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*Newsletter – December 2020*

## **Tax News 2021**

The year 2020 is coming to an end so it is time to look ahead to the cantonal changes in taxation for the tax year 2020. The adjustments for the canton of Basel-Stadt are rather marginal while some deductions for the canton of Basel-Land will change significantly. If you are paying taxes at source, additional changes in terms of deadlines and tax return process will be implemented. We refer to our recently published leaflet about the source tax law revision 2021, which you can find at <https://www.jeker-finance.com/documents/>.

### **Basel-Stadt**

- Tax rate cantonal tax: Annual taxable income up to CHF 200'000 (married couple: CHF 400'000) will be taxed at 21.75% for the tax year 2020 (22.00% before). Tax rates for higher taxable income will though be increased compared to prior years. For the tax year 2020 income up to CHF 300'000 (married couple: CHF 600'000) will be taxed at 28.00% resp. income higher than that limit will be taxed at 29.00%.
- Tax rate Bettingen: The income tax rate for the communal tax Bettingen will be decreased for the tax year 2020 from 39.00% to 37.50%. In addition, the wealth tax rate has also been lowered from 40.00% to 36.50%.
- Tax rate Riehen: The income tax rate for the communal tax Riehen remains at 40.00%, however the wealth tax rate has slightly been lowered from 47.00% to 46.00% for the tax year 2020.
- Deduction insurance premiums: The flat rate deductions for insurance premiums have been adjusted to match the increasing level of premium expenses. For the tax year 2020 the deductible amount for unmarried taxpayers is CHF 2'800 p.a. (CHF 2'400 before) respectively for married couples CHF 5'600 p.a. (CHF 4'800 before).
- Childcare expenses: The maximum tax deductible amount for childcare expenses will be slightly increased on cantonal level to match the deductible limit at the federal tax. The maximum tax deduction will therefore be CHF 10'100 per child per year (CHF 10'000 before).

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- Educational costs: The tax deductible limit on cantonal level will be slightly increased from CHF 18'000 to CHF 18'100 per year.
- Social deductions: Smaller adjustments will be made to social deductions on cantonal level. The annual deductions for the tax year 2020 will be CHF 18'100 for unmarried taxpayers (CHF 18'000 before) respectively CHF 35'300 for married couples (CHF 35'000 before) as well as CHF 7'900 per child (CHF 7'800 before). The social deductions on federal level remain unchanged.

### Basel-Landschaft

- Childcare expenses: The current maximum deduction for childcare expenses of CHF 5'500 per child per year will be significantly increased to CHF 10'000 for the tax year 2020. The requirements to claim this deduction remain the same, so the costs need to be related directly to employment, education or disability of both parents.
- Real estate maintenance costs: Investments related to environmental protection and energy saving measurements can be deducted as maintenance costs although they might increase a real estate property's value. Demolition expenses regarding a replacement construction are treated the same. With the adjustments of tax law 2020, these expenses can also be deducted in the two consecutive tax years in case the costs cannot be fully deducted in the tax year they occurred.
- Foreign tax credit: Based on current tax law, a credit for foreign taxes paid on investment income (interest, dividend) could only be claimed if the total amount of foreign taxes exceeded CHF 50. This limit will be increased to CHF 100 for the tax year 2020.
- Qualified participation: Income from qualified participations (share of minimum 10% in company equity) will still be subject to partial taxation only. From the tax year 2020 onwards, this income will be taxed at 60.00% on cantonal and communal level (50.00 before) as well as 70.00% on federal level (60.00% before).

Additional information on the tax news 2020 for the canton of Basel-Landschaft can be found on the [leaflet](#) issued by the cantonal tax authority.



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## Outlook

The maximum tax deduction for contributions to Pillar 3a remains at CHF 6'826 for the tax year 2020 (if you also contribute to a pension fund within Pillar 2), however the National Council and the Council of States agreed on allowing retroactive contributions to Pillar 3a in coming years. As the state pension (Pillar 1) faces increasing financial pressure, additional benefits should be created to encourage private pension savings. As only about 13% of taxpayers contribute the maximum amount into the Pillar 3a, potential savings gap in the private pension can be closed in the future, similar to saving in the company pension fund system (Pillar 2). The savings gap will be calculated based on the maximum tax deductible amount for each past year minus the effective contributions made. Retroactive contributions into the private pension scheme will not only enable greater tax optimization potential but also result in greater flexibility in terms of acquiring self-used real estate property.

In August 2018, political discussions have been started again to eliminate the taxable deemed rental income for self-used real estate properties. At the moment, details for the consultation are developed by the commission of economics. The draft on the one hand stipulates the elimination of the deemed rental income for primary residences, but on the other hand also disposes the deduction for maintenance expenses, investments in environmental protection and mortgage interest related to this real estate property. Taxpayers who purchase their first self-used real estate properties should be allowed during the first years of possession to deduct the related mortgage interest paid. It is highly debatable if the draft will be accepted in this form. In any case it will take a few more years for the White Paper to get legal.

## Conclusion

The adjustments regarding tax rates and deductions for the tax year 2020 are partially caused by increasing expenses levels as well as inflation and legal policies. Compared to prior years, the changes are rather moderate. If you are preparing your annual tax return using the software provided by the cantons, you do not have to actively pay attention to the increased deductions.

We will continue to inform about any news related to political discussions in tax and finance. If you have any questions about the tax news 2020, please do not hesitate to contact us.

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