

Press Release BAK Taxation Index: Special Theme “Patent Box” / Taxation Update Switzerland 2015

## **The Patent Box: not a cure-all remedy, but an important key component for the competitiveness of the Swiss tax system**

**The Swiss patent box proposed as a part of the Swiss Corporate Tax Reform USR III would significantly reduce the tax burden in certain situations. As a simulated calculation shows, the patent box can reduce the effective tax on corporate income by half in those Swiss cantons that have higher tax burdens. However, this only applies to individual companies in extreme cases. For other companies the patent box eases the effective tax burden only slightly or may even have no effect at all on the tax bill. Therefore the patent box is a key component to uphold the tax attractiveness of the Swiss cantons, but it is no universal remedy.**

In the lively debate about the Swiss Corporate Tax Reform (Unternehmenssteuerreform III = USR III), the patent box represents a widely accepted fiscal policy instrument. The patent box allows an effective fiscal promotion of research-intensive companies and has been met with wide international acceptance.

The patent box which is proposed as a part of USR III reduces the cantonal tax rates by up to 90% for qualified earnings (see text box below). The study by BAKBASEL quantifies the expected consequences of the patent box on the tax burden for companies in certain cantons. The simulation shows how the tax burden would look in 2015 if the patent box were already in force and applied to the corporate income tax.

### **Qualified earnings in the Patent Box:**

The OECD is currently engaged in defining the internationally accepted criteria for patent boxes (also called innovation boxes). One question in particular that still needs to be addressed is which rights besides those of patents could also qualify for the box – for example patent-like intellectual property rights and software are being discussed. These will have a significant impact on the effectiveness of the patent box. The Swiss Federal Council has announced in its dispatch that the standards that may be produced for this in the OECD will be presented in an ordinance. In what follows we will therefore always refer to “qualified earnings” when it is assumed that the earnings qualify for being included in the patent box. These are contrasted with “non-qualified earnings”.

### **In extreme cases the corporate income tax rate is reduced by half**

In cantons that have higher than average corporate income taxes, the patent box is particularly effective. For a hypothetical company, all of whose revenues are qualified earnings, by using the patent box the corporate income tax burden is reduced by more than half in the cantons Basel-Stadt, Zurich or Bern (cf. Fig. 1). By contrast, the possible reduction for the top leaders in the corporate tax race (Lucerne, Nidwalden or Obwalden) is limited because the cantonal income tax rates are already very low. In combination with other specific regulations, the use of the patent box in the extreme case where revenue consists exclusively of qualified earnings results in what is almost an overall harmonization of the total effective corporate income tax burden at just under 6% in all cantons.

## **A much lower effect on companies that are not focussed on qualified earnings**

However, for an industrial corporation that is broadly diversified with its own manufacturing plant<sup>1</sup>, the tax relief provided by the patent box is reduced considerably. For an assumed portion of 20% qualified earnings, the tax burdens in the cantons are still reduced by using the patent box for corporate income tax by 0.4 to 1.8 %-points (this deduction corresponds approximately to between 4% and almost 10% of the effective corporate income tax; cf. Fig. 2). Whether and to what extent companies providing service provider companies, which make up the majority of the companies, could also benefit from a patent box to a similar extent, depends among other things on the results of the discussion within the OECD.

## **The BAK Taxation Index Update Switzerland 2015 shows little change**

Besides the introduction of the patent box, under the USR III various cantons would also be able to reduce their orderly corporate income tax rates. Until now no anticipatory effects have yet been seen in the Swiss fiscal realm, however. As the updated BAK Taxation Index for Switzerland shows (cf. Fig. 3 and 4), the fiscal realm remains still largely unchanged in 2015. Only the canton Schwyz has noticeably raised the taxes from the start of the year both for companies and natural persons, while still remaining one of the cantons with the lowest taxes in Switzerland.

