KPMG

Clarity on Swiss Taxes

Push and pull
The role of tax in a sustainable future

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Photo by Daniel Hager

The art of tax

It's not often that you meet people who have known since childhood that they would end up in the field of taxation one day. Or at least that their interest will extend beyond their personal tax return. To outsiders I always try to compare tax with modern art – the more you get into the subject, the more fascinating it becomes.

With tremendous developments in Switzerland and around the globe over the past few years, tax has become more than a niche reserved for tax consultants and some rare tax afficionados. Not long-ago, BEPS 1.0 was implemented, Swiss corporate tax law underwent substantial changes and the EU and other countries introduced rules on tax transparency. Now BEPS 2.0 is at full throttle, with far-reaching consequences – not only for OECD member states and their respective corporate taxpayers. Media coverage of the Luxembourg leaks as well as Panama, Paradise and Pandora papers have put global taxation firmly in the international spotlight, as people from all walks of life, not just finance, take an interest in the topic.

It's one of the reasons tax has become a critical component in the context of environmental, social and governance (ESG) practices. Various organizations and initiatives are promoting the widespread adoption of ESG factors through the development of frameworks and standards for ESG reporting. The World Economic Forum (WEF), for example, has outlined "total tax paid" as a reportable metric to reflect a corporation's contribution to public finances through direct and indirect tax, while governments are discovering ways to use tax as a push and pull instrument to shape future habits and behaviors.

Besides providing you with our annual update on the development of tax rates around the world we want to show you in this publication how taxes are becoming an integral part of the ESG agenda of organizations, jurisdictions and corporations alike.

Enjoy the art of tax.

Stefan Kuhn
Partner, Head of Tax & Legal,
Member of the Executive Committee KPMG Switzerland

The tax take on ESG

Why green taxes and transparency are increasingly relevant in the ESG space

With regulators striving to fulfill their targets to tackle climate change and environmental risks, the role of tax as a sustainability factor is becoming increasingly important. Tax shares touch points with many of the United Nations Sustainable Development Goals (SDGs) as tax revenues have a huge potential to impact how communities thrive and prosper. Stakeholders are increasingly evaluating tax matters as an ESG or sustainability measure as the availability of tax revenues – for governments and the societies they serve – are a prerequisite for having this debate in the first place.

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How tax affects **ESG**

Environmental through implementation of specific environmental taxes, duties and incentives to foster sustainability objectives.

Social through public awareness around tax and "paying your fair share" as part of the push for trust and transparency.

Governance through a broad focus on sustainability, with tax at the heart of governance and accountability in business.

Green taxes and incentives are used by governments as a policy instrument to create more sustainable economies and to change social behaviors. Policymakers exert a push-and-pull influence through tax incentives, investment relief and funding for sustainable businesses on the one hand, and environmental taxes on highly polluting behaviors, activities and products, on the other.

At the same time, increased transparency is shifting from "nice to have" to mandatory requirements or at least being expected by various stakeholders. In parallel to all the regulatory developments, investors are integrating ESG factors into their investment decisions, and tax can be a critical angle for both financial and non-financial performance.

Green light for environmental taxes

Regulators have been stepping up efforts to curb climate change and steer economic development toward more sustainable business models. In this context, governments around the world are embracing environmental taxes – also known as green taxes – as a flexible economic instrument to raise tax revenues and enforce the "polluter pays" principle.

