

# BAK Taxation Index 2019

## Executive Summary



**Client**

Swiss Federal Tax Administration (ESTV)

Tax and revenue offices, macroeconomic committees and economic development authorities of the cantons of Appenzell A.Rh., Basel-Stadt, Bern, Glarus, Grisons, Lucerne, Nidwalden, Obwalden, Schaffhausen, Schwyz, St. Gallen, Thurgau, Uri and Zurich

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## Corporations

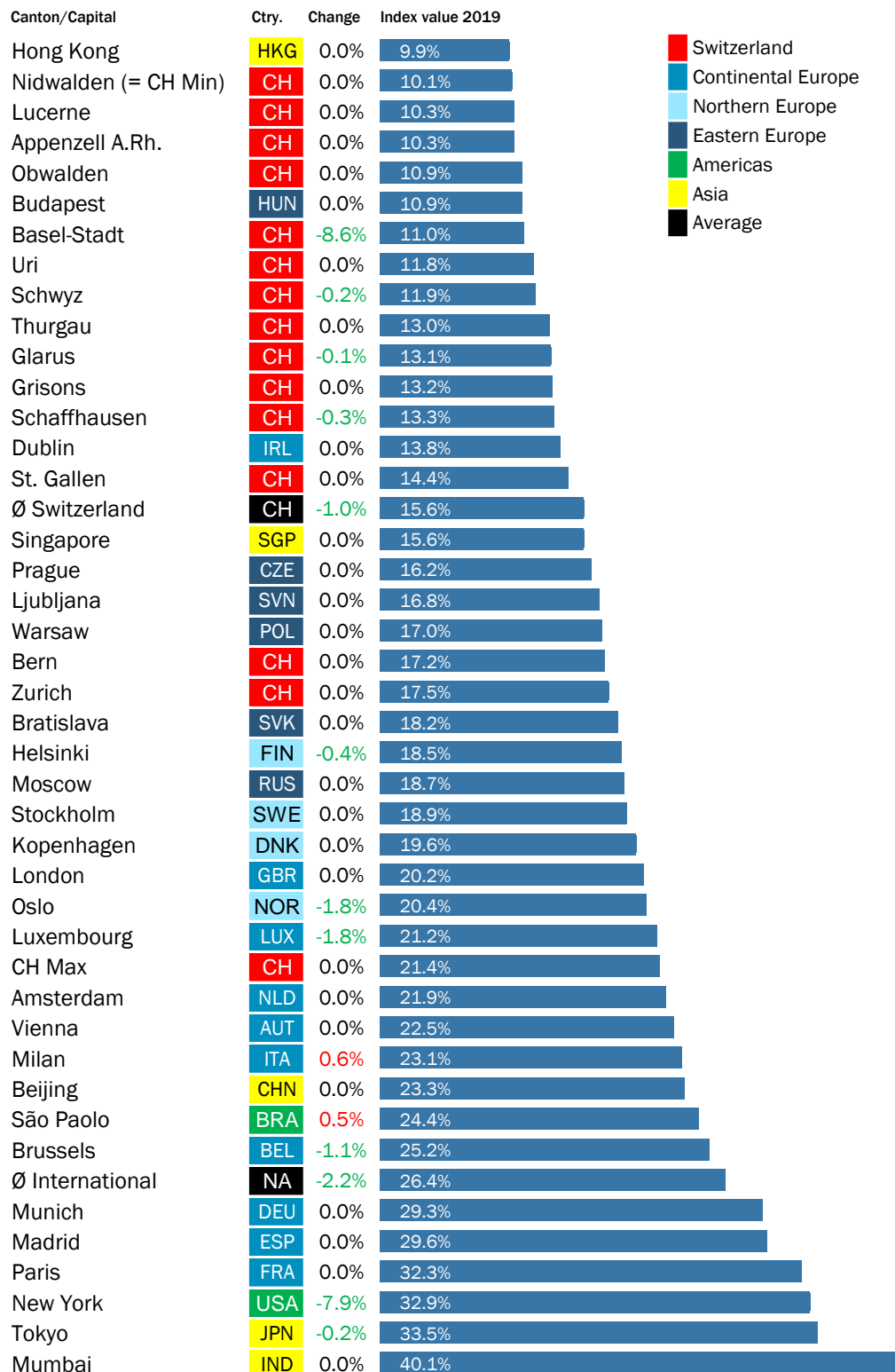
The key indicator of the BAK Taxation Index for corporations presents the effective tax burden (EATR) as a percentage of the earnings of a highly profitable investment. The calculation includes the regular taxes on earnings, taxes on capital and, where applicable, property taxes at the various government levels. Furthermore, the calculation takes into account the main provisions governing the establishment of the assessment base (e.g. special depreciation rules).

