



**BAK Taxation Index:
Swiss and International Update 2023**

**Taxation of highly qualified
individuals**

January 2024



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, Solothurn, St. Gallen, Thurgau, Uri and Zurich

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Executive Summary

Companies face strong international competition when it comes to recruiting highly qualified individuals, who are crucial to a company's success. The BAK Taxation Index shows that in 2023 the Swiss cantons further strengthened their position in the international tax competition for highly qualified individuals. For the majority of national and international locations, the tax burden increased in 2023, mainly due to inflation. Adjusted for inflation and exchange rate effects, the tax burden has decreased in all cantons due to changes in tax law. In contrast, the tax burden has remained constant or even increased in half of the international locations. The already high international competitiveness of the Swiss cantons has therefore increased further in 2023. Within Switzerland, the cantons of Central Switzerland perform best.

BAK Taxation Index: Internationally comparable effective tax burden

The BAK Taxation Index (BTI) 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. The BTI is compiled in close cooperation with the ZEW – Leibniz Centre for European Economic Research.

This Executive Summary presents the most important results of the update on the ordinary tax burden for highly qualified individuals to the legal status 2023.

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). For comparisons between 2023 and 2021, changes in exchange rates and inflation are filtered out to show the pure effect of changes in tax law. 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 15 cantons participating in the project.

Swiss Rankings

The updated BAK Taxation Index shows that the familiar regional pattern in the Swiss tax landscape remains unchanged. The national ranking continues to be led by the cantons of Central Switzerland, which tend to tax highly qualified individuals at a low rate compared to other Swiss regions. The tax burden is medium in Eastern Switzerland and high in the other major regions. Cantons with larger cities tend to have higher taxes.

In 2023, there was an increase in the tax burden for highly qualified individuals in the Swiss cantons due to inflation. If exchange rate and inflation changes are calculated out compared to 2021, the tax burden has fallen in all cantons due to changes in tax law. At federal level, this is due to the rightward shift in the federal tax rate and the increase in social deductions. In addition, most cantons saw tax rate adjustments, increases in deductions or a reduction in the tax multipliers. Of the cantons involved in

the project, Basel-Stadt, Schaffhausen and Schwyz (-1.5 percentage points each) recorded the largest tax reductions. The smallest tax reductions were recorded in Obwalden (-0.1 percentage points) and Bern, Solothurn, Appenzell A.Rh., Glarus and Uri (-0.2 percentage points each). The GDP-weighted Swiss average of the effective tax burden (EATR) for highly qualified individuals is 32.3 per cent in 2023 (-0.7 percentage points compared to 2021). The range of the cantons' tax burden in 2023 is between 22.9 and 37.9 per cent. The decrease in tax burden led to no or only a slight shift in rank for the vast majority of cantons (+/-1 rank).

