Income Tax in SwissSalary

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1 Income Tax in SwissSalary

1.1 Introduction

Income Tax reform 2021 came into force on January 1, 2021. Therefore, relevant requirements have applied to the calculation of Income Tax since January 2021. With the Swissdec 5.0 certification, transmission via ELM has now also been adapted to the new standard.

This manual is intended to provide an overview of Income Tax processing in SwissSalary. It is to be used by SwissSalary users as a basis for data collection and maintenance as well as individual calculations in SwissSalary.

The topic of Income taxes very far-reaching and comprehensive. This Manual will not be sufficient to cover all points and all special constellations. For further information, we recommend that you read Circular 45 of the Federal Tax and Swissdec Guidelines 5.0. If individual items are explained differently in these documents, Swissdec Guidelines are binding for SwissSalary, because it is a Swissdec certified payroll software. This is also explicitly stated in the Circular.

Kreisschreiben 45 ESTV

Richtlinien Lohnstandard-CH (ELM) 5.0

We have also prepared for you various frequently asked questions and helpful tools on our website. SwissSalary FAQ

If you have any questions, please contact your Dynamics 365 partner or SwissSalary Support. For legal or company-specific inquiries, we recommend that you always contact the tax administration of the canton concerned first. We will then support you in implementing the regulation in SwissSalary.

1.2 Models an rates

All 26 cantons support the new standard and can receive data electronically (via ELM).

There are two calculation models (monthly / annual) used with harmonized calculation bases. When the calculation is verified, it is always necessary to check which calculation model the respective Income tax canton uses. We will always show both variants in the examples.

What are the fundamental differences between the two models?

	Monthly calculation	**Annual calculation**
Fiscal period	month	calendar year
Wage subject to Income tax: The amount is to be debited from:	gross monthly income	gross income in the previous and current month deduction in the previous months
Rate-determining wage	gross monthly income	billed periodic wage values extrapolated to 360 days (*) +consideration of aperiodic values Total divided by 12 = rate-determining value
Other factors influencing rate-determining wage (*)	recruitment during the month other income sources	employment during the year other income sources
Annual settlement	not allowed	mandatory / automatic
Rate change during the year	no influence on future months	compensation for all rates, since rate-determining wage undergoes crossrate calculation for the entire year

Basically, it can be stated that the calculation in the Month model only refers to the corresponding month. The entire calendar year is always recalculated in the Year model and the amounts already deducted up to the previous month are credited back.

Furthermore, this manual does not discuss the full calculation, but, as mentioned at the beginning, refers to the official documents of the Federal Tax Administration and Swissdec Guidelines.

Publishing of the rates:
All cantons publish their Income tax rates every year. Please always make sure to import the latest rates. The rates can be updated via Store Updates under SwissSalary Organization.

1.3   Rate Codes

Basically, the rates applicable to the respective IT canton can be selected in the Employee card.
If a canton only publishes the rates either with or without church tax, this is also controlled accordingly and only one option can be processed.
An exception is recording via TimeMachine, where all possible rates can be selected.

Chapter 9.5.1 of Swissdec Guidelines contains regular IT rate codes for persons subject to Income tax residing in Switzerland and abroad. Special rates are handled for cross-border workers from individual countries. Please also note the following Chapter 9.5.2 with the predefined categories for VR fees applicable to persons residing abroad, benefits from exported employee shareholdings to persons residing abroad, special agreement with France, which provides for exemption from IT burden for individual cantons.

The Income tax reform requires that some additional data be maintained for Italian cross-border workers employed in the cantons of TI, GR or VS:
- Place of birth: field in the 'Private' tab
- Tax ID country of residence: (new) separate field in the 'Income tax' tab
- Immigrating Date when the person became a cross-border worker: please maintain a cross-border worker permit issue date in the 'Immigrating date' field under the 'Tax at Source' tab.

Italian cross-border workers who stay in Switzerland for a week will now be billed according to rates A, B, C and H.

We recommend that you store Income tax obligation by recording generally applicable rate code for French cross-border workers employed in the cantons of BE, BL, BS, JU, NE, SO, VD, VS. Then, select Special agreement with France for the 'IT category' field in the 'Tax at Source' tab. This way you ensure that the person is included in the ELM submission. This means no IT deduction on the payslip.

1.4   Useful tables and fields

In SwissSalary, these tables and fields are helpful for checking the billed data.