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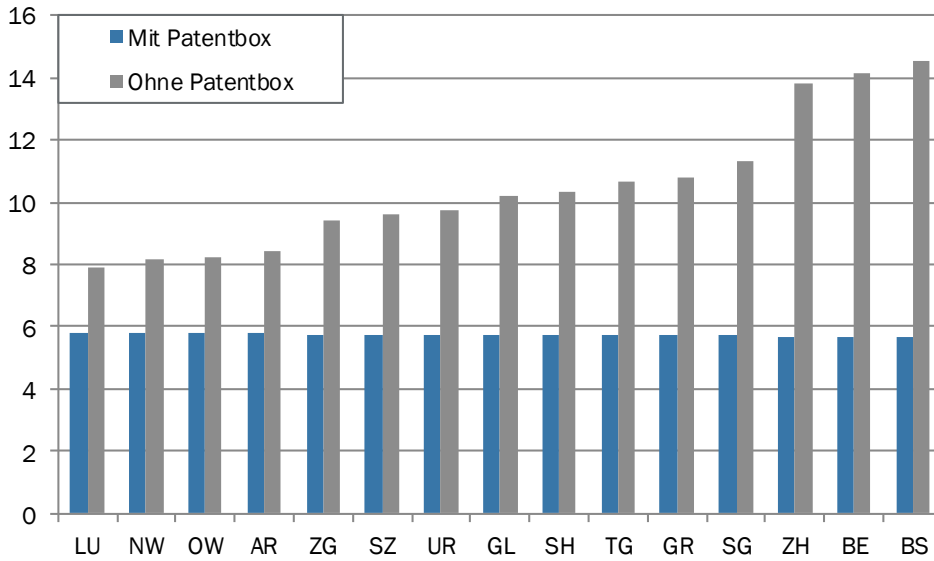
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For more information about the BAK Taxation Index: [www.baktaxation.ch](http://www.baktaxation.ch)

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<sup>1</sup> In this example the structure of financing and investments or revenue is used as the basis, which also underlies the BAK Taxation Index. Here 20% of the amount of investments or earnings is allotted to intellectual property rights. For the simulation it is therefore assumed that 20% of the earnings qualify fully or not at all for the patent box, while the remaining earnings are not affected by the patent box at all.

**Fig. 1 Simulation calculation: Effect of the patent box on the tax burden for qualified earnings**



Note: Average tax burden in case of a enterprise which is exclusively generating qualified earnings; patent box: only corporate income tax; cantonal capital in %

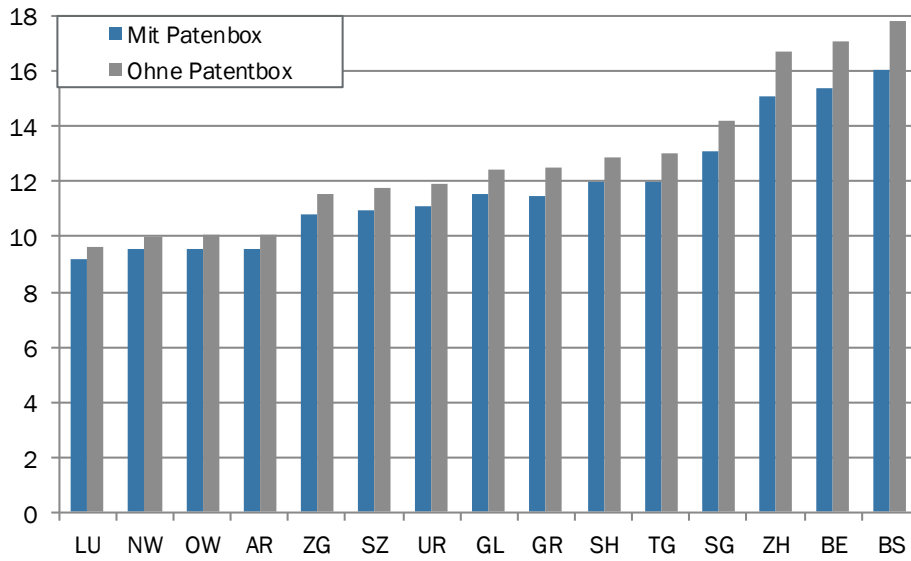
Source: BAKBASEL/ZEW

exclusively qualified earnings		
Canton	with patent box	w/o patent box
LU	5.8	7.9
NW	5.8	8.1
OW	5.8	8.2
AR	5.8	8.4
ZG	5.8	9.4
SZ	5.7	9.6
UR	5.7	9.8
GL	5.7	10.2
SH	5.7	10.3
TG	5.7	10.6
GR	5.7	10.8
SG	5.7	11.3
ZH	5.7	13.8
BE	5.7	14.2
BS	5.7	14.5

Note: Average tax burden in case of a enterprise which is exclusively generating qualified earnings; patent box: only corporate income tax; cantonal capital in %.