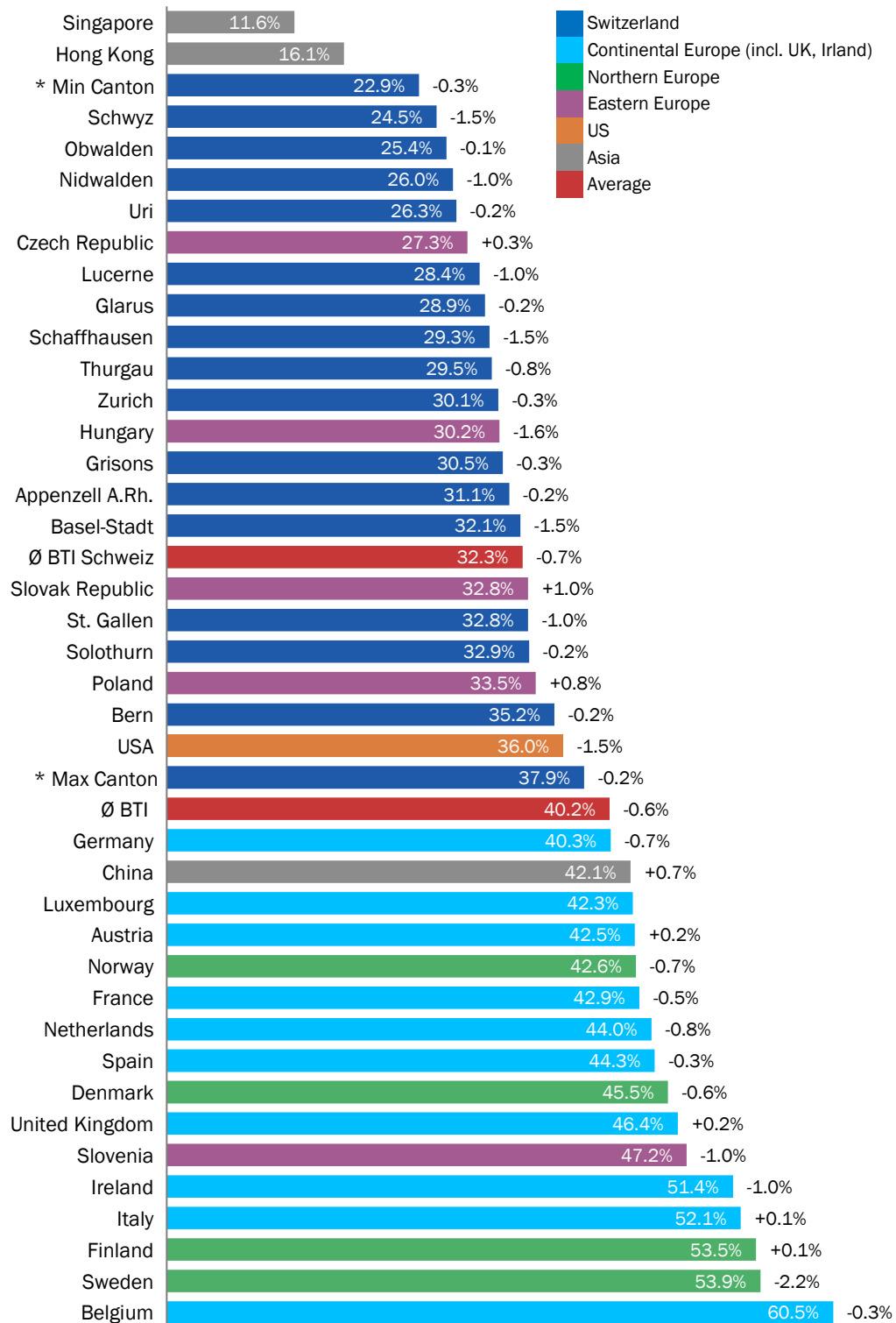
International Ranking

Companies face strong international competition when recruiting highly qualified individuals, which is crucial to a company's success. This is also reflected in the international tax competition for highly qualified individuals, which has intensified overall. The Asian locations of Singapore and Hong Kong lead the international ranking, followed by central Swiss cantons such as Schwyz, Obwalden, Nidwalden and Uri. The Western cantons are at the other end of the spectrum. However, the tax burden in all 26 cantons is below the international average (40.2%). Overall, seven Swiss cantons are among the ten lowest taxing locations.

Among international locations, the tax burden for highly qualified individuals remains relatively low in Eastern Europe (excluding Slovenia), moderate in the US, and tends to be high to very high in China and Northern and Continental Europe (including the UK and Ireland). The tax burden for highly qualified individuals in the Swiss cantons is particularly attractive compared to nearby competitor locations in Western, Southern and Northern Europe. The tax burden in neighbouring Germany, France and Austria is around 10 percentage points higher than the Swiss average (32.3%), and in Italy it is even 20 percentage points higher.

The trend towards intensifying international tax competition in the area of highly qualified individuals continued moderately overall between 2021 and 2023. The GDP-weighted average of the effective tax rate (EATR) for highly qualified individuals is 40.2 per cent in 2023 (-0.6 percentage points compared to 2021). In contrast to the Swiss cantons, the international locations show a different trend. In half of the international locations analysed, the tax burden on highly qualified individuals is lower in 2023 than in 2021. The largest reductions were recorded in Sweden (-2.2 percentage points), Hungary (-1.6) and the USA (-1.5). In the other half, the tax burden remains unchanged or even increased. The highest increases are recorded in Slovakia (+1.0 percentage points), Poland (+0.8) and China (+0.7).

Abb.1 BAK Taxation Index for highly qualified individuals 2023



EATR (i.e., effective average tax burden) for highly qualified individuals 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 2021 in % points to the right of the bars, exchange rate and inflation changes are calculated out. 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 shown. Both are not involved in the project.
Source: BAK Economics, ZEW

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

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