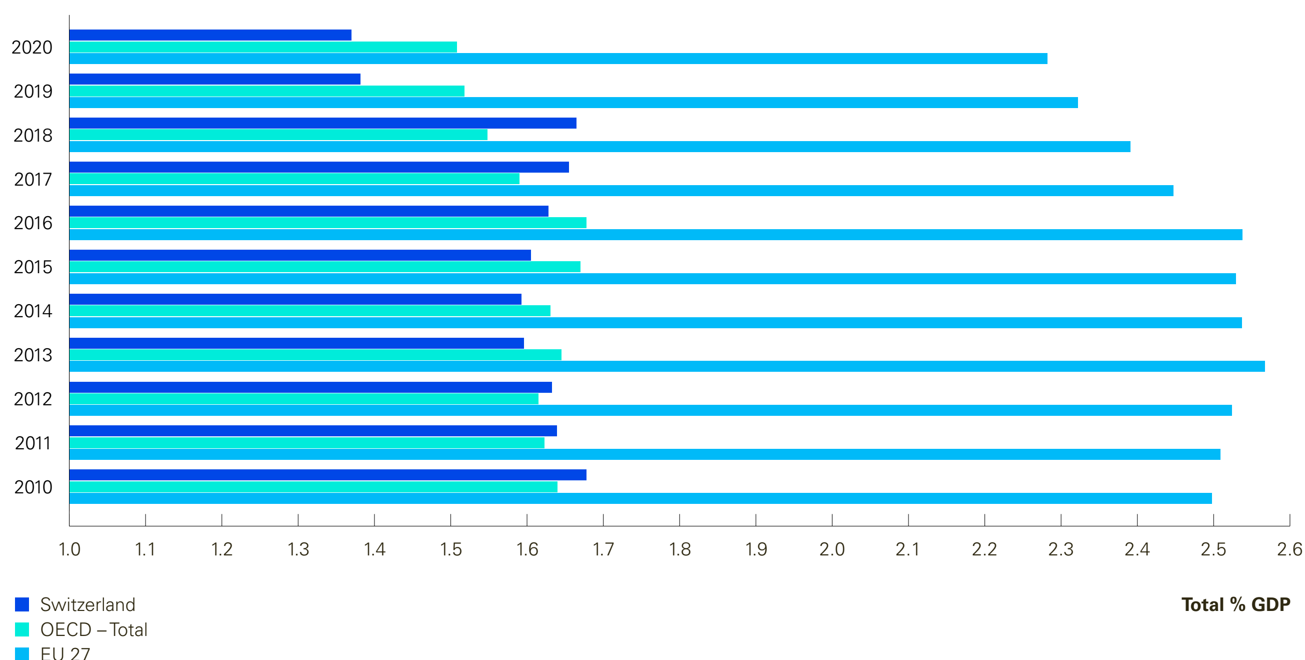
One key characteristic of green taxes is their wide-ranging scope, from energy taxes, carbon-related measures and transport taxes to pollution and resource or waste management taxes. They are also a flexible tool, with the design, form and implementation characteristics varying significantly between jurisdictions.

For businesses, this can add up to a rather fragmented policy framework, especially for companies with international operations. Many also struggle to keep pace with the rapid developments – a growing number of ESG tax measures, reforms of existing green tax regulations and new incentives. This speed and complexity can pose a challenge, even if revenues from green taxes have remained fairly stable as a proportion of GDP across major economies.

Key statistics[1]

- Tax revenue from environmental taxes has remained roughly stable, representing 1.5–2% of GDP across OECD member states.
- In the EU, environmental tax revenue reached EUR 330.6 billion in 2019, accounting for 5.9% of total tax revenue and 2.4% of the EU GDP[2].
- In Switzerland, environmental tax revenues amounted to approx. CHF 15 billion in the same period, accounting for 5.1% of the total tax revenue.

Environmental tax revenues, 2010–2020



Although the latest statistics suggest a slight decrease in the ratio of environmental tax revenues to GDP from 2019 to 2020, this drop largely reflects delays in the implementation of environmental policies and alignment with tax regulations over this period[3].

As countries emerge from the health crisis of the last two years, governments will have to quickly re-focus their economic budgets on the next looming crisis: climate change. The expected entry into force of major environmental tax policies in the field of carbon taxation and plastics is likely to see a substantial increase in the share of environmental taxes in total tax revenue.

On the other hand, with oil and gas prices highly volatile and susceptible to critical geopolitical events, governments might struggle to find a compromise between their climate-related policies and the need to accelerate the transition to more sustainable forms of energy.