Personnel Salary Entry
Wage items (columns 'Code' and 'Code2') always clearly show the rate billed.
Fictitious IT salary types are written for everyone, regardless of their current Income tax liability. They help with analysis and checks.
Wage items are particularly helpful for checking rate-determining income when rates are changed in the annual model.
When it comes to rate-determining salary types, it should be noted that an extrapolation is made based on employment during the month or year or based on additional income.

Employee Salary Statement A4L
Provides a good overview of billed values. Please note that if there are several pay processes per settlement date, the total processed with one salary type is displayed. In cantons with annual calculations, personal annual wage account is not sufficient for checking rate determination after a rate change.

Payroll List
The columns below can be displayed in the Payroll List to further support you in control:
- 'Employment' => corresponds to percents by position in the Employee card during pay process billing
- 'Total activity rate of further income' => corresponds to other occupations in the Employee card during pay process billing

- 'Tax at source Employment %' => they show the calculated total employment consisting of the percents by position taken from the Employee card or calculated from the value of the billed hours in relation to the monthly parts and other occupations. This value is decisive for determining the rate-determining income and the rate.

Paycheck
The settled rate is shown on the Paycheck during Income tax deduction.
Previously billed deductions are recalculated automatically in the cantons with annual calculation and rate changes. It is therefore possible that more than one Income tax deduction with a different rate will be on the Paycheck. This is correct because the rate is determined across rates for the entire calendar year.

Open TimeMachine
Shows the recorded TimeMachine entries for the person.

TimeMachine Entries
Shows the mutations processed using fields with TimeMachine options.

1.5 Single-parent families

It is essential to clarify for single people with eligible children whether s/he is a member of a so-called 'single-parent family'. This is generally the case if a single person lives in the same household with children entitled to deduction.

If it is a single-parent family by definition, more favorable rate codes can be assigned to the employee, namely 'H1 - 9', 'P1 - 9' or 'U1 - 9'.

Note that you must select one of the default values in the 'Single-parent family' field under the 'Private' tab in the Personnel card.

We have also created a tool in our FAQ Income Tax Definition FAQ Single-parent families for you to find out whether or not the family is a single-parent family.

NOTE
Please note that when you select a rate code, you declare to the tax administration that you got the necessary clarifications. Again, we recommend to work with the checklist.

1.6 Periodic - aperiodic salary types

For rate determination salary types can be classified as periodic or aperiodic. It is set up in the salary type card. Please note that both fields for IT rate determination must be activated for aperiodic salary types. A salary type cannot be used differently and the setting is always available starting from the corresponding setup time. A change or subsequent activation or deactivation of an aperiodic salary type does not lead to recalculation. This is also not the case for cantons with annual calculations, since the calculation is based on the processed wage items.

For employment during the month/year as well as for other employment, periodic salary types are extrapolated. Aperiodic salary types are only added after the respective extrapolation.

To differentiate between periodic and aperiodic versions, Swissdec Guidelines contain Chapter 9.6.1.1 Periodic / aperiodic salary types.

Reference is made to the instructions for filling out wage statement and the principle is that benefits listed in paragraphs 1, 2 or 7 of the wage statement would generally be considered periodic. Benefits to be listed in paragraphs 3, 4 or 5 would generally be considered aperiodic. Salary types shown in paragraph 6 of the wage statement are considered periodic or aperiodic, depending on the salary type nature.

The following, non-exhaustive, salary types are listed in Circular 45 of the Federal Tax Administration:

Periodic salary types:
- Monthly wage
- Hourly wage
- 13th monthly wage
- Allowances
- etc.
=> the box next to the 'Tax at Source Rate determination aperiodic' field in the 'Obligations' tab on the Wage types card must NOT be checked for these wage types.

Aperiodic wage types:
- Compensation for overtime
- Compensation for untaken annual leave
- Seniority allowances
- Bonus payments
- Premiums
- Board members fees
- Severance payments
- Gratuities
- Non-cash benefits from employee profit participation
- etc.
=> The 'Tax at Source rate determination aperiodic' field in the 'Liability' tab on the salary types card must be activated for these salary types.

1.7 Days abroad

If a Income tax payer is delegated abroad for one or more days (e.g. for a trade fair or further training or a visit to a customer on site), the number of these days is to be reduced proportionately in the wage subject to Income. The idea is that employees only have to pay Income tax for the days they actually worked in Switzerland.

The provision states that days of travel also count as days abroad if at least half of the day was commute time. Other details are not defined. If you have any questions about the qualification of activities as days abroad, please contact your tax administration for final clarification.

A new salary type must be created to automatically settle this in the system (employer salary type). The salary type should not have any obligations for social security or taxes. Enter the transitory wage account as an account and an offset account.

