

## AUDIT

# Audit of supervision of the cantons

Federal Tax Administration

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## KEY FACTS

In 2024, the Federal Tax Administration (FTA) collected around CHF 30 billion in direct federal tax. Direct federal tax accounted for 36% of the federal government's gross receipts. It is collected by the cantons, with 21.2% of the approximately CHF 30 billion remaining with them. The FTA's Cantonal Supervision Division shares responsibility for ensuring the uniform and legally compliant enforcement of direct federal tax.

The SFAO examined whether the FTA's Cantonal Supervision Division effectively exercises its supervisory powers over the 26 cantons. As the technical supervisor, it is the only federal authority that can check the content of the direct federal tax assessments by the cantons. The 26 cantonal financial audit offices are responsible for the financial supervision of the collection of direct federal tax and for the correct payment of the federal share of 78.8%. The SFAO therefore has no auditing powers in this area. The FTA exercises overall supervision.

Overall, the FTA has effective supervisory instruments at its disposal. However, it does not always apply them consistently. This concerns situations where individual cantons fail to comply with the uniform implementation of the Federal Act on Direct Federal Taxation (DFTA), thereby posing a risk of potentially significant tax losses.

### FTA does not scrutinise the audit results of the cantonal audit offices critically enough

Due to a software problem, the cantonal tax administration of Geneva has been in breach of the DFTA for several years by failing to issue complete provisional tax invoices to companies. This affects several hundred million Swiss francs in total, on which the federal government also pays interest. The Geneva cantonal financial audit office has been aware of the issue since January 2024, but nevertheless issued its audit opinion in December 2024 and failed to mention the matter in its audit report to the FTA or the SFAO.

In the canton of Thurgau, provisional tax invoices totalling around CHF 7.2 million were not issued for 2022. The Thurgau cantonal financial audit office did not detect this violation of the DFTA.

The above examples show that the Cantonal Supervision Division does not scrutinise the audit results of the cantonal financial audit offices critically enough.

### Legal requirements not enforced uniformly enough

Circulars specify the DFTA in more detail. In some cases, they allow too much room for cantonal interpretation, which can lead to tax losses for the federal government. Furthermore, some circulars do not cover all relevant issues.

For example, there are significant cantonal differences in the amount of tax-deductible lump-sum representation expenses: Zurich allows a maximum deduction of CHF 24,000, while Geneva permits up to CHF 100,000 per year.

There are also significant differences in cantonal practices regarding the tax exemption of foundations. It is not only the tax exemption of the foundations themselves that is financially relevant for the federal coffers. Donations to these foundations are also significant, as they are tax-deductible for both individuals and legal entities and reduce federal tax receipts. The corresponding circular is outdated and has not been revised by the FTA since 1994.

The FTA does not consistently or promptly demand corrections in assessment practice when it identifies significant deviations from the DFTA. While this can be addressed in established partnership with the cantons, it must, if necessary, also be enforced using the FTA's extensive supervisory instruments.

## **Insufficient risk orientation and no direct access to direct federal tax data**

The five cantons with the highest direct federal tax receipts – Zurich, Geneva, Vaud, Zug and Basel Stadt – accounted for 57% of total direct federal tax receipts in 2024. Among legal entities, 3% of companies pay almost 90% of direct federal tax. Among individuals, 10% contribute over 40% of direct federal tax.

Although the Cantonal Supervision Division prepares an annual risk analysis for its inspection plan, it still focuses too little on cantons with high tax receipts and major taxpayers. It also concentrates on a single annual audit topic that is identical across all 26 cantons. A more effective approach would be a risk-based audit mix tailored to cantonal risks and covering a broader range of topics.

The Cantonal Supervision Division must request evaluations individually from each canton. During inspections, access to the direct federal tax assessment system is available only on site. This approach is inefficient and outdated. For proactive and effective supervision, the FTA requires permanent access to assessment data in the cantons.