

Press release: BAK Taxation Index 2021

Swiss cantons increase their attractiveness as business locations

BAK Economics, 18.01.2022 (Basel/Bern/Lugano/Zurich) - The BAK Taxation Index shows that the tax burden for ordinarily taxed companies in the Swiss cantons has decreased significantly as a result of the Tax Reform and AHV Financing (TRAF). At the same time, the tax burden in international competitor locations has remained comparatively stable over the past two years. This has further improved the tax attractiveness of the Swiss cantons. For the first time, a Swiss canton has superseded the previous leader Hong Kong from the top spot, with numerous cantons following closely behind.

The BAK Taxation Index regularly measures the ordinary tax burden for companies in the Swiss cantons and their most important international competitor locations. The current edition examines how the Tax Reform and AHV Financing (TRAF), which came into effect at the beginning of 2020, has changed the attractiveness of the cantons in international tax competition. The present analysis focuses on the ordinary tax burden. The situation for companies that previously benefited from cantonal tax privileges are not considered here, nor are the specific tax-reducing effects of the TRAF R&D instruments (patent box and R&D deductions).

The tax reform has significantly reduced ordinary taxation in Switzerland

In the previous two years, a large majority of cantons have reduced profit and capital taxes as part of the tax reform. Overall, the effective tax burden (EATR) for companies has dropped significantly in many places as a result. The GDP-weighted average tax burden of all 26 cantons fell by -1.9 percentage points from 15.8 to 13.9 percent between 2019 and 2021. If 2017 is taken as the pre-TRAF date to account for the fact that the cantons of Basel-Stadt and Vaud brought forward their reductions, the decrease in the average is as much as -3.0 percentage points (from 16.9% to 13.9%).

The changes in the effective tax burden between 2019 and 2021 vary in the cantons from 0 percentage points (no change) to just under -10 percentage points. Especially cantons with tax burdens that were previously high (by Swiss standards) show strong declines. Therefore, the spread in the Swiss ranking has been reduced. Despite numerous changes in the ranking, the Swiss regional pattern has remained relatively stable: Central Switzerland tends to have a low tax burden, Eastern Switzerland a medium one, and the other regions have a high one.

Switzerland now leads international ranking

Since 2003 there has been an international trend toward lowering the effective corporate tax burden. Switzerland has kept pace with this trend and has always been below the international average of the BAK Taxation Index – this applies not only to the Swiss average, but even to the maximum value of the 26 cantons.

While the Swiss cantons have significantly reduced the tax burden, the international competitor locations have kept the burden comparatively stable over the last two years. The GDP-

weighted international average of the BAK Taxation Index decreased by only -0.2 percentage points from 2019 (26.4%) to 2021 (26.2%). Larger reductions were recorded above all in France (-5.2 %-points) and Belgium (-2.0).

In an international comparison, the attractiveness of the Swiss cantons in terms of ordinary taxation of companies has thus increased again because of the TRAF. In 2021, Nidwalden replaced the previous leader Hong Kong (9.9%) at the top of the international ranking, with a larger group of cantons such as Uri, Obwalden, and Appenzell A.Rh. following very closely behind. The GDP-weighted Swiss average is now below the tax burden in Singapore. Likewise, corporate taxation in Switzerland is considerably more attractive than in neighboring countries, where tax burdens range from 8.6 (Austria) to 15.4 percentage points (Germany) above the Swiss average.

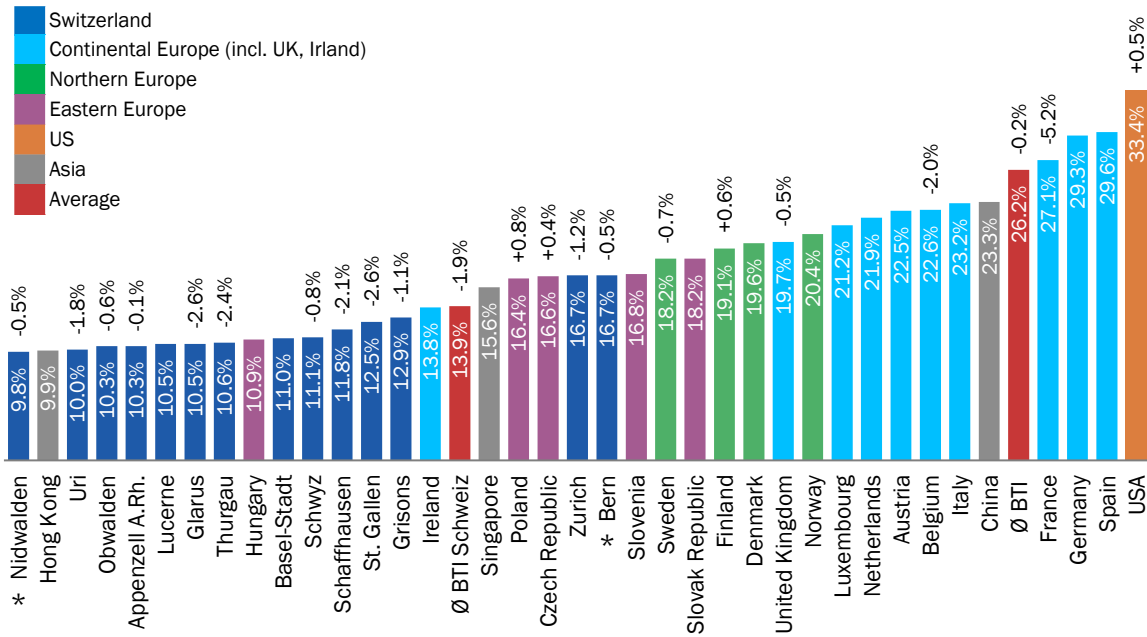
With the planned OECD tax reform, to which Switzerland has also agreed, the Swiss cantons are already facing new changes. Among other things, the OECD reform provides for minimum taxation of multinationals with a turnover of EUR 750 million. It remains to be seen how this will affect international tax competition, especially in the area of the numerous companies that will fall below the turnover threshold.

