

BAK Press release: BAK Taxation Index 2023

## Swiss cantons at the top of global tax competition

BAK Economics, 18.01.2024 (Basel/Lugano) – According to the BAK Taxation Index, the tax environment has remained relatively stable in the area of corporate taxation. The tax competitiveness of the Swiss cantons is high and has been significantly consolidated in recent years with the implementation of the Tax Reform and AHV Financing (TRAF). With the implementation of the OECD tax reform, the cantons are already facing the next major tax challenge.

The BAK Taxation Index, which is compiled in close cooperation with the ZEW – Leibniz Centre for European Economic Research, regularly measures the ordinary tax burden for companies in the Swiss cantons and their most important international competitor locations. The current edition examines the ordinary tax burden for companies to the legal status 2023. The tax-reducing effect of TRAF R&D instruments (patent box, R&D deductions) is not considered here.

### Relatively stable development of the tax burden in the Swiss cantons

In 2023, some cantons reduced their tax burden for companies. These cantons were able to further improve their already very high tax competitiveness. Overall, the corporate tax burden in Switzerland has remained relatively stable. This is also reflected in the GDP-weighted average of the effective tax burden (EATR) of all 26 cantons, which falls from 13.9 to 13.5 per cent between 2021 and 2023. Between 2017 and 2023, the reduction in the tax burden amounts to 3.4 percentage points. This is due to the fact that the vast majority of cantons completed the implementation of the STAF in 2021, which was accompanied by a significant reduction in the profit and capital tax burden.

### Swiss cantons top international ranking

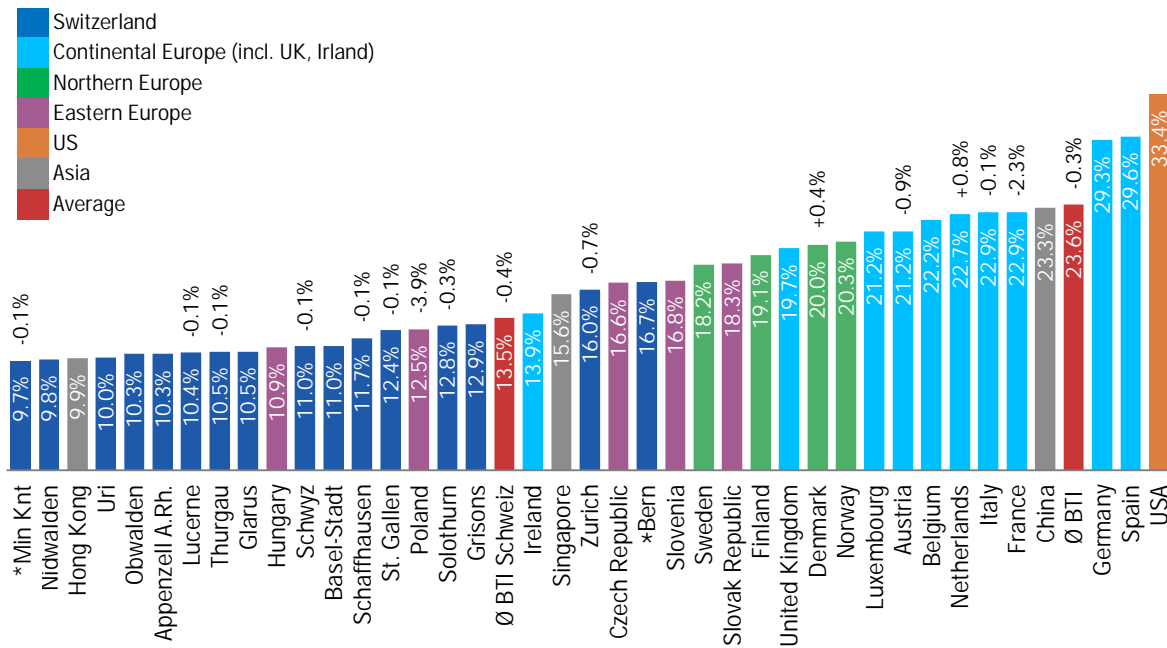
In the recent past, the tax burden of international competitors has remained relatively stable. In 2023, the GDP-weighted international average is 23.6 per cent (2021: 23.9%). The exceptions are France (-2.3 percentage points) and Poland (-3.9), which significantly reduce their tax burden in 2023.

