

**BAK Taxation Index:
Swiss and International Update 2021**

Taxation of companies

December 2021



Clients

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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Executive Summary

The BAK Taxation Index regularly records the tax burden for companies and highly qualified workers in the Swiss cantons and their most important international competitor locations. Both are relevant factors influencing companies' location decisions. This Executive Summary presents the most important results of the update on the ordinary tax burden for companies to the legal status 2021.

The main indicator of the BAK Taxation Index for companies is the effective average tax burden (EATR) measured as a percentage of the profit of a highly profitable investment. The calculation takes into account the ordinary taxes on profits, capital and, if applicable, on property at the various levels of government. The most important provisions for determining the tax base (e.g., depreciation rules) are also taken into account.

In Switzerland, the tax burden was calculated for all 26 cantons. The following statements refer to all cantons, but concrete values are only published for the 14 cantons participating in the project.

Swiss ranking

Compared to the last survey two years ago (legal status 2019), there have been numerous changes in the tax burden for companies in the BAK Taxation Index 2021, especially in Switzerland. The reason is that the Tax Reform and AHV Financing (TRAF) came into force at the beginning of 2020 and as a result the vast majority of cantons have lowered their profit and capital taxes. The GDP-weighted average of all 26 cantons decreased by -1.9 percentage points from 15.8 to 13.9 percent between 2019 and 2021. If 2017 is taken as the pre-TRAF year to account for the fact that the cantons of Basel-Stadt and Vaud brought forward their cuts, the decrease in the average is as much as -3.0 percentage points (from 16.9% to 13.9%).

The changes in the effective tax burden between 2019 and 2021 vary in the cantons from 0 percentage points (no change) to just under -10 percentage points. The cantons in which the tax burden was previously high (by Swiss standards) show particularly sharp declines. This has reduced the dispersion of the cantons in the Swiss ranking. Despite numerous changes in the Swiss ranking, however, the regional pattern remained relatively stable: Central Switzerland tends to have a low tax burden compared to the other Swiss regions, Eastern Switzerland has a medium tax burden, and the other regions tend to have a high tax burden.

International ranking

While the Swiss cantons have significantly reduced the tax burden at the current margin, the international competitor locations have kept the burden comparatively stable over the past two years. The GDP-weighted international average of the BAK Taxation Index fell by only -0.2 percentage points from 2019 (26.4%) to 2021 (26.2%). Among the international locations, France and Belgium were able to improve their rankings, partly due to reductions in the corporate tax rate. In Poland, Finland, the US and the

Czech Republic, on the other hand, the burden increased. With the exception of the US, this is accompanied by a deterioration in the ranking.

