

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

**Taxation of highly qualified
individuals**

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 highly qualified individuals to the legal status 2021.

The main indicator of the BAK Taxation Index for highly qualified individuals is the effective average tax burden (EATR) measured as a percentage of employment costs for a single employee without children and an after-tax income of 100,000 euros (at 2010 base prices). In addition to income taxes, non-wage labour costs of a tax nature on the employer and employee side are also included in the calculations.

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

In the Swiss cantons there have been few changes in the BAK Taxation Index 2021 for highly qualified workers compared to the last survey two years ago (legal status 2019). The Swiss average tax burden increased slightly between 2019 and 2021 (+0.1 %-points). The number of cantons with increases (14) slightly exceeded those with decreases (12). However, the changes were all moderate, resulting in only a few shifts in the ranking.

The regional patterns thus remain in place in 2021: Compared to the other Swiss regions, the cantons of Central Switzerland tax highly qualified workers the lowest, the cantons of Western Switzerland the highest, while the cantons of the other regions are mostly in the middle.

International ranking

The trend towards intensifying international tax competition in the area of highly skilled workers has continued in a moderate manner between 2019 and 2021. The GDP-weighted effective tax rate (EATR) for high-skilled workers decreased by -0.3 percentage points. Overall, more international competitor locations have reduced their tax burden than increased it in the last two years, especially in Europe. The largest tax reductions were recorded in Hungary (-4.1 %-points), Sweden (-1.9) and Spain (-1.1). Hungary moved up 13 places in the ranking as a result. The tax burden increased the most in Slovakia (+1.3 %-points), Hong Kong (+0.9) and the Czech Republic (+0.7).

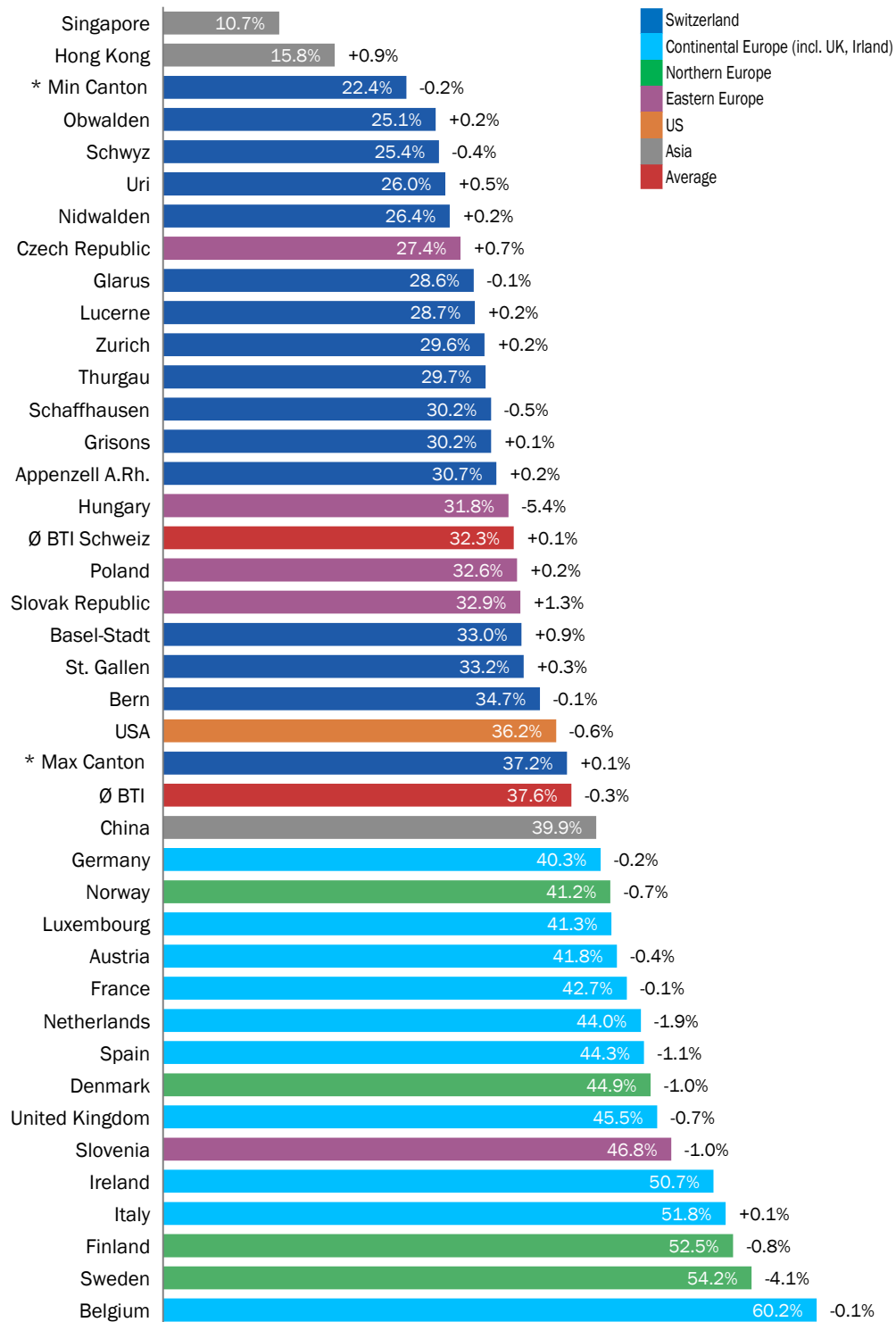
Among the international locations, the tax burden for highly qualified employees remains relatively low in Eastern Europe (except for Slovenia), moderate in the US and high in Northern and Continental Europe (incl. UK and Ireland). The ranking of the Asian locations is heterogeneous: Singapore and Hong Kong lead the ranking, while China tends to levy high taxes.

Conclusion for the tax competitiveness of the Swiss cantons

Despite the international trend towards tax cuts for highly qualified workers, the Swiss cantons are currently still well to very well positioned in the international ranking.

As in previous years, the cantons rank directly behind Singapore and Hong Kong. Switzerland's GDP-weighted average of 32.3 percent is significantly below the BAK Taxation Index' GDP-weighted international average of 37.6 percent. The tax burden for highly qualified people in the Swiss cantons is particularly attractive compared to the nearby competitor locations in Western, Southern and Northern Europe. The burden in neighbouring Germany, France and Austria, for example, is around 10 percentage points higher than the Swiss average (32.3%), and in Italy as much as 20 percentage points.

Fig.1 BAK Taxation Index for highly qualified individuals 2021



EATR (i.e., effective average tax burden) for highly qualified employees in Swiss cantons (measured by the cantonal main location) and international locations (measured by the economic main location) in %; in the standard case shown here, a single person without children with an after-tax income of EUR 100,000 is assumed. Changes compared to 2019 in % points above the columns, ignoring exchange rate and inflation changes. For the Swiss cantons, 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 Canton) and the highest burden (Max Canton) are also shown (both not involved in the project).

Source: BAK Economics

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 **highly qualified individuals** measures the 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