Enter the salary type number in the 'IT actual days abroad ST' field in the 'Income' tab of the Payroll Setup. The fixed value of 20 (days) must be stored directly below in the 'Tax at Source Working days CH' field. Therefore, each month is billed with a maximum of 20 workdays. 20 working days per month apply to all cantons.

We recommend recording individual workdays abroad positively in the Payroll Journal with the document date so that you can see more easily what these days are based on. You must be able to disclose these days to the tax administration. If you record the days in another tool, for example in a time recording solution or in a work report, then you only can record in SwissSalary the total days abroad.

If the gross wage in a month amounts to CHF 10'000 and in the corresponding month the person has worked for 5 days abroad and for 15 days in Switzerland respectively, the days of wage subject to withholding should be reduced from 20 to 15.

IT wage = 5'000 ÷ 20 × 15 = CHF 3'750.00
IT Rate Determination (unchanged!) = CHF 5'000.00

Special regulations apply to the 13th Payday, 14th Payday and aperiodic salary types. They are not reduced based on the days abroad in the current accounting month, they are rather based on the days abroad billed in the calendar year. No special setup is required for this and Swissdec requirements are implemented.

NOTE
Days abroad cannot be taken into account retroactively. They are always taken into account for the currently billed period.

1.8 Employment during the month-during the year

If a Income tax payer is not employed for the entire tax period, an extrapolation is required to determine the rate.

A distinction must be made between the cantons with monthly and annual billing.

If you are employed in the cantons with monthly billing for less than a month due to recruitment or resignation, the wage is extrapolated to 30 days. Billed periodic wage values are extrapolated. Since all periodic wage values must be taken into account for the extrapolation, the rate-determining value does not necessarily correspond to the wage rate amount in the Employee card. You can verify the calculation using fictitious salary types in wage items.

In the cantons with annual billing, employment during the year has an impact on the calculation of the rate-determining value for the entire calendar year. The billed periodic wage types are divided by the number of employment days and extrapolated to 360 days. Aperiodic values are then taken into account as usual. This total divided by 12 produces the rate-determining value in the accounting month.

1.9 Other income sources: calculation of rate-determining value

1.9.1 Introduction

If a person only works for your company and has no substitute income sources, no extrapolation is required to determine the rate-determining wage. It doesn't matter whether the person is a monthly or hourly wage earner.

If a person has multiple occupations or has substitute income sources, the rate-determining value must be extrapolated for the withholding tax. Additional occupation includes income from self-employment or employment in home country and/or abroad as well as substitute income sources (pensions/daily allowances).

The calculation in cantons with annual calculation is more complex, since all months of the calendar year are taken into account, and not only the current month. The explanations about the calculation for monthly or hourly wage earners do not provide more detail for this.

You can see the calculated values in Wage items under Fictitious salary types. On the Paycheck you will notice that the percentage value is higher than it would be the case for the reported IT wage. Income tax is only calculated for the IT wages you earn.

In special cases when a level of employment cannot be determined for any of the occupations, the median wage IT category may be applicable. You will find more details about this in the corresponding chapter.

We have adjusted the 'Check list for persons subject to withholding tax' (Word and PDF) for you to request information from your employees for data maintenance. You can find them on our website under FAQ Income tax. By changing the language in the top right corner of the page, you can also obtain this checklist in French, Italian and English.

NOTE
TimeMachine fields can only be used to a limited extent in the area of other income sources. We are working to ensure that they are soon available in a functional manner. It is currently available for monthly wage earners in the cantons with a monthly calculation method.

1.9.2   Monthly wage earners

For monthly wage earners, the calculation is based on the fields in the Employee card:
- Employment %
- Other known income
- Total activity rate of further income

The level of employment in your company is stored in the Percents by position field.

Enable other known income sources if you know that a person employed by you also has another job or substitute income sources.
Applied to the Level of employment at other income sources field:
- If you know the level of employment at other income sources, enter it as a value. You can also file 100 or more.
- If you do not know the level of employment at other income sources, enter 0. A conversion to 100% is undertaken.

Periodic wage types are divided by the level of employment in your company and extrapolated to the total level of employment. All aperiodic wage types are added together.

1.9.3   Hourly wage earners

The level of employment in your company is recalculated with every billing.
A time type must be assigned in the wage type card for the wage types that are used to calculate the level of employment. This time type must be taken into account for the actual time. Usually, it is the "Hourly wage" type.