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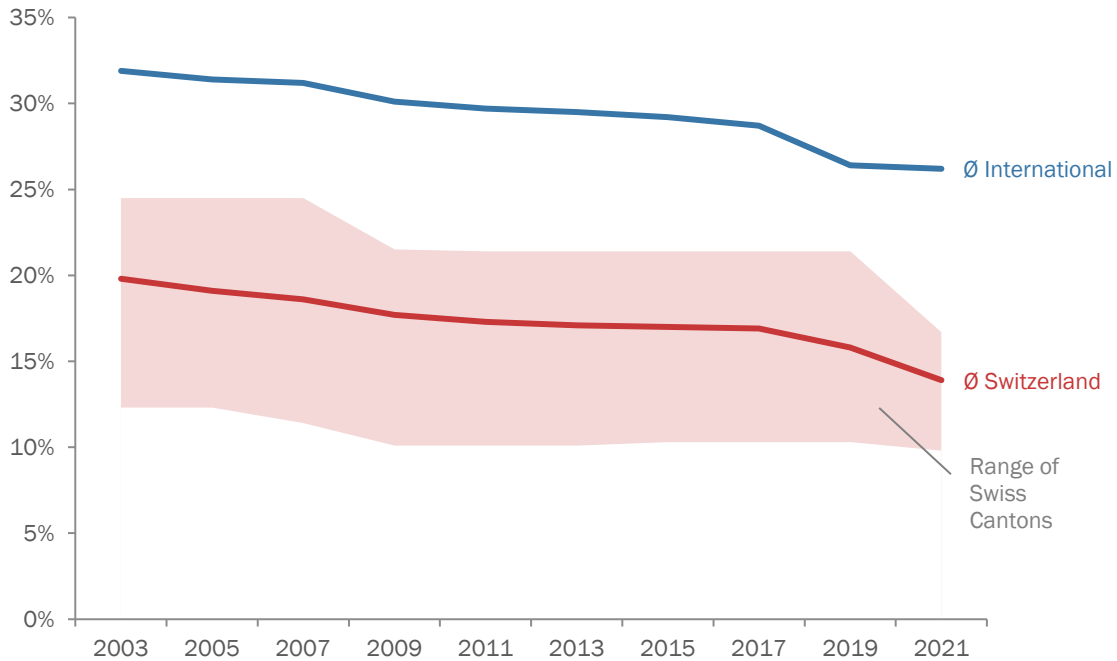
Fig.1 BAK Taxation Index for corporations 2021



EATR (i.e., effective average tax burden) for companies in Swiss cantons (measured at the cantonal main location) and international locations (measured at the economic main location) in %. Changes compared to 2019 in %-points above the column. For the Swiss cantons, the values of all cantons participating in the project and the GDP-weighted average of all 26 cantons are shown. (*) Of all 26 cantons, Nidwalden is the canton with the lowest burden, Bern the canton with the highest burden (together with Zurich).

Source: BAK Economics, ZEW

Fig.2 Change of the BAK Taxation Index for corporations from 2003 to 2021



EATR tax burden for companies in %. The Swiss average for all 26 cantons and the international average for all locations are GDP-weighted. The upper end of the range for all 26 cantons represents the canton with the highest tax burden in the year in question; the lower end represents the canton with the lowest tax burden.

Source: BAK Economics, ZEW

BAK Taxation Index – methodology

The BAK Taxation Index measures the fiscal attractiveness of all 26 Swiss cantons and their main international competitor regions. In the case of the Swiss cantons, the tax burden is calculated for the cantonal capital, in the case of the international locations for the economic capital. The BAK Taxation Index includes all relevant types of taxes at the different government levels and presents the effective tax burden relevant to investors.

The BAK Taxation Index for **corporations** measures the effective average tax rate (EATR) for companies:

- The index calculation is based on a manufacturing corporation composed to equal parts of various assets (intangible assets, industrial buildings, machinery, financial assets, inventories) and financed from various sources (retained earnings, debt capital, fresh investment capital). The company generates a 20% pre-tax return.
- The calculation takes account of the various types of tax rate burdens, the interaction between taxes and the main rules governing the establishment of the tax assessment base (e.g., depreciation or inventory valuation rules). This allows for meaningful comparative analysis of individual location's tax burdens at the international level. Comparison based on tax rates alone would present an incomplete picture of the actual tax burden.

However, the discussion of a **region's competitiveness** and its attractiveness as a business and residential location should not be restricted to the tax burden alone. Other location factors play an equally important role (e.g., capacity for innovation, quality of life, regulations, etc.).

The BAK Taxation Index is published by BAK Economics AG in cooperation with the Centre for European Economic Research (ZEW) on a regular basis since 2003.

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