As a result, it will be crucial to monitor how ESG and tax developments might be affected and anticipate how this will drive change across operational business models.

[1] OECD (2022), Environmental tax (indicator). doi: 10.1787/5a287eac-en.
[2] Source: Eurostat (env_ac_tax), data extracted in December 2021.
[3] Source: Eurostat, Environmental tax statistics - detailed analysis, data extracted in December 2021.

What are the main ESG tax developments to look out for?

The green taxes landscape has been evolving rapidly in recent years as governments seek to deliver on their commitments on carbon neutrality, reduction of emissions in carbon-intensive sectors and mitigation of climate change risks.

We anticipate ESG-related tax policies in the following areas in particular:

- **Decarbonization**
  Regulations include the introduction of new carbon taxes and measures to control carbon leakage, such as the EU's Carbon Border Adjustment Mechanism (CBAM[4]), the review of excise tax rates and phase-out of tax exemptions for certain highly polluting sectors as well as the reform of Emission Trading Systems (ETS).
- **Product circularity**
  This refers to measures that preserve natural resources, increase the reuse, repair and recycling of products and improve waste management. Key legislation features plastic taxes targeting in particular the use of non-recyclable plastic packaging and additional taxes, penalties and contribution fees levied for the treatment or disposal of plastic waste.
- **Sustainable development**
  The aim here is to increase funding of green investments for specific sectors, tax incentives or tax credit benefits granted to businesses to shift to the use of more sustainable energy products, and adoption of tax transparency reporting standards as part of the ESG KPI measurement and governance framework.

Currently, ESG tax developments in the above areas are emerging across various countries, albeit not in a concentrated or consistent manner. Even though the environmental targets may be similar, many countries design and implement their own mix of green taxes. The result is significant differences between different countries' tax systems. Businesses with cross-border operations have to navigate a highly complex field of national or regional environmental tax policies.

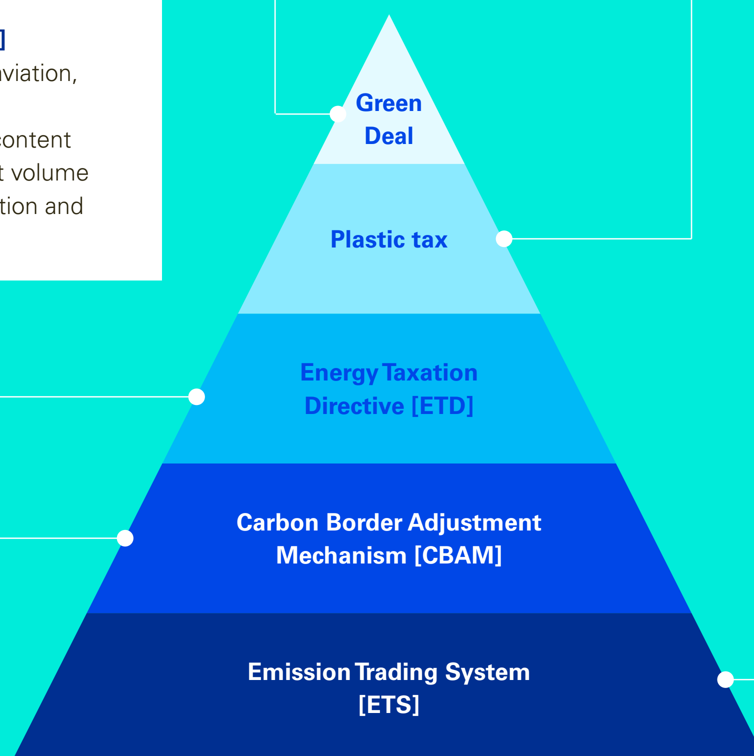
The EU Green Deal is the main environmental and sustainability strategy framework that will have a direct impact on businesses operating in the EU region. The EU Green Deal acknowledges the crucial role of taxation for a greener and more sustainable transition and sets out a comprehensive package including tax-related environmental and sustainability measures.

