

BAK Press release: BAK Taxation Index 2023

## Swiss cantons strengthen their competitiveness in the taxation of highly qualified individuals

**BAK Economics, 25.01.2024 (Basel/Lugano) – The BAK Taxation Index shows that in 2023 the Swiss cantons further strengthened their position in the international tax competition for highly qualified individuals. For the majority of national and international locations, the tax burden increased in 2023, mainly due to inflation. Adjusted for inflation and exchange rate effects, the tax burden has decreased in all cantons due to changes in tax law. In contrast, the tax burden has remained constant or even increased in half of the international locations. The already high international competitiveness of the Swiss cantons has therefore increased further in 2023. Within Switzerland, the cantons of Central Switzerland perform best.**

International tax competition takes place not only regarding companies, but also regarding highly qualified individuals. The current edition of the BAK Taxation Index, which is compiled in close cooperation with the ZEW – Leibniz Centre for European Economic Research, examines how the Swiss cantons compare internationally in this respect. The effective tax burden for a single employee with an after-tax income of 100,000 euros was measured. For comparisons between 2023 and 2021, changes in exchange rates and inflation are filtered out to show the pure effect of changes in tax law.

### Swiss cantons with tax cuts for highly qualified individuals

In 2023, there was an increase in the tax burden for highly qualified individuals in the Swiss cantons due to inflation. If exchange rate and inflation changes are calculated out compared to 2021, the tax burden has fallen in all cantons due to changes in tax law. At federal level, this is due to the rightward shift in the federal tax rate and the increase in social deductions. In addition, most cantons saw tax rate adjustments, increases in deductions or a reduction in the tax multipliers. The GDP-weighted Swiss average of the effective tax burden (EATR) for highly qualified individuals is 32.3 per cent in 2023 (-0.7 percentage points compared to 2021). The largest tax reductions were recorded in Basel-Stadt (-1.5 percentage points), Schaffhausen (-1.5) and Schwyz (-1.5).

The international locations, on the other hand, show a heterogeneous picture. For half of the locations analysed, the tax burden for highly qualified individuals is lower in 2023 than in 2021. For the other half, the tax burden remains unchanged or even increased. The GDP-weighted average tax burden on highly qualified individuals is 40.2 per cent in 2023 (-0.6 percentage points compared to 2021). The largest reductions are observed in Sweden (-2.2 percentage points), Hungary (-1.6) and the United States (-1.5). The tax burden increased most in Slovakia (+1.0 percentage points), Poland (+0.8) and China (+0.7).

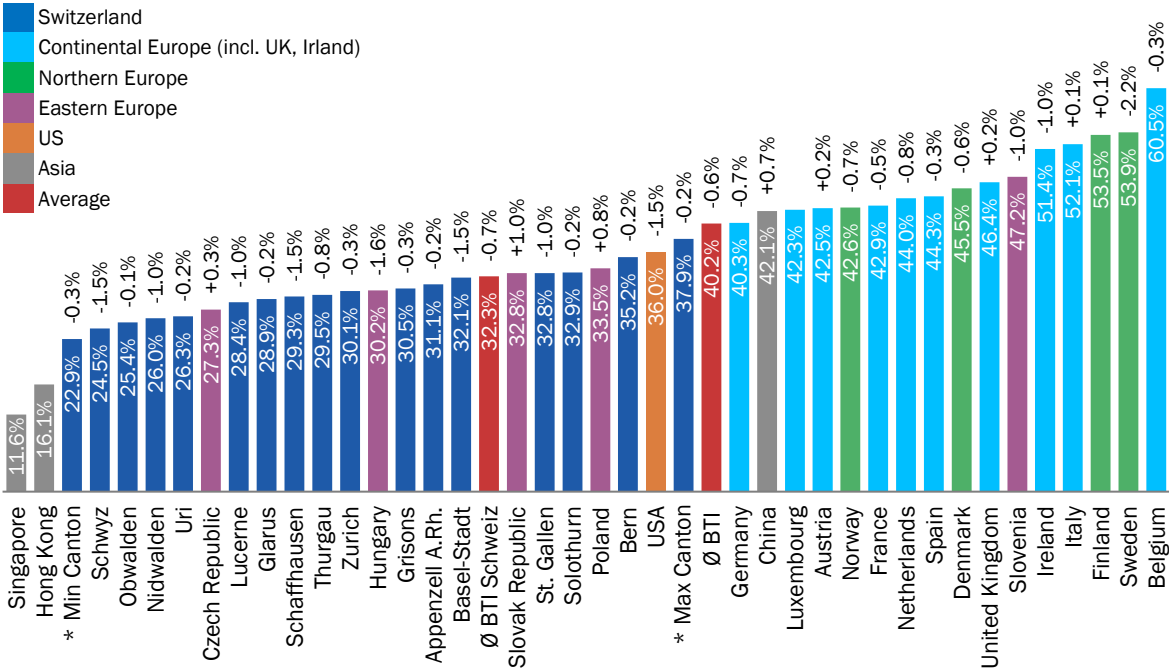
### Swiss cantons strengthen their tax attractiveness

Companies face strong international competition when recruiting highly qualified individuals, which is crucial to a company's success. This is also reflected in international tax competition in the area of highly qualified individuals, which has intensified overall. The latest changes to tax law have enabled the Swiss cantons to further strengthen their already high level of competitive-

ness. Central Swiss cantons such as Schwyz, Obwalden, Nidwalden and Uri perform best. Western Swiss cantons are at the other end of the spectrum. However, the tax burden in all 26 cantons is below the international average (40.2%).

The tax burden for highly qualified individuals in the Swiss cantons is particularly attractive compared to nearby competitor locations in Western, Southern and Northern Europe. The tax burden in neighbouring Germany, France and Austria is around 10 percentage points higher than the Swiss average (32.3%), and in Italy it is even 20 percentage points higher. By contrast, the tax burden in the Eastern European countries of the Czech Republic, Hungary, Slovakia and Poland is on the level of the Swiss cantons.

**BAK Taxation Index for highly qualified individuals 2023**



EATR (i.e., effective average tax burden) for highly qualified individuals in Swiss cantons (measured by the cantonal main location) and international locations (measured by the economic main location) in %; in the standard case shown here, a single person without children with an after-tax income of EUR 100,000 is assumed. Changes compared to 2021 in % points above the columns, exchange rate and inflation changes are calculated out. For the Swiss cantons, all cantons participating in the project and the GDP-weighted average of all 26 cantons are shown. (\*) To show the range of the tax burden in Switzerland, the values for the canton with the lowest (Min Canton) and the highest burden (Max Canton) are shown. Both are not involved in the project. Source: BAK Economics, ZEW

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## 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 **highly qualified individuals** measures the effective average tax rate (EATR) for 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.).

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

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