

Press release: BAK Taxation Index 2019

Swiss cantons perform very well in the international tax competition for qualified employees

BAK Economics, 15.01.2020 (Basel/Zurich/Lugano) – The BAK Taxation Index 2019 indicates an increase in the international tax competition for highly qualified employees over 2017. Key players such as France and the US have recently reduced the tax burden significantly. Since the Swiss cantons have done their fiscal policy homework, they continue to perform very well compared to other countries when it comes to the taxation of highly qualified employees. All cantons place less of a burden on highly qualified employees than the international average. European competitors in particular continue to tax highly qualified employees at a higher rate.

International tax burden reduced for highly qualified employees

Not only companies are affected by international tax competition. The competition for taxing qualified employees is also stiffening. This is evidenced by the BAK Taxation Index 2019 for highly qualified employees, which measures the effective tax burden for employing a single highly skilled person with a net income of EUR 100,000.

The average tax burden on highly qualified employees worldwide in 2019 was down 1.4 percentage points on 2017. Significant tax reductions were reported in particular in France (–5.9 percentage points), the US (–3.5 percentage points) and Norway (–3.3 percentage points). China, Denmark, the UK, Finland and Belgium also saw reductions of at least 1.0 percentage points. However, increases were reported in some locations, especially Ireland (+2.0 percentage points), but these had less impact than the reductions.

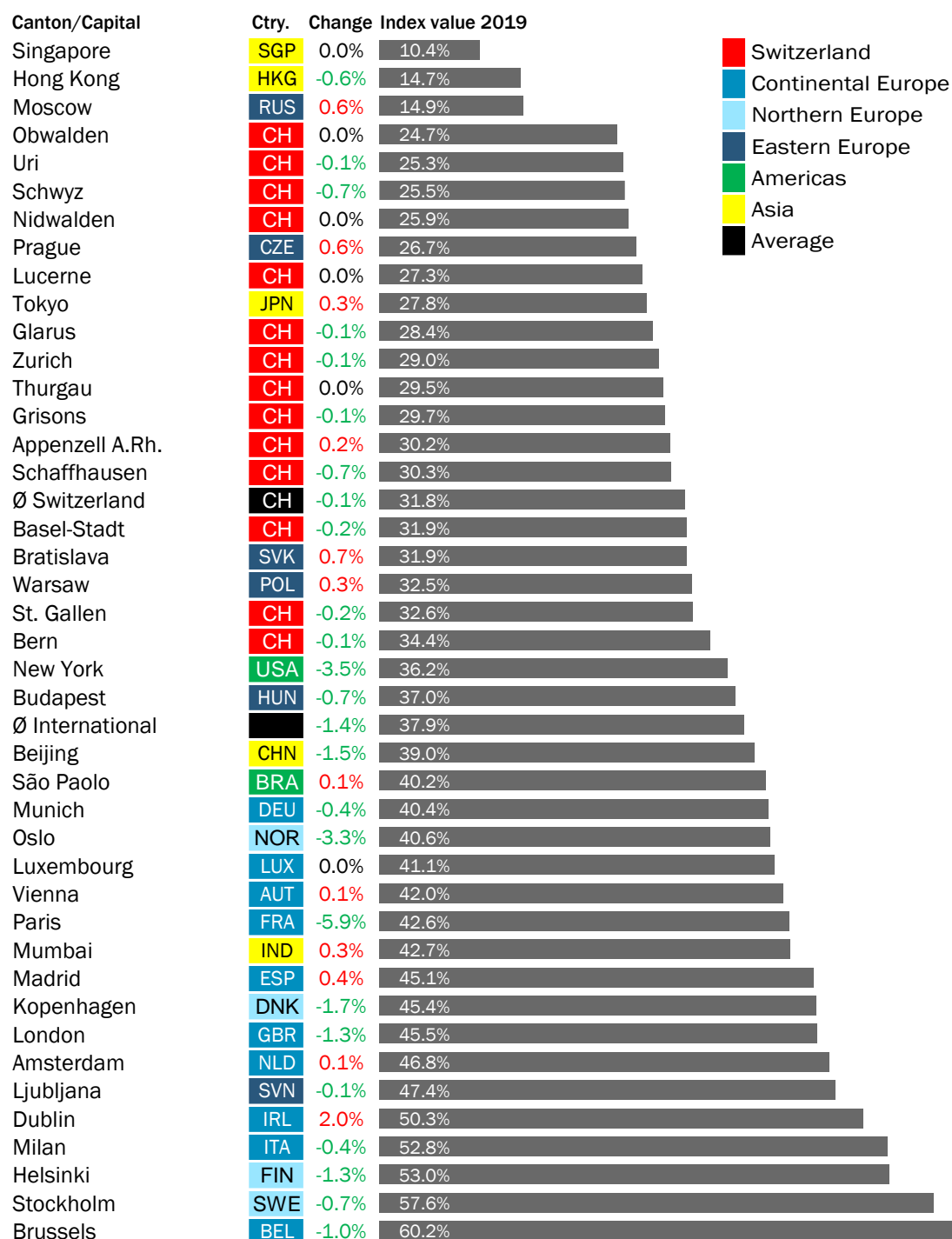
Compared to the international trend, the Swiss average across all cantons declined only slightly (–0.1 percentage points). While the tax burden for highly qualified employees fell in the majority of cantons, in most cases this was only marginally. The biggest reductions were recorded in the cantons of Schwyz and Schaffhausen (–0.7 percentage points). In some cantons, there were also slight tax increases.

Swiss cantons continue to perform well

Despite the accelerating international tax competition for highly qualified employees, the Swiss cantons continue to perform very well in the international ranking. Cantons in Central Switzerland rank best, with those in Western Switzerland ranking at the other end of the spectrum. Yet, the tax burden in all cantons is below the international average (37.9%).

The cantons appear even more attractive when compared with competitor locations in Western, Southern and Northern Europe. For example, the average burden in Switzerland (31.8%) is around 10 percentage points below that of its neighbours in Germany, France and Austria – and more than 20 percentage points ahead of Italy.

Fig. 1 BAK Taxation Index for highly qualified employees 2019



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 2017 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 and the GDP-weighted average of all 26 cantons.

Source: BAK Economics

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 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.).

For more information, visit www.baktaxation.com.

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