

BAK Taxation Index: Update CH 2020

**Tax burden on companies and
highly qualified individuals**

June 2020



Clients

Swiss Federal Tax Administration (ESTV)

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

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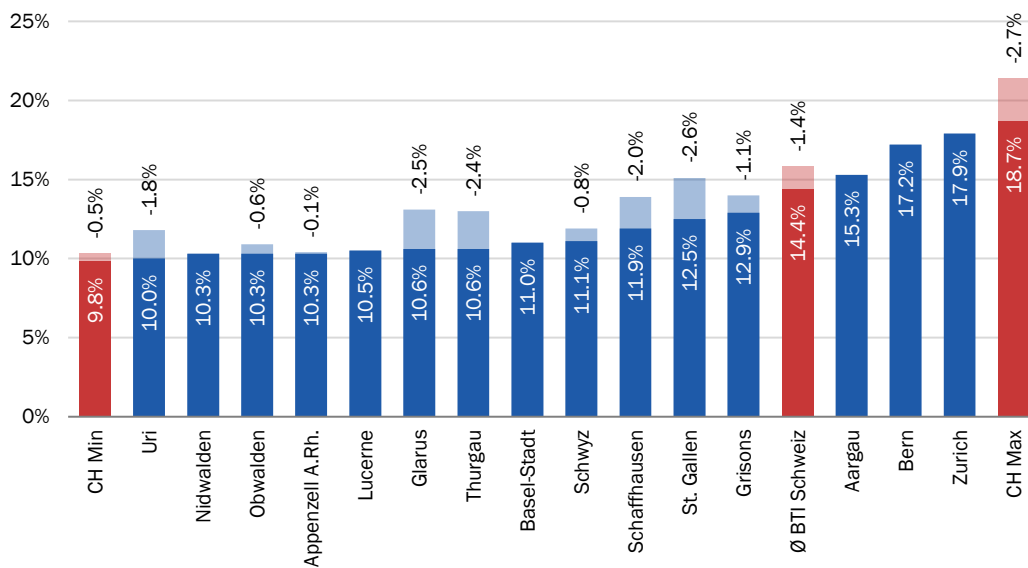
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Corporations

The key indicator of the BAK Taxation Index for corporations is 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 considers the main provisions governing the establishment of the tax assessment base (e.g. special depreciation rules). The calculations were carried out for all 26 cantons. The following statements refer to all cantons, but concrete values are only published for the 15 cantons involved in the project.

Abb.1 BAK Taxation Index for Companies 2020 in Switzerland



Note: The figure shows only the cantons involved in the project, the Swiss minimum (CH Min) and maximum (CH Max) as well as the GDP-weighted average of all 26 cantons. Pictured is the effective average tax rate (EATR) applicable to companies in Swiss cantons (calculated for the cantonal capital). In/decrease from 2019 figures in percentage points (cf. transparent column part).

Source: BAK Economics, ZEW

Compared to the previous year, changes are evident across the board, which are primarily due to the cantonal implementations of the Tax Reform and AHV Financing (TRAF). The most important results are the following:

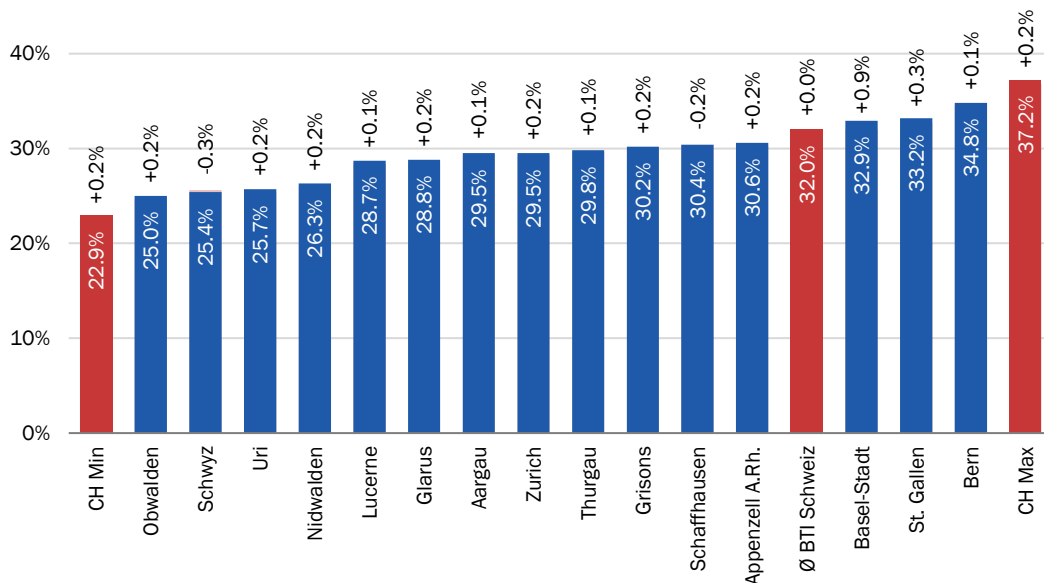
- As a result of the reduction in the tax burden in many cantons, the GDP-weighted average of the Swiss BAK Taxation Index fell comparatively sharply from 15.8 to 14.4 percent.
- Strong reductions have been achieved, for example, in some high-taxing cantons in western Switzerland. Some front-runners from central and eastern Switzerland have also reacted with further reductions.
- At the top of the ranking, the tax burden fell from 10.3 to 9.8 percent, and at the bottom from 21.4 to 18.7 percent.

- The spread between the cantons has significantly decreased. However, the ranking of the cantons remained relatively stable overall. The tax burden in central Switzerland continues to tend to be low compared to the other regions, in eastern Switzerland it is moderate, in the other large regions rather high.
- However, the tax burdens calculated for 2020 represent only an interim result. Not all cantons have already fully implemented the adjustments in response to the TRAF. The canton of Zurich, for example, plans to reduce its EATR tax burden by 2.5 percentage points until 2025.
- The international attractiveness of many Swiss cantons for ordinarily taxed companies further increases as a result of the TRAF.

Highly qualified individuals

The key indicator of the BAK Taxation Index for highly qualified individuals is 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. The calculations were carried out for all 26 cantons. The following statements refer to all cantons, but concrete values are only published for the 15 cantons involved in the project.

Abb.2 BAK Taxation Index for highly qualified individuals 2020 in Switzerland



Note: The figure shows only the cantons involved in the project, the Swiss minimum (CH Min) and maximum (CH Max) as well as the GDP-weighted average of all 26 cantons. Pictured is the Effective average tax rate (EATR) applicable to highly qualified employees in Swiss cantons (calculated for the cantonal capital); 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 2019 figures in percentage points (cf. numbers above the columns), excluding changes in exchange rates and inflation.

Source: BAK Economics, ZEW

There were only small shifts in the BAK Taxation Index for highly qualified persons in 2020 compared to the previous year. The most important results are the following:

- Most cantons show a slight increase in the effective tax burden; only Basel-Stadt increases the tax burden somewhat more significantly, by 0.9 percentage points. There is a slight reduction in the burden in the Jura, Schwyz, Ticino, Schaffhausen and Solothurn.
- The Swiss GDP-weighted average is 32 percent. If changes in exchange rates and inflation are excluded, the reductions and increases this year are just about equal (Ø BTI Switzerland ±0%).

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 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 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.

The BAK Taxation Index for **highly qualified individuals** measures the EATR effective average tax rate (EATR) for 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.).

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.

www.baktaxation.com