For hourly wage earners, the calculation is based on the fields in the Personnel card:

- Monthly Part
- Other known income
- Total activity rate of further income

Enable other known income sources if you know that a person employed by you also has another job or substitute income sources.
Applied to the Level of employment at other income sources field:
- If you know the level of employment at other income sources, enter it as a value. You can also file 100 or more.
- If you do not know the level of employment at other income sources, enter 0. A conversion to 100% is undertaken.

Firstly, the level of employment is calculated. The number of salary types billed with the Actual time type is set in relation to monthly items stored in the Employee card.
Secondly, the wage types that are periodically set up for rate determination are divided by the calculated level of employment and extrapolated to the total level of employment.
The total level of employment corresponds to the calculated level of employment value in your company plus the level of employment at other income sources or 100% if it is recorded as 0.

All aperiodic salary types are added together.

1.9.4   Median Wage

The 2021 withholding tax reform now provides for rate-determining value calculation with the median wage taken into account. With this construct, all employees with very little employment information should also be taxed as fairly as possible.

For the median wage to be used for rate determination, the following conditions must be met cumulatively:
- the person is a Income tax payer
- the person has multiple occupations
- a level of employment cannot be determined for any of the occupations
- total level of employment is unknown
- total gross income is unknown

The tool in our FAQ income taxRate-determining income will also help you with the median wage if the questions have been answered accordingly.

If all these conditions are met, the so-called median wage is used for the rate-determining value. It corresponds to an 'average wage'. Each canton provides this value every year along with the withholding tax rate. The wage subject to withholding tax remains unchanged; the value is only used to determine the rate. Unlike the values actually billed for a calculable total level of employment, you do not see the median wage value in wage items.
If gross income in a month is higher than the median wage, the rate table percentage is applied. If gross income is lower, the percentage based on the median wage is applied.

Enter the person as withholding tax payer with the regular applicable rate information as well as 'yes' and 0% for other known income sources. Additionally enable the median wage IT category.

NOTE
The median wage is not taken into account correctly for persons who have assigned the hourly wage

code. Basically, a level of employment can be calculated for hourly wage earners and the assignment of the median wage IT category should hardly be considered for them. If this is currently the case, please enter the percentage in the 'Fixed IT rate' field in the 'Income tax' tab of the Employee card. This shall only apply if the billed wage is lower than the median wage. If the wage paid is higher, remove this value. Currently, this check must be carried out manually.

1.10   Back payments after resignation

It often happens, especially with resignations, that another pay process is necessary after the regular pay process (e.g., with the monthly wage and the portion of the 13th Payday) so that overtime and other entitlements can be remunerated after the actual resignation.

When considering additional payments after resignation, the decisive factor is whether the entitlement to this additional payment already existed at resignation or not.

For example, the entitlements below are already known at the time of resignation:
- holiday entitlement
- overtime
- sales commission

If the entitlement is already known at resignation, the payments after resignation must be fully arranged for in the month of resignation. This means that the wage subject to income tax and the income tax rate determination are added from both pay processes. The calculation is made as if the first pay process had been canceled and everything was billed together in the second pay process. In this case you do not need to change anything in the Personnel card. Include the wage values to be settled in the Report journal.

For example, the entitlements below are not yet known at the time of resignation:
- bonus
- retroactively defied premium

If the entitlement is not yet known at resignation, the value of the month of resignation is added to calculate the rate-determining wage, not the wage subject to income tax though. This means that the first payslip is no longer adjusted. Only the new amount (i.e. bonus or retroactively defied premium), and not the original wage in the month of resignation, is raised for the second payslip with the wage payment after resignation. In this case, you must activate the 'Tax at Source additional payment after resignation without recalculation' field in the 'Tax at Source' tab of the Employee card of the person concerned.

1.11   Salary declaration ELM

All cantons can receive wage reports via ELM. We recommend monthly submission.

With the Swissdec 5.0 certification, the file was adjusted to fit the new specifications.

Please note that individual values like residence permit and life partner's employment information are written into the pay process list when pay process is settled. If this information is missing at the time of submission, it must be entered there later.

1.12 Confirmation for employees

A new confirmation for employees has been created with the Swissdec 5.0 certification. The prerequisite for creation is wage reporting via ELM. The base for the confirmation is data from wage reports.
You can create the confirmation via Reports in wage reports.

1.13 Settlement

There are two billing reports available. Monthly evaluation for the cantons with monthly calculation and annual billing for the cantons with annual calculation. The reports will be further revised and optimized.

For internal verification, it is useful to evaluate the billed wage items, for example via the A4Q salary type lists or directly via Personnel card tab Statistics Movement and then by setting the appropriate filters.