

BAK Press release: BAK Taxation Index 2017

Swiss cantons are still leading in global tax competition

BAK Economics, 10 January 2018 (Basel/Zurich) – According to the BAK Taxation Index 2017 the Swiss cantons continue to do very well internationally in terms of tax charges for corporations and highly qualified individuals. The tax environment has not changed fundamentally since the last survey in 2015. However, with the planned reforms in the USA set to fuel international tax competition, there are big changes ahead. At the same time, Switzerland is implementing its biggest tax reforms in decades (Tax Proposal 17) to maintain the country's tax and location attractiveness.

Tax charges for corporations

According to the BAK Taxation Index 2017, the Swiss cantons hold an excellent position when it comes to corporate tax charges (cf. Fig. 1): The canton with the lowest tax charges (Nidwalden: 10.1%) is just behind the leader Hong Kong, while the canton with the highest charges (Geneva: 21.4%) is still close to 8 percentage points below the global average.

Internationally, the range of different corporate tax charges remains substantial: Tax charges imposed on companies in the leading location, Hong Kong (9.9%), are almost four times lower than charges levied in New York (40.8%), which is at the bottom of the league. The GDP-weighted average of the BAK Taxation Index is 29.0 per cent.

A number of significant changes have occurred since the last survey two years ago. Tax charges declined most significantly in Hungary (-8.3 percentage points) and increased most notably in Slovenia (+1.7 percentage points). All in all, however, tax burdens have remained relatively stable. The average of the BAK Taxation Index has declined marginally (-0.1 percentage points) and the same is true for the Swiss average (-0.1 percentage points).

Tax charges for highly qualified individuals

Similar to corporate taxation, the Swiss cantons do very well when it comes to taxes for highly qualified individuals (cf. Fig. 2): The canton with the lowest tax charges (Zug: 23.0%) ranks fourth, while the canton with the highest taxes (Neuchâtel: 37.7%) is just below the international average.

The range of the BAK Taxation Index for highly qualified individuals is even wider than that for corporations: Tax charges in Singapore (9.8%), where highly qualified individuals pay the lowest taxes, are more than six times lower than in Brussels (61.0%), which has the highest charges. The average tax charge of the BAK Taxation Index is 38.5 per cent.

Compared to the last survey (BAK Taxation Index 2015), the tax burden for highly qualified employees has undergone - at least slight - changes at the majority of the locations. Hungary has implemented the biggest cuts (-2.8 percentage points), while Sweden introduced the biggest hikes (+1.3 percentage points). However, since the in- and

decreases balance each other out, the average of the BAK Taxation Index has not changed. By contrast, the Swiss average rose marginally (+0.2 percentage points).

In the long term, Swiss taxes have declined faster than international taxes

For some time now, there has been a definite trend towards lower corporate tax charges. Since 2003, the international average of the BAK Taxation Index has declined by -2.6 percentage points. At -2.9 percentage points, the Swiss average went down even further (cf. Fig. 3).

In longer-term comparison, the tax charges for highly qualified individuals have come down faster in Switzerland than at the international level: While the international average of the BAK Taxation Index has decreased only slightly since 2003 (-0.8 percentage points), the Swiss average dropped by -4.6 percentage points. However, the decline in charges in Switzerland is, to some extent, due to the exchange rate development; with the comparative income in CHF decreasing in line with the franc's appreciation, the tax charge went down due to tax progression. If we restrict our analysis to changes in tax legislation, the Swiss average has 'merely' declined by -2.9 percentage points.

There are several reasons why Switzerland and the international locations developed in different directions: On the one hand, the Swiss cantons have very healthy budgets in international comparison, which facilitate lower tax charges. On the other hand, Switzerland was less affected by the last financial and economic crisis than other countries.

Imminent storm in the tax environment

The planned tax reform in the USA is likely to result in a significant improvement of the USA's low rank on the BAK Taxation Index. Moreover, the reform is set to fuel international tax competition and put Switzerland's neighbours, for instance Germany and France, on the spot. The next round in the tax competition match has thus been launched.

