

# artax

## NEWSLETTER

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## Tax prepayments: disadvantages and benefits

Dear Sir or Madam,

Prepayments are useful in order to avoid unnecessary interest on arrears, even people who are taxed at source can be affected. Decisive for the calculation of interest on arrears is the due date, and not the invoice date of the final tax bill. There are very different due dates of taxes at cantonal level, additionally at communal level there may even be other due dates, this complicate matters even further. It is possible even for normal cases that there may be a gap of more than a year between these dates; it can even be several years in more complex cases where an appeal is involved. As far as direct federal tax is concerned, tax payers receive provisional tax bills based on previous tax years, including a note on the due date; most cantons and communes follow this example. However, Basel-Stadt, for its cantonal taxes, only sends empty payment slips together with a leaflet containing general information, so no clue is given how much tax will be actually due. In any case it makes sense, even in the other cantons, to calculate or estimate the actual tax burden and based on this plan the tax prepayments, as interest rates on arrears are significantly higher than interest rates for prepayment (in Basel-Stadt 4% compared to 0.5% in 2014).

### For legal entities

For legal entities, stock companies and limited liability companies, matters are fairly straightforward. Taxes are deductible expenses, increased by interest cost in case of payment after due date, or reduced by interest earnings in case of tax prepayment. Thus, only the difference in interest rate has an influence on the amount of expenses. If the company is solvent, tax prepayment offers a more attractive interest than an active current account. In case of tax payment after due date, today's interest rates make the interest charged by the tax administration more attractive than an overdraft or loan interest rate. Thus, the company's solvency is the most significant factor for cost-optimal payment of taxes.

### For individuals

For individuals different premises apply. Tax burden is not considered as expense for taxation. The tax administration's interest credit is tax-free whereas bank interest credit is not. On the other hand interest on arrears is tax-deductible. All these factors determine the most cost-effective payment of taxes in many ways.

In simple terms it can be said that with sufficient liquidity an adequate tax prepayment makes sense, as the interest credit offered by the tax administration is more attractive than on a normal savings account, and this interest credit is also tax-free.

Where no sufficient funds are available, it makes no sense to take out a loan to make a tax prepayment, as the lending rates are generally higher than the rates charged by the tax administration. Both lending rates as well as interest on arrears by the tax administration are tax-deductible. So interest charged on arrears should be claimed in the year of payment, as the tax authorities generally do not take these interests into account automatically.

### **Issues with federal and cantonal tax**

Due to the current interest rates, tax prepayment makes sense. However, please beware! Prepayments can be made for federal and for cantonal tax. For those subject to normal taxation, the cantonal tax administration Basel-Stadt does not automatically balance the accounts between federal and cantonal taxes. So if you use the wrong payment slip, this can lead to massive interest on one tax and a relatively low interest credit for the other tax (if there is an obvious excess payment, only limited interest credit will be granted; these regulations differ from canton to canton and are meant to ensure that tax accounts are not misused as saving accounts). The canton profits either directly, or as administrator of federal tax. Basel-Stadt even insists on interest when the error of a prepayment is clearly obvious and the total tax amount would have been covered with correct prepayments! The loser is the taxpayer. If you are uncertain about the amount of your tax credit or how much still needs to be paid, you can either request an account statement from your tax authority, or have a complete tax budget, including prepayment recommendations provided by artax.

### **Issues for those taxed at source**

For those who are taxed at source, ideally all taxes due are covered by the tax deducted from your salary. However, this is far from being the case for married couples where both partners have a substantial income (depending on canton, required additional payments can amount to up to 30% of taxes). But also for cases where parts of income or assets are not subject to tax at source, additional payments, including unnecessary interest on arrears if not paid on time, are often required. On the other hand, all those taxed at source and expecting a reimbursement are not entitled to receive any interest credit; there is no provision for this in current law! From our point of view this unequal treatment of taxed at source persons violates the Agreement on the Free Movement of Persons with the EU.

Kind regards

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