The implementation of the TRAF has enabled the Swiss cantons to consolidate their tax attractiveness as business locations. This is also confirmed by the latest edition of the BAK Taxation Index: the GDP-weighted Swiss average (13.5%) in 2023 is 10.1 percentage points below the international average (23.6%). Two Swiss cantons lead the international ranking of the locations analysed. In addition, a total of eight Swiss cantons are among the ten lowest-taxed locations.

### OECD tax reform changes international tax landscape

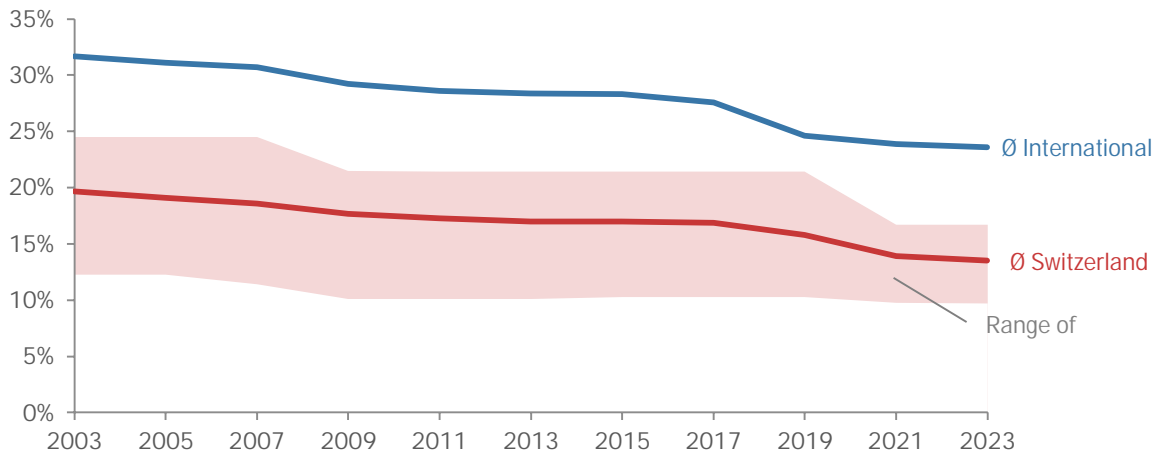
After the TRAF, the next major tax challenge for the Swiss cantons is the OECD tax reform. The minimum tax applies to international groups with a global annual turnover of at least EUR 750 million. Switzerland introduced this minimum tax on 1 January 2024, at the same time as the majority of EU member states and other major industrialised countries. Singapore and Hong Kong plan to implement it from 2025. The US and China are waiting.

Fig.1 BAK Taxation Index for companies 2023



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 2021 in percentage points to the right of the bars. For the Swiss cantons, the values of all cantons participating in the project and the GDP-weighted average of all 26 cantons are shown. (\*) To show the range of the tax burden in Switzerland, the values for the canton with the lowest (Min Knt, not involved in the project) and the highest burden (Bern) are shown.  
Source: BAK Economics, ZEW

Fig.2 Change of the BAK Taxation Index for corporations from 2003 to 2023



EATR tax burden for companies in %. The Swiss average for all 26 cantons and the international average for all locations are GDP-weighted. The upper end of the range for all 26 cantons represents the canton with the highest tax burden in the year in question; the lower end represents the canton with the lowest tax burden.  
Source: BAK Economics, ZEW

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## 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 ZEW – Leibniz Centre for European Economic Research on a regular basis since 2003.

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