?

No. The debt brake does not dictate what the federal government is allowed to spend money on. However, it requires that total expenditures not exceed total revenues and that they generally be fully financed by those revenues. When the economy is struggling, the federal government can spend more. During an economic boom, it must save a little more to cover this.

New responsibilities and additional spending are also possible. However, policymakers must determine how they will be financed. Either new revenue must be generated, or existing funds must be reprioritized. This is currently happening with the military. In uncertain times, defense is being strengthened.

Is the debt brake still necessary after more than 20 years?

Absolutely, because its basic principle is just as relevant today as it was when it was introduced: The government should be able to finance its ongoing obligations over the long term while retaining sufficient flexibility to respond to crises. That is why economiesuisse advocates for maintaining the debt brake.

Who decides what the federal government spends money on and how much?

The Federal Council prepares the budget for the following year in the middle of each year. In doing so, planned revenues and expenditures must generally be balanced, as the budget is subject to the debt brake. Parliament has the final say on the draft budget. At the end of each year, it deliberates on the budget estimate, which includes an integrated task and financial plan that outlines not only the upcoming fiscal year but also the financial outlook for the three subsequent years.

Where does the federal government's revenue come from?

The federal government’s most important source of revenue is the direct federal income tax levied on individuals and corporations. Value-added tax (VAT), which is levied on the purchase of goods and services, also contributes significantly to revenue. Other sources of revenue include excise taxes, such as the mineral oil tax and tobacco tax, and withholding tax, which is levied primarily on dividends and interest.

What does the federal government spend the most money on?

The largest expenditure category is social welfare, which accounts for more than one-third of the federal budget. Other major expenditure categories include fiscal equalization, transportation, and education and research.



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