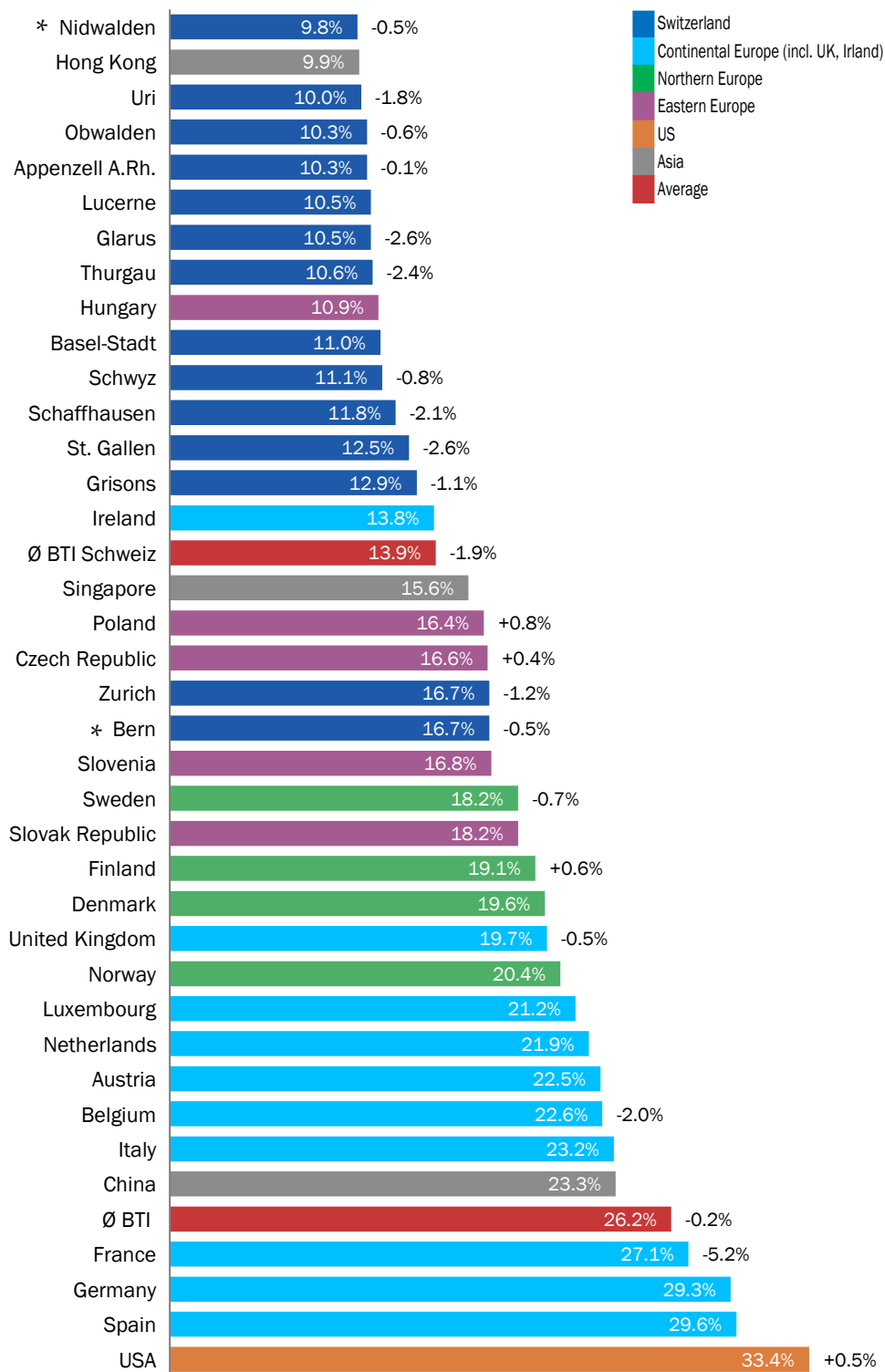
Among the international locations, the tax burden remains relatively low in Eastern Europe, moderate in Scandinavia, rather high in Continental Europe (incl. UK, excl. IE) and high in the US. The ranking of the Asian locations is heterogeneous. While Hong Kong shows a very low tax burden, Singapore is in the upper midfield and China in the lowest ranks.

Conclusion for the tax competitiveness of the Swiss cantons

In an international comparison, the TRAF has made the Swiss cantons even more attractive for companies subject to ordinary taxation. The Swiss cantons perform well to very well in international tax competition.

Switzerland's GDP-weighted average of 13.9 percent in 2021 is significantly below the GDP-weighted international average of 26.2 percent for the BTI. Nidwalden (9.8%) has replaced the previous leader Hong Kong (9.9%) at the top of the international ranking in 2021, with a larger group of cantons following closely behind. The GDP-weighted Swiss average is now below the tax burden in Singapore. Likewise, Switzerland taxes considerably more attractively than its neighbouring countries, where the tax burdens are between 8.6 (Austria) and 15.4 percentage points (Germany) above the Swiss average.

Fig.1 BAK Taxation Index for companies 2021



EATR (i.e., effective average tax burden) for companies in Swiss cantons (measured at the cantonal main location) and international locations (measured at the economic main location) in %. Changes compared to 2019 in %-points above the column. For the Swiss cantons, the values of all cantons participating in the project and the GDP-weighted average of all 26 cantons are shown. (*) Of all 26 cantons, Nidwalden is the canton with the lowest burden, Bern the canton with the highest burden (together with Zurich).

Source: BAK Economics, ZEW

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 **corporations** measures the effective average tax rate (EATR) for 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.).

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

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