

BAK press release: BAK Taxation Index 2019

International tax competition forcing Swiss cantons to act

BAK Economics, 19.12.2019 (Basel/Zurich/Lugano) – The BAK Taxation Index 2019 shows that Swiss cantons continue to perform very well in international comparison when it comes to the corporate tax burden. This despite the fact that international tax competition has accelerated considerably since the last survey in 2017. The tax burden in the USA, for example, has diminished sharply thanks to the Trump tax reform. This trend looks set to continue. Other countries, such as France, have announced major reductions for companies in the next few years. The tax landscape in Switzerland will see considerable changes too, as the Swiss Tax Reform (TRAF) will be implemented next year.

Swiss cantons remain internationally attractive in 2019

According to the BAK Taxation Index 2019, Swiss cantons remain very well positioned internationally when it comes to the corporate tax burden (see Fig. 1). The GDP-weighted international average is 26.4 percent; the equivalent figure in Switzerland is more than 10 percentage points lower at 15.6 percent. The Top 5 Swiss cantons – the cantons of Nidwalden, Lucerne and Obwalden, Appenzell Ausserrhoden and, for the first time in 2019, Basel-Stadt – are closely behind the international leader Hong Kong (9.9%). Even the poorest performer among the Swiss cantons, which imposes a significantly higher 21.4 percent level of tax on companies, is well positioned compared to competing international locations such as Germany and France. Internationally, the burden can be almost twice as much (the highest figure in the BAK Taxation Index is in India: 40.1%).

International tax competition is stiffening

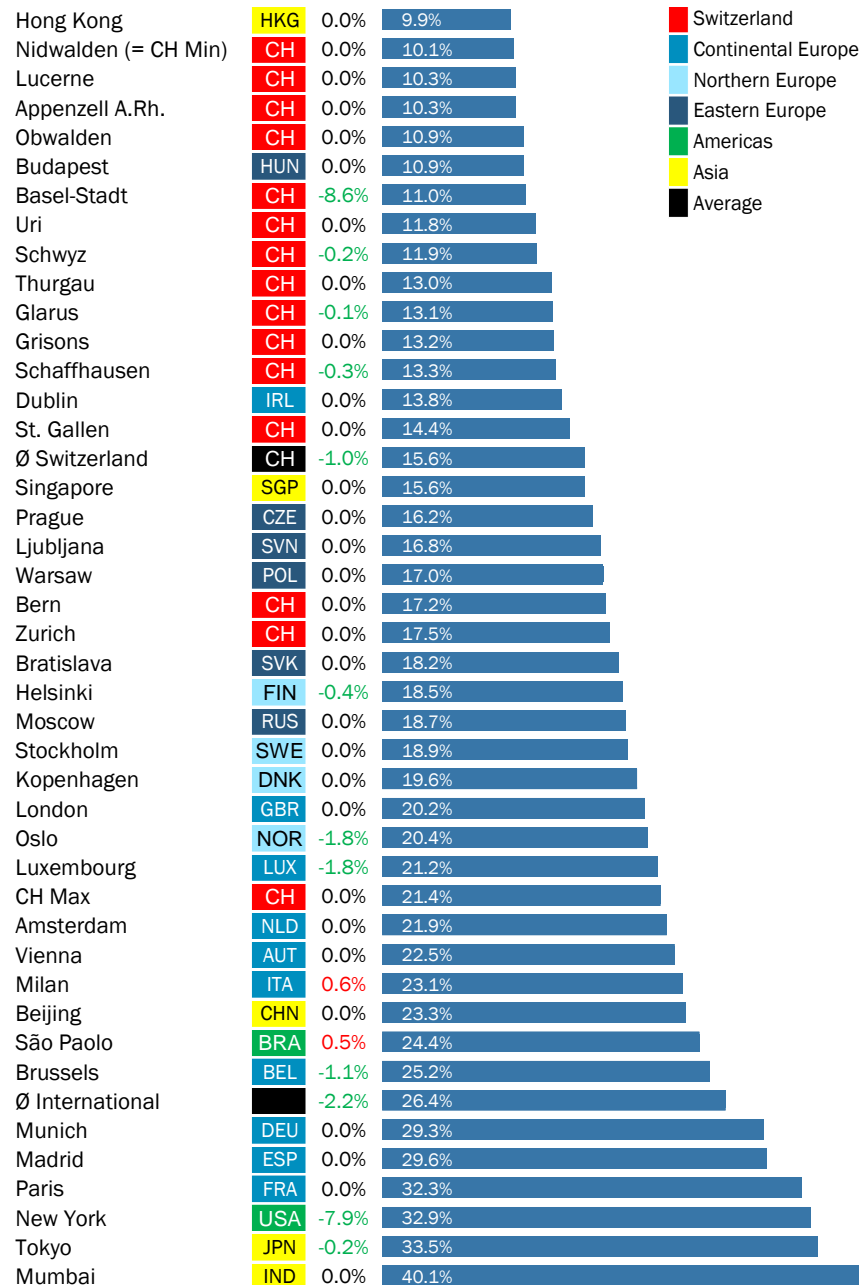
In the midst of the ongoing OECD discussions about changing the international taxation of profit, the BAK Taxation Index 2019 shows that international tax competition is once again being fought more fiercely. The USA cut the tax burden by almost 8 percentage points in the Trump tax reform of 2018, so the country no longer comes last in the index. A burden of 32.9 percent (in New York) puts it in line with other developed countries like Japan, Germany and France. Several smaller countries (Belgium, Luxembourg and Norway) implemented reductions of more than 1.0 percentage point. Overall the international average has fallen by 2.2 percentage points since 2017 as a result of tax cuts (see Fig. 2).