[4] EU Carbon Border Adjustment Mechanism "CBAM"

Green Deal
- Net zero emisions – 2050 (to be legislated)
- 50–55 percent emisions reductions from 1990 levels by 2030

Plastic tax
- Revenue collection based on non recycled plastic consumption 10–15 major economies will be levied
- Each to design own Plastics Tax– different State taxes

Energy Taxation Directive [ETD]
- Broad tax base now including aviation, maritime and fishing
- Tax rates according to energy content and environmental content, not volume
- Price signals reinforcing innovation and investment. Anti-fossil fuels



Emission Trading System [ETS]
- Pricing of carbon inside the EU with many sectors regulated through the ETS
- Withdrawal of some free allocations in parallel with the CBAM introduction

Carbon Border Adjustment Mechanism [CBAM]
- Shadow ETS applied to certain high emissions imported covered goods
- Aim: applies equivalent carbon costs between imports and locally produced goods

In parallel with the implementation of EU-wide measures, countries within the EU and beyond are also introducing their own, national ESG tax measures, such as national plastic tax regulations.

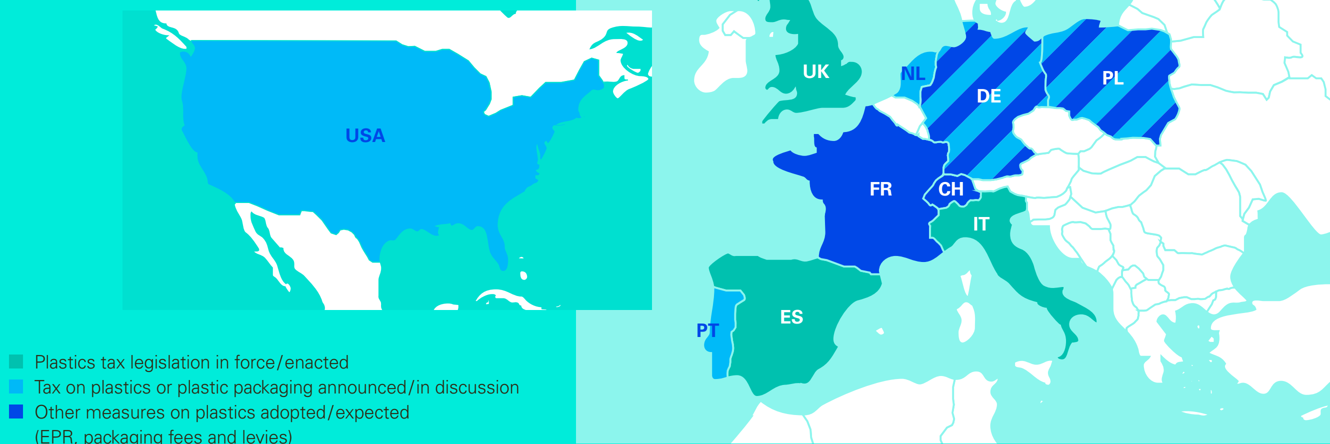
Spotlight on plastic taxes

The use of plastics and their effects on the environment, particularly as a result of marine litter, has been a major area of focus for policy makers. As noted in the OECD Global Plastics Outlook report[5], several international initiatives to target marine litter and plastic waste have been established under the UN, the G7 and the G20 over the past decade. Most of these measures focus on imposing bans or other forms of restrictions on single- use plastics, and on managing plastic waste (usually through special systems, such as the Extended Producer Responsibility (EPR[6]) schemes).

Further to these regulations, the EU has also introduced what is known as the "EU plastic tax" as part of the EU's 2021-2027 budget. Effective as of 1 January 2021, the EU plastic tax is in fact a contribution to the EU budget, payable by EU Member States based on the amount of non-recycled plastic packaging waste generated and levied on the basis of a uniform rate of EUR 0.80 per kg.