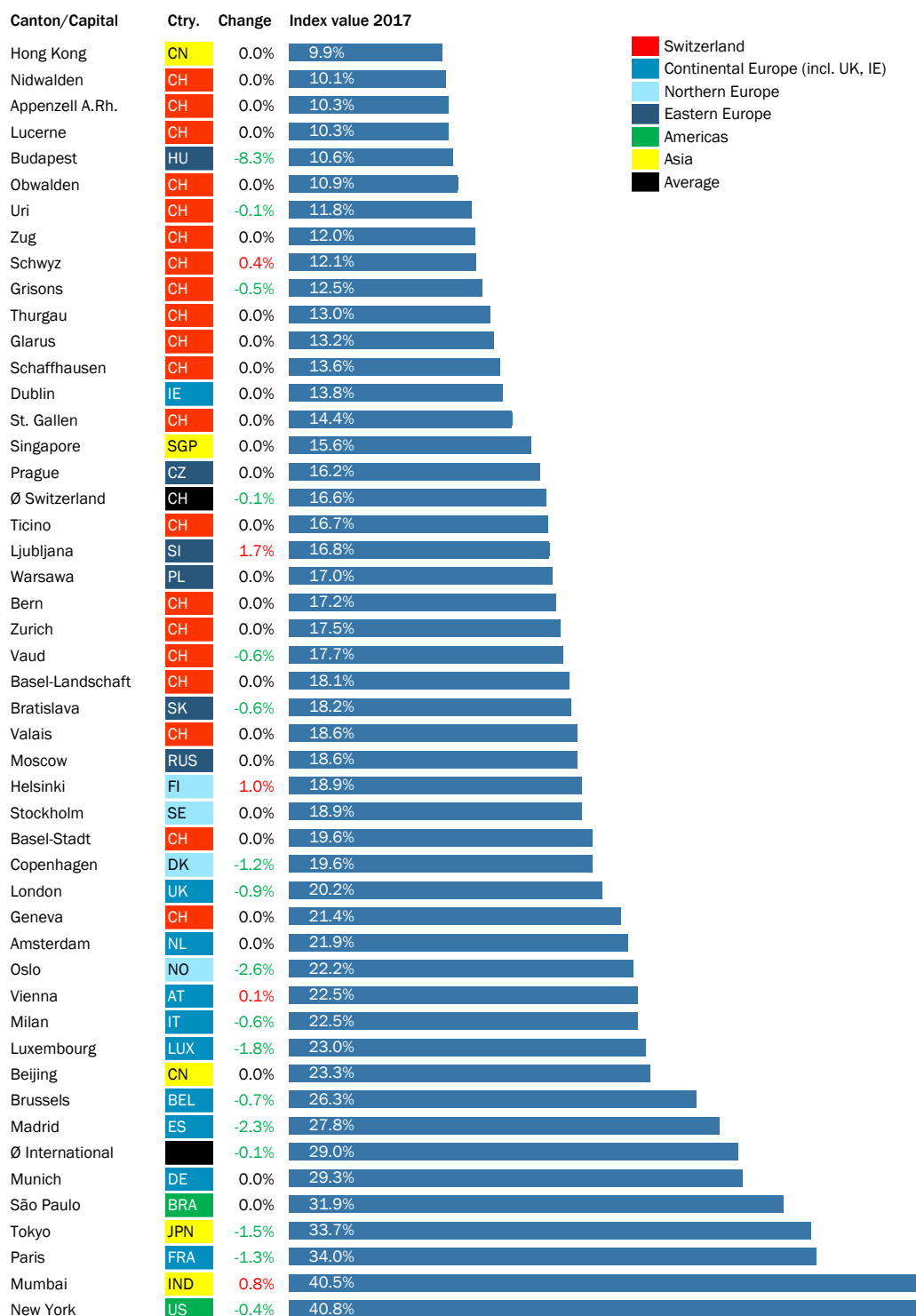
Switzerland is currently working to maintain its tax and location attractiveness through its 'Tax Proposal 17' reform. Aside from the abolition of tax privileges for special status companies and a cut in tax on earnings in the cantons, the Proposal also provides for the introduction of research and development incentives (higher R&D deductions and patent box regimes). The innovation incentives, which are becoming increasingly popular internationally, are to ensure that Switzerland remains an attractive location for research-intensive enterprises.

