BAK economic intelligence

BAK Taxation Index: Swiss and International Update 2023

Taxation of companies

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

Published by
BAK Economics AG

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Executive Summary

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.

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 companies to the legal status 2023. The tax-reducing effect of TRAF R&D instruments (patent box, R&D deductions) is not considered here.

The main indicator of the BAK Taxation Index for companies is the effective average tax burden (EATR) measured as a percentage of the profit of a highly profitable investment. The calculation takes into account the ordinary taxes on profits, capital and, if applicable, on property at the various levels of government. The most important provisions for determining the tax base (e.g., depreciation rules) are also taken into account.

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 Ranking

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 companies at a low rate compared to other Swiss regions. The tax burden is medium in Eastern Switzerland and high in the other Swiss regions. Cantons with larger cities tend to have higher tax burdens.

Between 2021 and 2023, some cantons reduced their tax burden for companies. Among the cantons participating in the project, Zurich (-0.7 percentage points) and Solothurn (-0.3) show the largest tax relief. The tax burden did not increase in any of the participating cantons. Overall, however, the corporate tax burden in Switzerland has not changed significantly. This is also reflected in the GDP-weighted average effective tax rate (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 will have completed the implementation of the Tax Reform and AHV Financing (TRAF) in 2021, which was accompanied by a significant reduction in the profit and capital taxes. To take account of the fact that the cantons of Basel-Stadt and Vaud brought forward the implementation of the TRAF to 2019, 2017 was chosen as the pre-TRAF date.

The range of the cantons' tax burden in 2023 is between 9.7 and 16.7 per cent. For the vast majority of cantons, the changes in the tax burden over the past two years have resulted in no or only a slight change in rank (+/-1 rank).

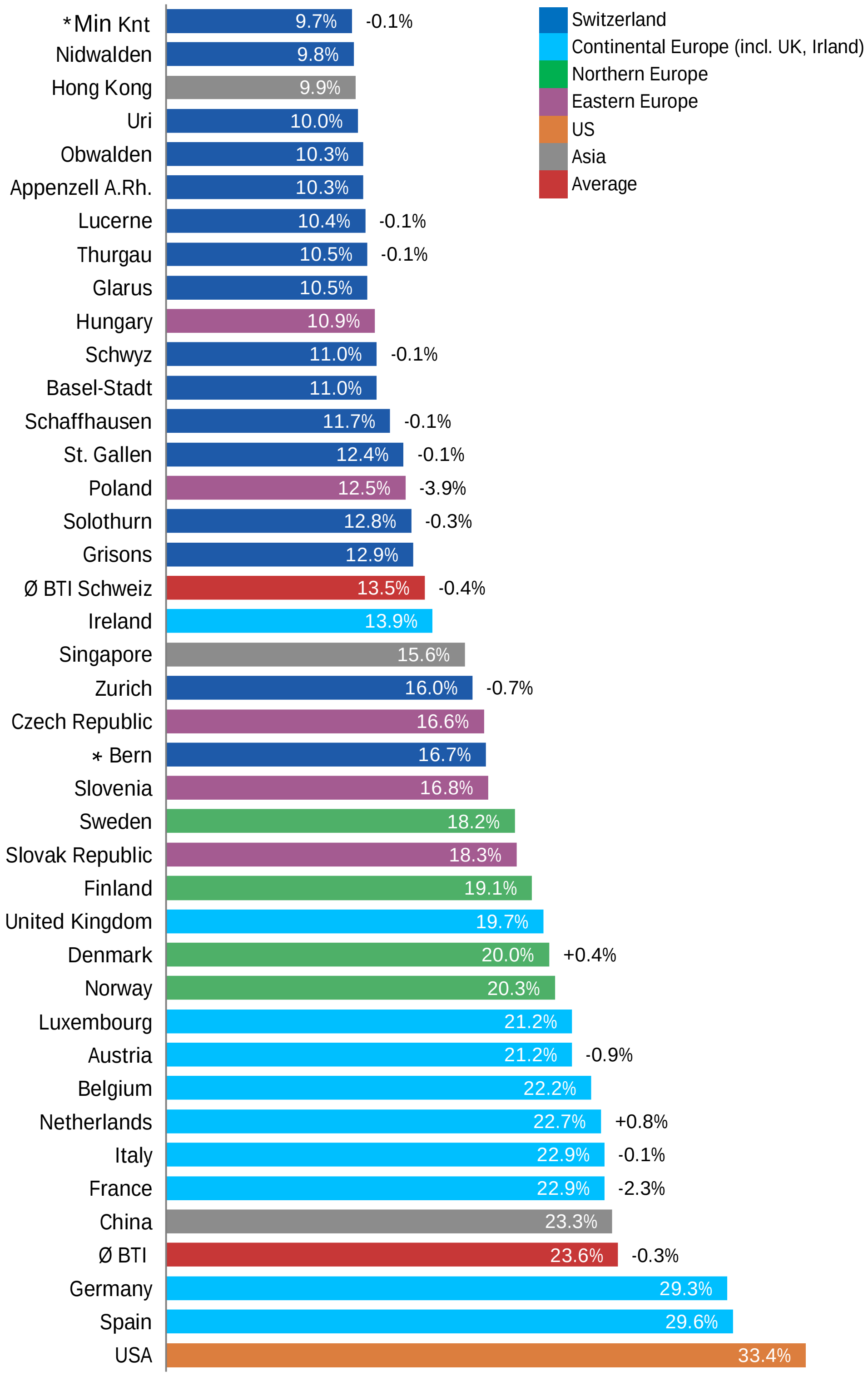
International Ranking

The international ranking of the locations analysed is led by two Swiss cantons, followed by Hong Kong. In addition, a total of eight Swiss cantons are among the ten lowest-taxed locations. In an international comparison, the tax competitiveness of the Swiss cantons is high and has been significantly consolidated in recent years with the implementation of the TRAF. At 13.5 per cent, Switzerland's GDP-weighted average in 2023 is well below the international GDP-weighted average of 23.6 per cent in the BAK Taxation Index. The GDP-weighted Swiss average is also lower than the tax burden in Singapore (15.6%). Likewise, Switzerland taxes considerably more attractively than its neighbouring countries, where the tax burden is between 7.7 (Austria) and 15.8 percentage points (Germany) above the Swiss average.

Among the international locations, the tax burden remains relatively low in Eastern Europe, moderate in Scandinavia, rather high in Continental Europe (incl. UK, excl. IE) and high in the US. The ranking of the Asian locations is heterogeneous. While Hong Kong shows a very low tax burden, Singapore is in the upper midfield and China in the lowest ranks.

As in Switzerland, the tax burden in the international competitor locations remains relatively stable between 2021 and 2023. The GDP-weighted international average of the BAK Taxation Index falls by only -0.3 percentage points between 2021 (23.9%) and 2023 (23.6%). On the other hand, Poland (increase in the deduction of interest on equity capital; -3.9 percentage points) and France (reduction in the corporate tax rate, -2.3) will see their tax burden fall significantly, improving their international competitiveness. The tax burden increased in the Netherlands (+0.8 percentage points) and Denmark (+0.4). For both, this is accompanied by a deterioration in the ranking.

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

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.

www.baktaxation.com