Whilst EU Member States are required to pay such contributions to the EU budget, they are in turn able to decide whether they want to implement their own national plastic tax in order to finance their contributions to the EU. As such measures would be introduced unilaterally by EU Member States, businesses will have to be prepared to cope with diverse plastic tax rules in the countries where they operate.

Plastic taxes – legislative overview[7]



Plastics tax legislation in force/enacted
Tax on plastics or plastic packaging announced/in discussion
Other measures on plastics adopted/expected (EPR, packaging fees and levies)

As of 2022, a number of countries across the globe are expected to introduce some form of plastic tax or plastic levy on the manufacturing, introduction to the market and distribution of products containing plastic packaging. Examples include:

- **United Kingdom**
  As of 1 April 2022, a tax applies on companies that manufacture or import more than 10 tons of plastic packaging materials containing less than 30% of recycled plastic.
- **Italy**
  A tax on the consumption of single-use plastic items has been announced, with entry into force scheduled for 1 January 2023
- **Spain**
  An excise tax on non-reusable plastic packaging has been designed and is expected to be introduced by 1 January 2023.

Other countries are considering the implementation of similar plastic tax measures (e.g., Portugal, Poland) targeting plastic materials and plastic packaging or are extending fee contributions and obligations in relation to the management of plastic waste (i.e., through the Extended Producer Responsibility "EPR" schemes).

The common denominator of all these different types of taxes, levies or fees on plastic packaging and plastic materials is that they are bound to increase supply chain costs related to sourcing of plastic materials. Companies with operations in the respective countries will also have to reckon with registration and reporting obligations. To comply with the regulations, companies will need to:

- Define data requirements for plastic tax reporting
- Assess their systems' preparedness
- Review contractual terms with suppliers and/or customers to determine which party is liable to comply with the plastic tax rules

[5] OECD (2022), Global Plastics Outlook: Economic Drivers, Environmental Impacts and Policy Options, OECD Publishing, Paris, https://doi.org/10.1787/de747aef-en.
[6] Extended Producer Responsibility «EPR».
[7] Stand: April 2022

Spotlight on carbon taxes

In the field of carbon taxes, major developments are the reform of the EU's Energy Taxation Directive, the revision of the EU Emission Trading Systems (ETS) and, in particular, the introduction of the EU Carbon Border Adjustment Mechanism (CBAM).

CBAM is intended to promote sustainable production chains throughout the economy and to ensure that the EU's environmental objectives are not circumvented by moving production to third countries which do not share the same goals for the reduction of carbon emissions.

Based on the EU proposal published on 14 July 2021, businesses importing certain types of goods produced outside of the EU will be required to register with the EU CBAM Authority and purchase carbon certificates (priced based on weekly ETS allowances) to account for the greenhouse gas emissions embedded in the imported goods. Businesses will have to submit CBAM declarations to report the embedded emissions in the goods imported in the previous calendar year.

At this stage, it is expected that the CBAM regulation will affect businesses importing any of the following products into the EU: iron, steel, cement, fertilizers, aluminum and electricity. However, the CBAM draft proposal is currently still under the EU's legislative process, so scope and coverage might be subject to changes or extension to other sectors or product categories.

Considering that the CBAM is expected to enter into force as of January 2023, businesses should start preparing now, keeping in mind that they may have limited time to adjust to any changes in the CBAM legislation.

The introduction of CBAM marks a major step in the EU carbon pricing policy that will affect businesses operating in the EU region. Besides observing compliance and reporting obligations, companies will have to consider the impact of emission allowances as part of their production costs. They will also need to work intensively to define the appropriate methodology for the measurement of their embedded emissions across their value chains.

How could green taxes affect Swiss-based businesses?

While Switzerland has so far not implemented a tax or levy on plastic materials or plastic packaging, the Swiss Federal Office for the Environment is currently elaborating a study on the environmental impact of plastics and measures to promote circularity.

Besides possible future developments in Switzerland, Swiss companies with global operations are likely to be affected by emerging green taxes in different countries as well.