Compared to the last survey conducted two years ago, the BAK Taxation Index 2019 for companies has undergone some significant changes. Even though the tax burden in the international locations has on average decreased more than in the Swiss cantons, most Swiss cantons continue to be well to very well positioned in international tax competition.

The GDP-weighted Swiss average of the BAK Taxation Index fell by -1.0 percentage points. This is primarily because the cantons of Basel-Stadt and Vaud implemented the first measures of the upcoming Swiss Tax Reform (TRAF) as early as 2019, namely substantial adjustments to the profit and capital tax rates. In Basel-Stadt, for example, the EATR tax burden fell by -8.6 percentage points, which means that the canton jumped from one of the lowest ranks to the top 5 cantons in the Swiss ranking. In addition, some other cantons such as Schwyz, Glarus and Schaffhausen have introduced minor tax reductions.

The GDP-weighted international average of the BAK Taxation Index has also fallen (-2.2 %-points). The main reason for this is the 2018 US tax reform, which reduced the EATR tax burden in the USA by -7.9 percentage points. While the US was previously ranked last in the BAK Taxation Index, it now has a tax burden like that of Japan and France. Furthermore, Norway (-1.8 %-points), Luxembourg (-1.8 %-points) and Belgium (-1.1 %-points) reduced the tax burden by more than -1.0 percentage points. In contrast, the tax burden rose slightly in Italy and Brazil.