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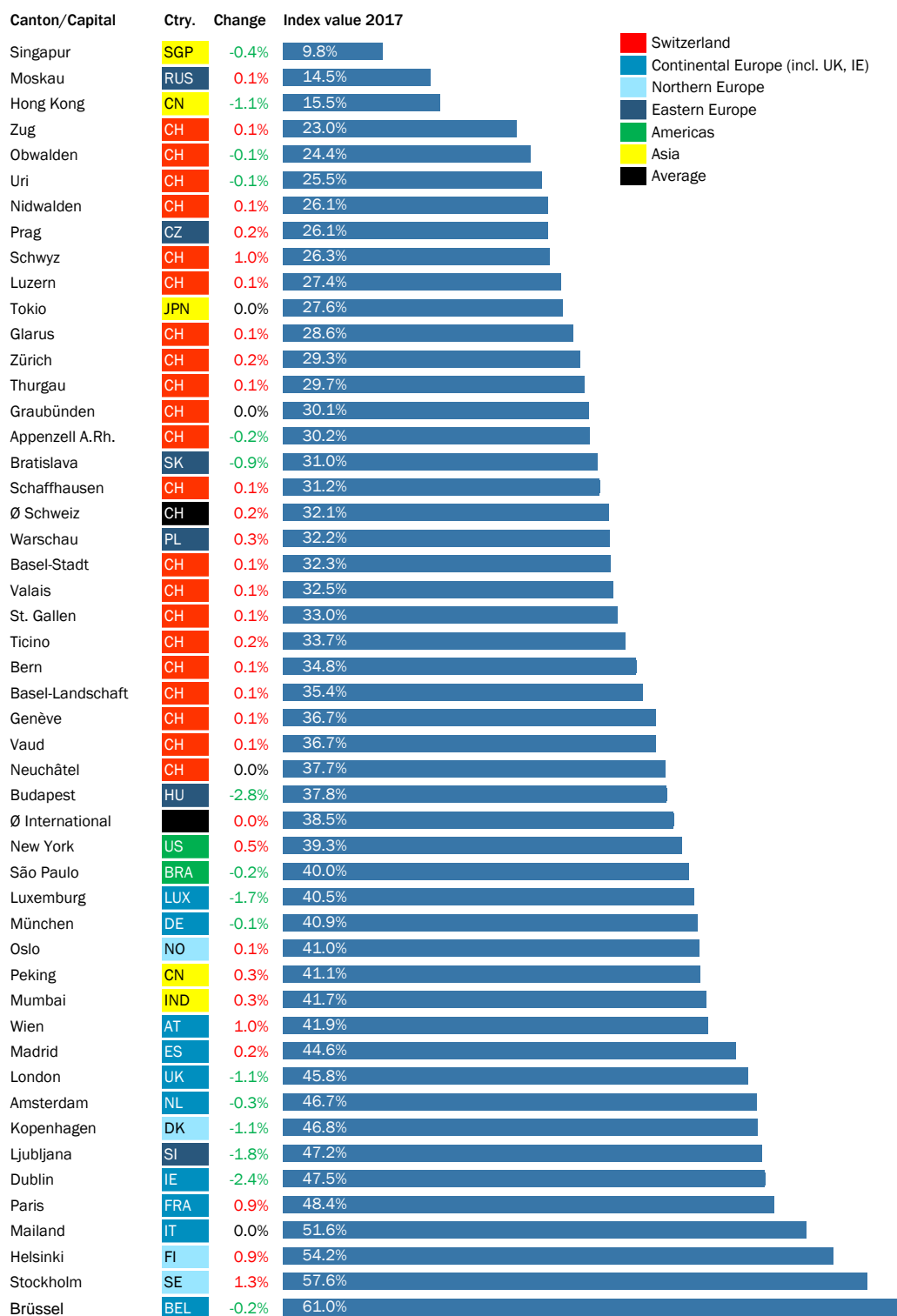
Fig. 2 BAK Taxation Index 2017 for corporations



Effective average tax rate (EATR) applicable to companies in Swiss cantons (calculated for the cantonal capital) and at international business locations (calculated for the economic capital) in % (cf. blue pillars or 4th column). In/decrease from 2015 figures in percentage points (cf. third column). In the case of the Swiss cantons, the chart presents the figures for all cantons involved in the project, as well as the Swiss minimum (Nidwalden, project participant), the Swiss maximum (Geneva) and the GDP-weighted average of all 26 cantons.