Source: BAKBASEL/ZEW

**Fig. 2 Simulation calculation: Effect of the patent box on the tax burden for mixed earnings**

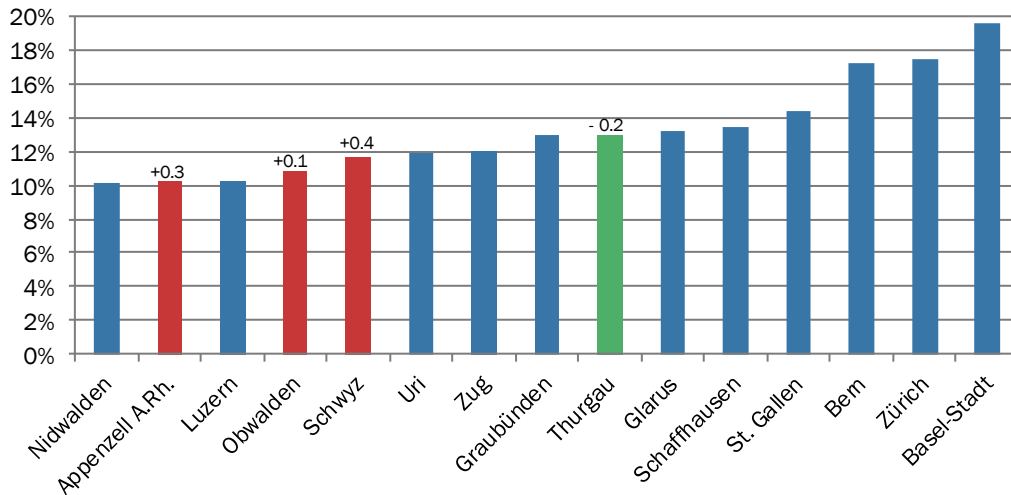


Note: Average tax burden in case of a enterprise which is generating 20% in qualified earnings;  
 patent box: only corporate income tax; cantonal capital in %  
 Source: BAKBASEL/ZEW

Mixed earnings		
Canton	with patent box	w/o patent box
LU	9.2	9.6
NW	9.5	10.0
OW	9.6	10.1
AR	9.6	10.1
ZG	10.8	11.5
SZ	11.0	11.7
UR	11.1	11.9
GL	11.5	12.4
GR	11.5	12.5
SH	12.0	12.9
TG	12.0	13.0
SG	13.1	14.2
ZH	15.1	16.7
BE	15.4	17.1
BS	16.1	17.8

Note: Average tax burden in case of an enterprise which is generating 20% in qualified earnings;  
 patent box: only corporate income tax; cantonal capital in %  
 Source: BAKBASEL/ZEW

**Fig. 3 BAK Taxation Index for Corporations 2015**

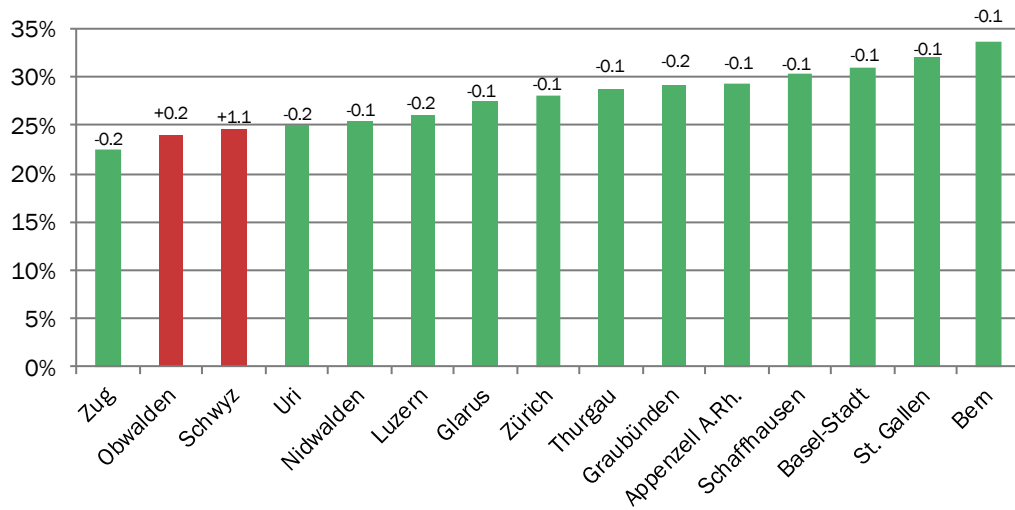


Note: Effective average tax rate (EATR) at the canton capital in 2015 (in %), results on top of the columns represent the alternation (in percentage points) compared to 2014.  
Source: BAKBASEL/ZEW

