

BAK Taxation Index: Update CH 2022

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

July 2022



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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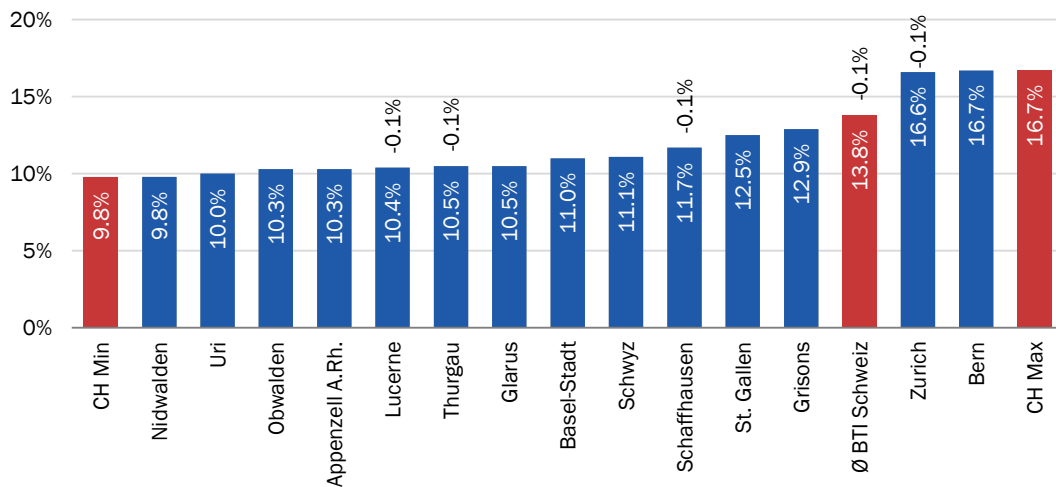
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Corporations

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 profits, 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 14 cantons involved in the project.

Abb.1 BAK Taxation Index for Companies 2022 in Switzerland



Note: The figure shows only the cantons involved in the project, the canton with the lowest (CH Min) and the highest taxes for companies (CH Max) as well as the GDP-weighted average of all 26 cantons. Depicted is the Effective Average Tax Rate (EATR) applicable to companies in Swiss cantons (measured at the cantonal main location) in %. Changes compared to 2021 in %-points above the column.
Source: BAK Economics, ZEW

The updated BAK Taxation Index 2022 shows that the tax burden for companies in the Swiss cantons has not changed significantly in the current year. This is because the vast majority of cantons have completed the implementation of the Swiss tax reform TRAF over the past two years with significant reductions in profit and capital taxes. The most important results are the following:

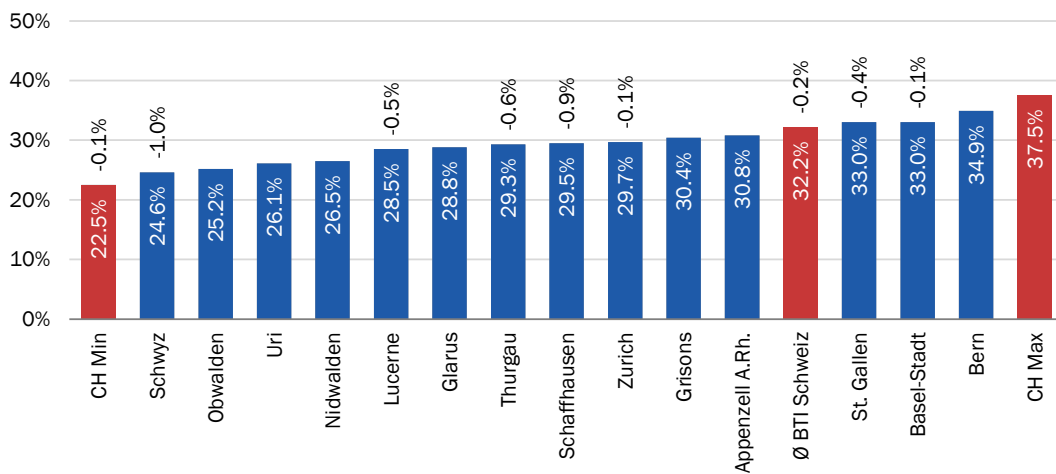
- In the vast majority of cantons, the tax burden in 2022 changes little or not at all compared to the previous year. No canton has increased its tax burden.
- From the cantons involved in the project: Lucerne, Thurgau, Schaffhausen and Zurich decreases the tax burden due to a reduction in the cantonal tax rate.
- The Swiss GDP-weighted average (13.8%) is -0.1 percentage points lower than in the previous year.
- The spread of the tax burden for companies is unchanged between 9.8 and 16.7 percent.

- The regional pattern of corporate taxation remains unchanged: 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.

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 for a single employee without children and 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 14 cantons involved in the project.

Abb.2 BAK Taxation Index for highly qualified individuals 2022 in Switzerland



Note: The figure shows only the cantons involved in the project, the canton with the lowest (CH Min) and the highest taxes for highly qualified individuals (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 individuals in Swiss cantons (measured at the cantonal main location); the standard case depicted here is based on an unmarried individual without children with an income after taxes of EUR 100,000. Changes compared to 2021 in %-points above the column (changes in exchange rates and inflation excluded).

Source: BAK Economics, ZEW

There were only small shifts in the BAK Taxation Index for highly qualified individuals in 2022 compared to the previous year. The most important results are the following:

- Similar to the situation for companies, the tax burden in 2022 changes little or not at all compared to the previous year in the vast majority of cantons. No canton has increased its tax burden.
- From the cantons involved in the project, only Schwyz, Lucerne, Thurgau and Schaffhausen reduce the tax burden somewhat more significantly by -0.5 percentage points or more due to a reduction in the cantonal tax rate.
- The Swiss GDP-weighted average (32.2%) is -0.2 percentage points lower than in the previous year.
- The spread of the tax burden for highly qualified individuals is 15 percentage points and therefore slightly higher than in the previous year (14.8 percentage points).

- A similar regional pattern as in the case of corporate taxation is also evident in the case of the taxation of highly skilled workers. 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.

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.

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.

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