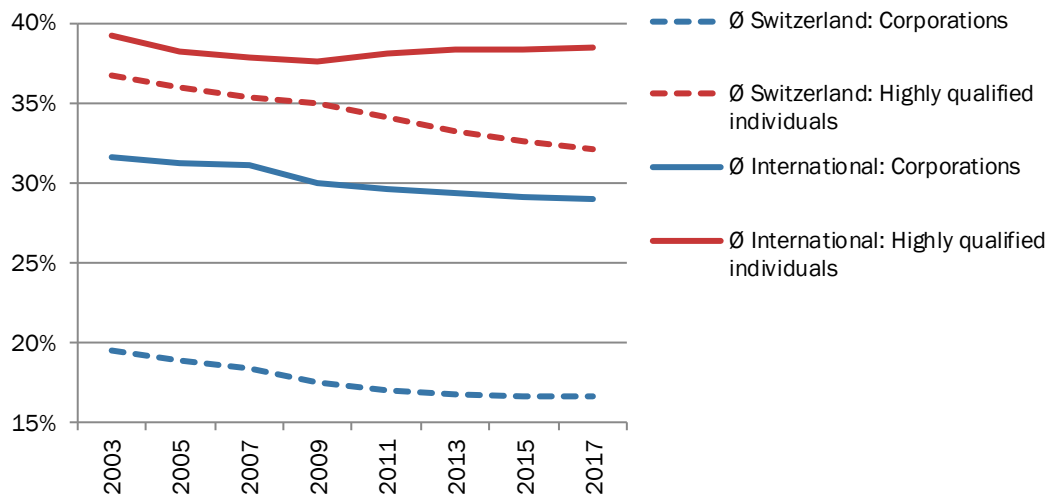
Source: BAK Economics, ZEW

Fig.3 BAK Taxation Index 2017 for highly qualified individuals



Effective average tax rate (EATR) applicable to highly qualified employees in Swiss cantons (calculated for the cantonal capital) and at international business locations (calculated for the economic capital) in % (cf. blue pillars or 4th column); the standard case depicted here is based on an unmarried individual without children with an income after taxes of EUR 100.000. In/decrease from 2015 figures in percentage points (cf. third column), excluding fluctuations in exchange rates and inflation. In the case of the Swiss cantons, the chart presents the figures for all cantons involved in the project, as well as the Swiss minimum (Zug, project participant), the Swiss maximum (Neuchâtel) and the GDP-weighted average of all 26 cantons. Source: BAK Economics, ZEW

Fig.4 Changes in the BAK Taxation Indices 2003 to 2017



EATR charges for corporations and highly qualified individuals in %. The Swiss average of all 26 cantons and the international average of all included locations are both GDP-weighted.
Source: BAK Economics, ZEW

BAK Taxation Index - methodology

Published by BAK Economics AG in cooperation with the Centre for European Economic Research (ZEW) on a regular basis since 2003, 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 charge 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 EATR charges applicable to companies, i.e. the effective tax burden incurred by 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.

The BAK Taxation Index for **highly qualified individuals** measures the EATR charges for highly qualified employees, i.e. the effective tax and contribution burden incurred by employers of highly qualified employees:

- The index calculation is based on the standard case of a single individual without children with an income after taxes of EUR 100,000.
- The calculation takes account of all relevant taxes, including the respective rules governing the establishment of the assessment base, e.g. deductibility of employee contributions to social insurance and occupational pension schemes. It also includes social insurance contributions (provided they have tax character) as well as contributions and payroll taxes paid directly by the employer.

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.).

Further information

Comprehensive information regarding the BAK Taxation Index and further tax indices is available on our website www.baktaxation.ch.