Rank	Canton	BAK Taxation Index 2015	Spread (2014-2015)
1	Nidwalden	10.1	-
2	Appenzell A.Rh.	10.3	+0.3
3	Luzern	10.3	-
4	Obwalden	10.9	+0.1
5	Schwyz	11.7	+0.4
6	Uri	11.9	-
7	Zug	12.0	-
8	Graubünden	13.0	-
9	Thurgau	13.0	-0.2
10	Glarus	13.2	-
11	Schaffhausen	13.5	-
12	St. Gallen	14.4	-
13	Bern	17.2	-
14	Zürich	17.5	-
15	Basel-Stadt	19.6	-

Note: Effective average tax rate (EATR) at the canton capital in 2015. BAK Taxation Index in %, Spread (2014-2015) in percentage points.  
Source: BAKBASEL/ZEW

**Fig. 4 BAK Taxation Index for Highly Qualified Individuals 2015**



Note: Effective tax burden in 2015 (in %) for a unmarried, single person with a after tax income of EUR 100'000 (exchange rate at 1.22CHF/EUR, at strike prices of 2010) in the canton capital. The results on top of the columns represent the alternation in percentage points compared to 2014 in reflection of changes in the cantonal tax laws. No changes in exchange rates and inflation are shown..  
Source: BAKBASEL/ZEW

Rank	Canton	BAK Taxation Index 2015	Spread (2014-2015)
1	Zug	22.6	-0.2
2	Obwalden	23.9	+0.2
3	Schwyz	24.6	+1.1
4	Uri	24.9	-0.2
5	Nidwalden	25.4	-0.1
6	Luzern	26.0	-0.2
7	Glarus	27.5	-0.1
8	Zürich	28.0	-0.1
9	Thurgau	28.7	-0.1
10	Graubünden	29.2	-0.2
11	Appenzell A.Rh.	29.3	-0.1
12	Schaffhausen	30.3	-0.1
13	Basel-Stadt	31.0	-0.1
14	St. Gallen	32.1	-0.1
15	Bern	33.6	-0.1

Note: Effective tax burden in 2015 (in %) for a unmarried, single person with a after tax income of EUR 100'000 (exchange rate at 1.22CHF/EUR, at strike prices of 2010) in the canton capital. No changes in exchange rates and inflation are shown..  
Source: BAKBASEL/ZEW

### **What is the BAK Taxation Index?**

The BAK Taxation Index determines quantitatively and objectively comparable indicators for taxation. The BAK Taxation Index analyses and compares the tax levels for companies and highly qualified manpower on a global scale covering over 80 locations in highly industrialized countries. It was published for the first time in 2001 and has since been updated regularly. The last complete update with an international comparison was in 2013 (published in January 2014), and the last update of the tax levels in the Swiss cantons took place in the summer of 2015.

In the **BAK Taxation Index for companies**, the effective company taxation level is measured. For this purpose, all relevant taxes including the respective regulations for calculating the tax base, e.g. depreciation rules, are taken into account. This facilitates an appropriate international tax comparison across individual locations. Simply focusing on statutory tax rates would lead to a distorted representation of the tax level.

The key figure for company taxation is the Effective Average Tax Rate (EATR). The EATR calculates the taxes that would be due on a sample highly profitable investment by a company. It is the most relevant figure for company location decisions from a tax point of view. Furthermore, this study also determines other relevant figures and indicators of taxation.

In the **BAK Taxation Index for highly qualified manpower**, the effective taxation level for highly qualified employees is measured. To this end, various relevant taxes are compiled, including the respective regulations for the assessment of the tax base, e.g. the deduction of employers' contribution to the social security system and to the occupational pension scheme. It also contains social security contributions, if these have the character of a tax, as well as other payroll taxes.

The key figure for the taxation of manpower is the Effective Average Tax Rate (EATR). It is calculated as the implicit tax rate (in %) on the total labor costs, i.e. the employee's gross wage plus all taxes and contributions paid by the employer for the employee. Within the BAK Taxation Index, this figure acts as the effective tax level for a highly qualified employee (single, without children) with a disposable income of 100,000 euro.

The discussion about the **competitiveness of a region** and its attractiveness as a target location for a company or employee should, however, not be restricted to its tax level. Other location factors may play an equally important role (e.g. innovativeness, quality of living, regulations, etc.).

**For further information about the BAK Taxation Index, please consult our website:**  
**[www.baktaxation.ch](http://www.baktaxation.ch)**