

Media release: BAK Taxation Index 2020

## **Tax reform (STAF) strengthens the Swiss business and innovation location**

BAK Economics, July 23, 2020 (Basel / Zurich / Lugano) - The Swiss Tax Reform and AHV Financing (STAF) has been in force since the beginning of the year and the cantons are in the middle of the implementation phase. The consequences of the reform were analyzed in the BAK Taxation Index. In 2025, after full implementation in all cantons, Switzerland's tax landscape will have changed considerably: many cantons will greatly reduce the normal taxation of companies. Switzerland's tax competitiveness continues to increase internationally. Together with the newly introduced tax instruments for promoting innovation and the given planning security for the companies, this strengthens the Swiss business location even in the current difficult times.

### **Cantons are implementing tax reform in stages**

The Tax Reform and AHV Financing (STAF) - the most important Swiss tax reform for decades - entered into force at the federal level in early 2020. However, the canton's implementation tempo varies. Basel-Stadt and Vaud were the first to react and made, already before 2020, significant profit tax rate reductions in addition to capital tax rate adjustments. The majority of the cantons will implement the STAF fully by 2020, but nine cantons will take more time to do so or implement their reform in stages.

As part of the BAK Taxation Index, which regularly measures the tax attractiveness of the Swiss cantons and the most important international competition locations, the ordinary tax burdens for 2025 were estimated when all plans known today have been fully implemented. This is the first time it has been possible to analyze how the effective average tax burden (EATR) will change as a result of the STAF reform. All relevant taxes and rules for determining the assessment basis were taken into account in the analysis.

### **The tax burden will decrease sharply in many cantons due to the reform**

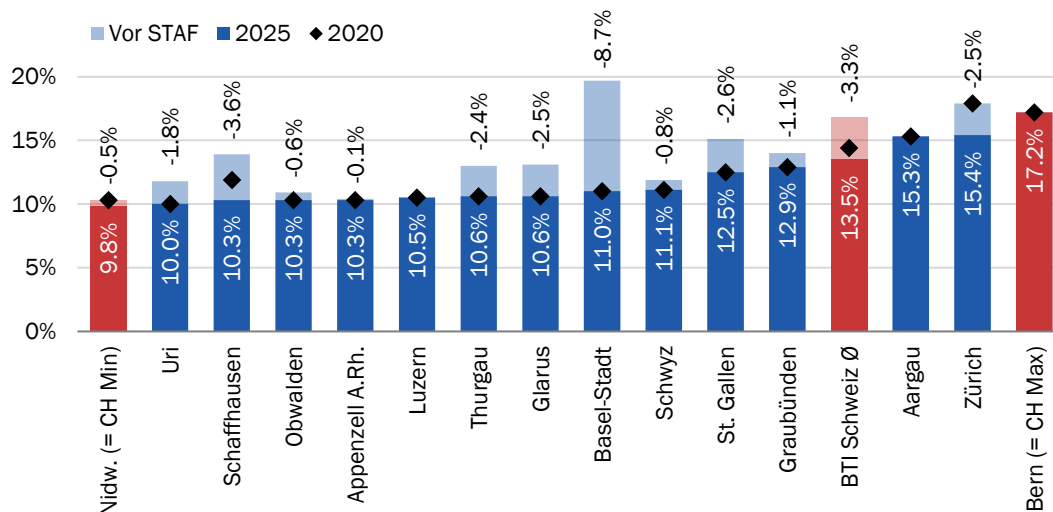
A comparison of the ordinary tax burden over time reveals the far-reaching effects of the reform. The GDP-weighted Swiss average across all 26 cantons drops from 16.8 percent before the STAF to 13.5 percent after the STAF (2025). Ordinary tax burdens decrease the most at -8.7 percentage points in Basel-Stadt; six further cantons recorded reductions in burdens of more than 5 percentage points, twelve cantons of more than one percentage point. Four cantons reduce the burden by less than one percentage point. Only three cantons - Lucerne, Aargau and Bern - do not foresee a reduction according to the current planning.

### **Numerous ranking changes, but robust geographic patterns**

The reform leads to major changes in the rankings of individual cantons. Basel-Stadt moves 14 ranks forward / after STAF, Bern slides 10 ranks back to last place. Nidwalden, which already led the ranking before the STAF, suffices the moderate tax cut planned by 2025 to be able to assert itself at the top.

Despite numerous changes in the ranking, the relative positioning of the cantons to one another remains intact after the reform has been fully implemented: Central Switzerland's cantons tend to tax low, Eastern Switzerland's cantons tend to tax medium, and the cantons of the other major regions tend to be high.

**Fig.1 EATR tax burden for companies in Switzerland before / after STAF**



Comments: The calculations were carried out for all cantons. However, the figure only shows cantons involved in the project and the GDP-weighted average of all 26 cantons (BTI Switzerland Ø). The effective average tax burden (EATR) is shown after the STAF (i.e. 2025; dark columns), before the STAF (i.e. 2019 except for BS 2017; bright columns) and the intermediate STAF 2020 (black diamond) in the canton's main cities in%. Changes in 2025 compared to before STAF in % points (numbers above the columns).  
Source: BAK Economics, ZEW

### Strengthening Swiss growth potential

If you compare the ordinary tax burden after the full implementation of the STAF with the international values of 2019, it shows that Nidwalden will replace the previous leader Hongkong at the top after the full implementation of the reform, the Swiss average is below the tax burden in Singapore and even that Bottom (Bern) positions itself in front of important European competition locations such as London, Munich, Vienna, Paris and Milan. Of course, it cannot be ruled out that some international competitors will follow suit and lower their taxes by 2025.

The tax reform not only reduces the ordinary tax burden. With the newly introduced tax R&D instruments (patent box and increased R&D deduction), Switzerland as a location for innovation will be strengthened, as a further analysis of the BAK Taxation Index that will appear soon, will show. After years of tax uncertainty, the implementation of the tax reform also improves planning security for companies. Switzerland will benefit from all of this in the coming years.

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### **Up-to-dateness of the 2025 implementation plans**

The parameters for this additional STAF analysis were collected in a cantonal survey in March 2020. In the few cantons that did not provide any information, the parameters were researched in the same period on the basis of publicly available information. The plans for the STAF measures up to 2025 analyzed here are therefore as of March 2020.

### **The BAK Taxation Index**

The BAK Taxation Index records the tax attractiveness of all 26 Swiss cantons and their most important international competition locations. The tax burden for companies and for highly qualified employees is raised. For the Swiss cantons, the tax burden is measured at the main location, and for international locations at the main economic location. The BAK Taxation Index includes all relevant tax types at the various government levels and shows the effective tax burden relevant for investors.

The BAK Taxation Index for **companies** measures the EATR tax burden for companies, i.e. the effective tax burden for a company:

- The index is calculated for a manufacturing corporation, which is made up of equal parts of different types of assets (intangible assets, industrial buildings, machinery, financial assets, inventories) and is financed through various sources of finance (retained earnings, outside capital, new equity capital) and a pre-tax return of 20%.
- The calculation takes into account the tariff burdens of the various taxes, the interaction between the taxes and the most important rules for determining the tax base (e.g. the rules for depreciation and inventory valuation). This enables meaningful international comparisons of tax burdens among individual locations. A comparison based solely on tariff tax rates would lead to an incomplete presentation of the tax burden.

The discussion about the **competitiveness of a region** and its attractiveness as a business and residential location does not only concern tax burdens. Other location factors such as e.g. the capacity for innovation, quality of life, regulations, etc. also play an important role.

The BAK Taxation Index has been determined in cooperation with the Center for European Economic Research (ZEW) since 2003.

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