It is important to note that tax-related plastics regulations, whether in the form of tax on plastic materials and packaging or penalty fees, will affect businesses across all business sectors. Even though the exposure and cash flow impact of the plastic tax itself might be rather limited in certain business sectors, the costs associated with implementing compliance processes and plastic tax reporting could be significant given the different tax scope and systems implemented in the various countries.

Similarly, Swiss businesses will have to scrutinize the processes required to monitor the emissions performance of their supply chain in order to calculate, verify and determine any reporting obligations that may arise in light of carbon tax regulations, particularly the EU's CBAM. Developing a methodology for measuring and calculating emissions embedded in the products could prove rather challenging if production is spread across different geographies with varying carbon tax and CO_2 emissions policies. In such cases, reviewing the supply chain would be crucial to identify the relevant factors, define appropriate methodology and assess the resulting cost implications across the structure.

The tax transparency journey

With ESG still top of the board agenda at many companies, the tax transparency debate is gaining momentum. As part of this conversation, numerous initiatives and standards are emerging – often driven by the United Nations Sustainable Development Goals (SDGs) – and will enter into force soon if they have not already done so.

Reporting on tax is not only about being transparent or sharing insights into an organization's tax bill. It is more about the principles applied and the organization's tax footprint. In other words: It's about actively demonstrating the impact a business is making on sustainable and inclusive growth. And this process is a journey that depends on all sorts of internal and external factors.

What's driving the development?

The tax transparency debate initially entered the public sphere in the wake of the financial crisis of 2007/2008 and public perception that large corporations are not paying their "fair share". Since then, the discussion has evolved into much more than this, driven primarily by regulatory initiatives and market forces.

- **Regulatory initiatives**
  There are already numerous international and/or domestic regulatory initiatives in progress or in place to enhance trust through transparency. The debate has been additionally fueled by COVID-19 and pressure on governments to justify the rescue packages granted. Some of the regulations and standards are already mandatory (e.g., CbCR, CRD IV or EU accounting directive, national regulations in the UK, AUS, NOR, etc.), while others are voluntary (e.g., UN-PRI, GRI standards, etc.). There are also various initiatives on the regulatory horizon, and we can expect to see these implemented in the near future (e.g., EU Public CbCR directive).

- **Market forces**
  As investors and consumers demand a sharper focus on ESG, companies are reflecting more on their corporate purpose and contribution to society. Once sustainability objectives and strategies are defined, organizations face pressure to align the tax transparency approach to its objectives, while also ensuring consistency with the overall communication strategy and positions taken by competitors. Additionally, investors are seeking to act more responsibly, and tax transparency is increasingly considered to be a relevant metric in sustainability rankings.

What does tax transparency mean in practice?

Tax transparency means different things to different stakeholders. Tax transparency standards all have different positions on what "transparent" means, and tax transparency can be viewed as a spectrum. What is deemed "enough" by the business, the public, investors, and governments will change over time. The norm is likely to shift along the spectrum, making more disclosure necessary.

Is the EU Public CbCR directive a game changer?

New rules of the EU Public Country-by-country Reporting (CbCR) directive entered into force on 21 December 2021. EU Member States must transpose the directive into national law by 22 June 2023.

The new rules require multinational groups with total consolidated revenue of >EUR 750 million to report either if they are EU parented or otherwise have EU subsidiaries or branches of a certain size. The report will require information on all members of the group (including certain non-EU members) within seven key areas:

1. A brief description of activities
2. Number of employees
3. Net turnover (including related-party turnover)
4. Profit or loss before tax
5. Tax accrued
6. Tax paid
7. The amount of accumulated earnings

The information must be broken down for each EU Member State where the group is active and also for each jurisdiction deemed "non-cooperative" by the EU or that has been on the EU's "gray" list for a minimum of two years. Information concerning all other jurisdictions may be reported on an aggregated level.