The downward trend is not yet over. Further substantial reductions are planned in France and Belgium, for example. The United Kingdom is also mulling a cut in corporate taxation to position the location more attractively in tax terms after Brexit.

Swiss tax reform (TRAF) brings a breath of fresh air

The TRAF tax reform approved in May this year will bring about fundamental changes in the Swiss tax landscape. As well as bringing in new, internationally recognised fiscal instruments to encourage R&D, many cantons intend to adjust their tax rates. The first heralds of this are already apparent in 2019: the cantons of Vaud and Basel-Stadt reduced ordinary taxation this year already, considerably improving their ranking.

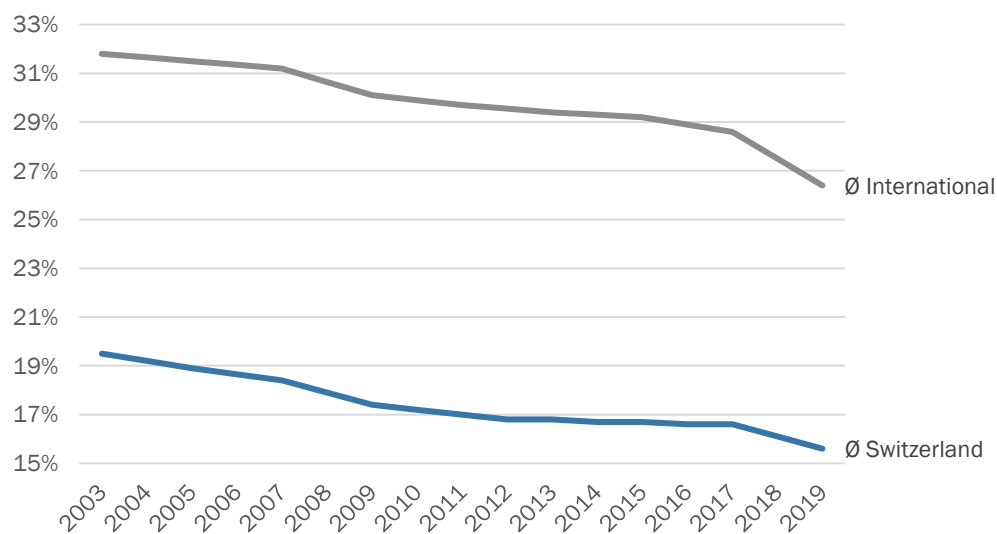
Fig.1 BAK Taxation Index for Companies 2019



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 2017 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 (CH Min = Nidwalden, project participant), the Swiss maximum (CH Max, non-participant) and the GDP-weighted average of all 26 cantons.

Source: BAK Economics, ZEW

Fig.2 **Change in the BAK Taxation Index for Companies 2003 to 2019**



EATR tax burden for companies in %. The Swiss average across all 26 cantons and the international average across all locations covered are each GDP-weighted.

Source: BAK Economics, ZEW

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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. The index is calculated for corporations and highly qualified individuals.

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.

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

For more information on the BAK Taxation Index and other tax indicators, please see our website www.baktaxation.com.