**Fig. 1 BAK Taxation Index for corporations 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

## Highly qualified individuals

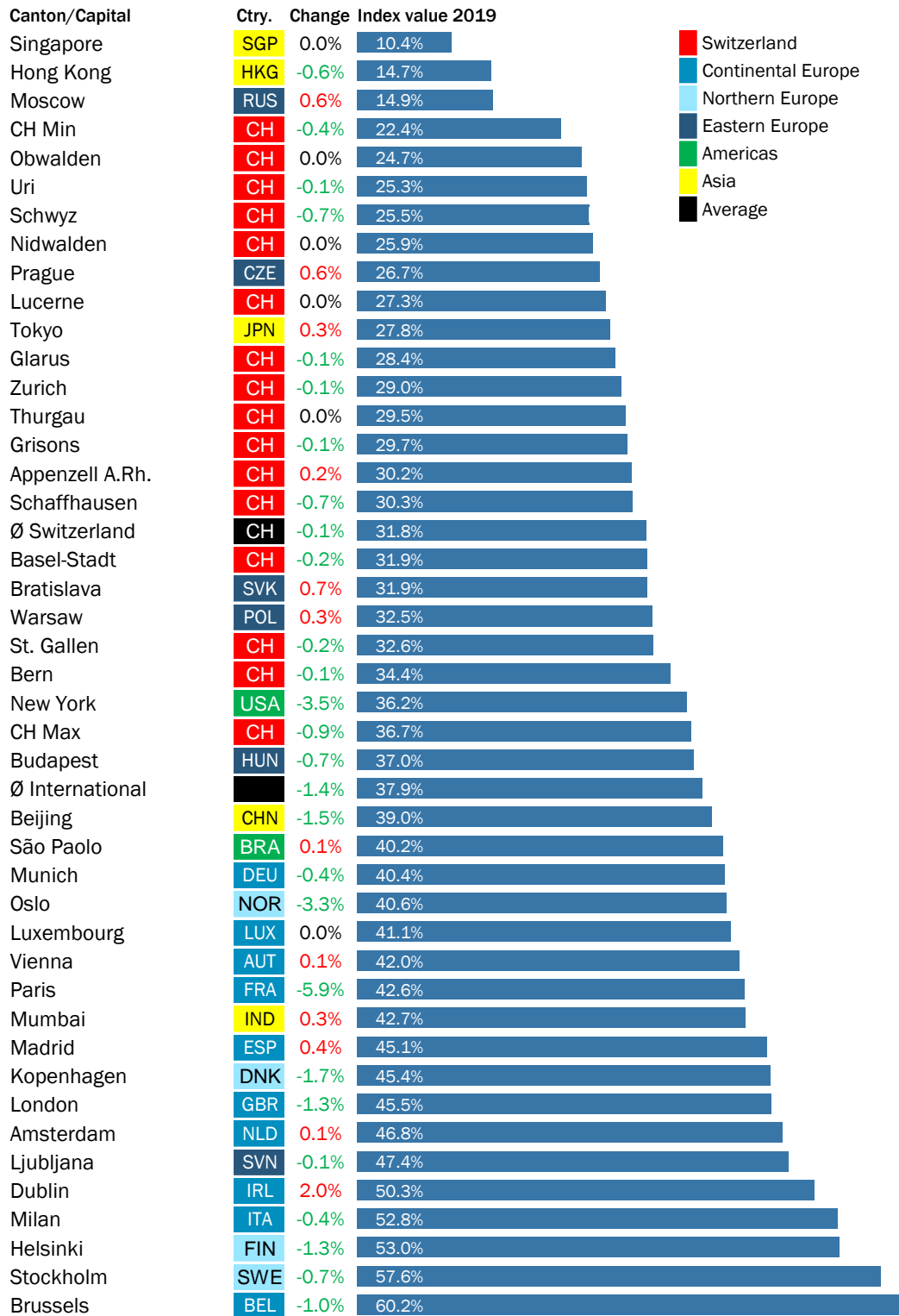
The key indicator of the BAK Taxation Index for highly qualified individuals presents the effective tax burden (EATR) as a percentage of the employment costs incurred for an unmarried, single employee with an income after taxes of EUR 100,000 (at 2010 base prices). Aside from taxes on income, the calculation also includes incidental wage costs with tax character payable by the employer and the employee.

Compared to the last survey (BAK Taxation Index 2017), the tax burden on highly qualified employees has changed in almost all locations. The international average tax burden has fallen more sharply than the Swiss. As with corporate taxation, most Swiss cantons still perform well to very well when it comes to the taxation of highly qualified employees.

The GDP-weighted Swiss average is slightly lower in 2019 than in 2017 (-0.1 %-points). In many cantons, the tax burden for highly qualified people has decreased, but mostly only marginally. The largest reductions were recorded in the two cantons of Schwyz and Schaffhausen (-0.7 %-points). In some cantons, there were also small tax increases.

The GDP-weighted international average of the BAK Taxation Index fell by -1.4 percentage points. France (-5.9 %-points), the USA (-3.5 %-points) and Norway (-3.3 %-points) significantly reduced the tax burden for highly qualified employees. China, Denmark, Great Britain, Finland and Belgium also saw reductions of more than -1.0 percentage points. On the other hand, there were increases of the tax burden in some locations, especially in Ireland (+2.0 %-points), but these had less impact than the reductions.

**Fig. 2 BAK Taxation Index for highly qualified individuals 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, as well as the Swiss minimum (CH Min, not involved in the project), the Swiss maximum (CH Max, not involved in the project) and the GDP-weighted average of all 26 cantons.

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.).