Reports are to be published in an EU Member State business register, but also on the companies' websites, where the CbC reports are to remain accessible for at least five years. When the ultimate parent is not governed by the law of an EU Member State, the reporting will generally have to be done by the EU subsidiaries or branches, unless the ultimate parent publishes a report including those subsidiaries and branches. The report should be drawn up and published annually within 12 months after the balance sheet date for the financial year of the group. Reporting is mandatory for financial years beginning on or after 22 June 2024. However, individual EU Member States may also choose to implement the rules at an earlier date.

Where do Swiss-based companies stand in terms of tax transparency?

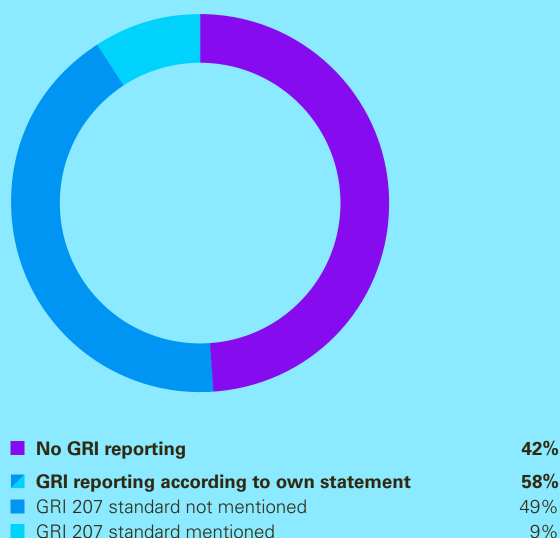
Assessment based on GRI 207

To evaluate where Swiss-based companies stand today in terms of tax transparency, we analyzed the 150 largest companies listed on the SIX stock exchange[1] to determine whether they currently prepare sustainability reports applying the commonly used Global Reporting Initiative (GRI) standards and, if so, whether the new tax standard (GRI 207) is at least partially addressed in these reports.

We further investigated the extent to which these companies publish voluntary tax transparency reports and assessed their level of disclosure[2].

We found that 58% of the companies analyzed have either published sustainability reports for the year 2020 or have integrated sustainability data in their published annual reports, which, according to their own statements, principally adhere to the GRI standards. Of these GRI-reporting companies, 16% (i.e., 9% of all companies) mentioned the new tax standard (GRI 207) in their sustainability reports or in a separate tax transparency report[3].

Reporting according to GRI standards



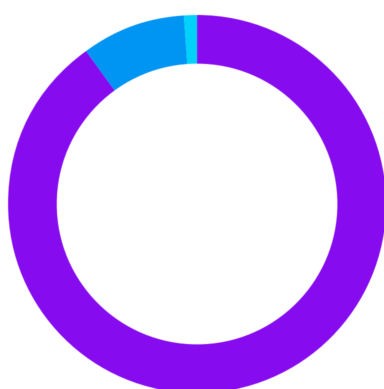
[1] Based on the combination of information from the list of the largest industrial, trading and service companies, banks and insurance companies in Switzerland 2021 published by Handelszeitung and the SIX list per 20.01.2022

[2] Qualitative analysis based on publicly available information, i.e., information extracted from the companies' annual and sustainability reports for the year 2020 and other published documents, as well as the subjective assessment and interpretation of this information.

[3] Only includes companies that explicitly covered the GRI 207 standard in their GRI index and provided details of where to find information on the relevant standard.

Additionally, 10% of the companies published voluntary tax transparency or tax strategy reports that had no explicit reference to GRI. Of these 10%, 90% (or 9% of the total population) actually applied the GRI standards as a basis for their overall sustainability reporting but did not refer to the tax transparency reports in their respective GRI indices, even though the reports addressed aspects of the GRI 207 standard. The reports of the remaining 10% (or 1% of the total population) also covered some aspects of the GRI 207 standard, although the relevant companies generally did not report according to GRI standards.

