

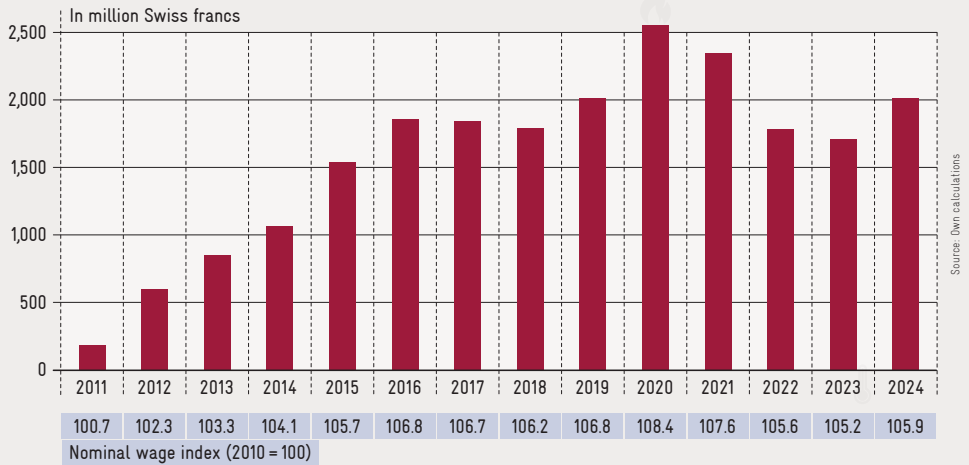
Real Bracket Creep – the Hidden Tax Increase

Over time, real bracket creep causes the tax-to-GDP ratio to rise automatically as incomes increase. The fiscal impact quickly reaches into the billions and increasingly affects middle-income households.

Situation

Progressive tax ensures that higher-income households contribute disproportionately to the financing of the state. As a result, as incomes grow across the economy over time, the tax rate also increases. While the federal government and the cantons compensate for the inflation-driven portion of this increase, known as bracket creep, they do not compensate for the portion that affects purchasing power, also referred to as real bracket creep. Rising real wages therefore lead to gradual, almost unnoticed and poorly justified tax increases. Compensating for real bracket creep would be technically simple, but public authorities seem to have little interest in doing so.

Real bracket creep at the federal and cantonal levels relative to 2010



The columns show the impact of real bracket creep on the tax burden in subsequent years compared to 2010. The chart illustrates the additional tax burden at the federal, cantonal, and municipal levels compared to a counterfactual scenario without real bracket creep.

Facts

CHF 22 bn

This is the amount Swiss households paid in excess income taxes to the federal government, the cantons, and the municipalities between 2011 and 2024, based on the effects of real bracket creep relative to 2010.

Federal level

The effect of real bracket creep is particularly pronounced at this level due to the strong progressivity of the tax system. If real wages increase by 1% on average, the average tax burden rises by nearly 2%.

Cantons and their communes

At this level, the relative effect of real bracket creep is smaller, with a multiplier between 1.4 and 1.6. In absolute terms, however, the impact is larger than at the federal level, as the overall tax volume is significantly higher.

Distributional effects

Real bracket creep impacts not only the volume of tax burden, but also its distribution. The share of the middle-class increases, that of the richest households decreases. Why? Because more and more households find themselves in the highest tax brackets.

Inaccurate compensation

If public authorities don't spend the extra revenue, they can use it to finance new (or larger) tax deductions (which benefit specific taxpayers), or to lower the tax rate. None of these measures properly compensates for real bracket creep.

Recommendations

To compensate for **bracket creep**, **tax rates are adjusted annually for inflation**. This is done by raising the income thresholds for tax bracket (all deductions defined in absolute terms) in proportion to the change in the National Consumer Price Index (CPI).

The same approach could also be used to compensate **real bracket creep**. Instead of using the CPI, the system should now simply be based on the **nominal wage index**. This would avoid any distributional effects and ensure that the tax burden no longer automatically rises faster than wages.