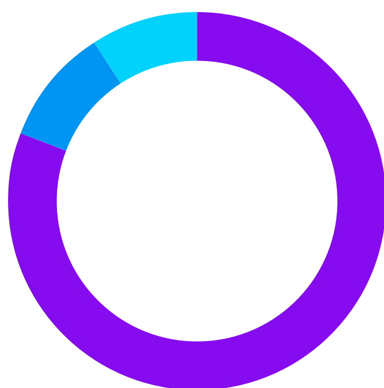
Voluntary tax transparency reports



No voluntary tax transparency reporting	**90%**
Voluntary publication of a tax transparency report	**10%**
Reporting according to GRI standards	9%
No reporting according to GRI standards	1%

In total, then, 19% of the 150 companies have either addressed tax transparency as part of GRI reporting (9%) or have published voluntary tax transparency reports independent of the GRI standards (10%).

Tax transparency reporting



No voluntary tax transparency reporting	**81%**
Tax transparency reporting	**19%**
Reports not mentioning the GRI 207 standard	10%
Reports mentioning the GRI 207 standard	9%

To assess the quality of the tax transparency reporting, we classified reports into three levels:

- **Level 1**
  Reports that only describe the company's general approach to tax in accordance with GRI 207-1
- **Level 2**
  In addition to the tax approach, the report also addressed the topics of tax governance, control, and risk management (GRI 207-2) and explained how the company engages and manages stakeholder concerns related to tax (GRI 207-3)
- **Level 3**
  In additional to the requirements of levels 1 and 2, at least some level of CbCR was also provided within the report (GRI 207-4).

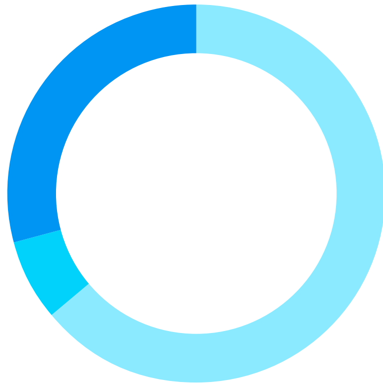
We found that 76% of all tax reports, including both the reports that officially applied the GRI 207 standard and the voluntary tax reports, qualify as level 1 reports, while 7% classify as level 2 and 17% as level 3.

Quality of tax transparency reports

Level 1	**76%**
Level 2	**7%**
Level 3	**17%**

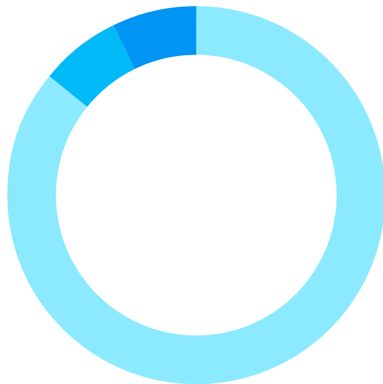
Looking only at the reports that explicitly mentioned the GRI 207 standard, we classified 64% of the reports as level 1,7% as level 2 and 29% as level 3. On the other hand, if we look only at the voluntary tax transparency reports, we found that 86% do not go beyond level 1 and 7% each correspond to levels 2 and 3.

Quality of tax transparency reports applying GRI 207 standard



Level 1	**64%**
Level 2	**7%**
Level 3	**29%**

Quality of voluntary tax transparency reports

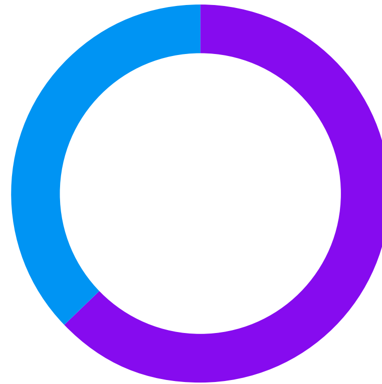


Level 1	**86%**
Level 2	**7%**
Level 3	**7%**

Impact of EU Public CbCR directive

To complement the analysis of the current level of "voluntary" tax transparency reporting, the analysis below shows how many of 150 largest Swiss-based companies are potentially affected by the EU Public CbCR directive and will likely be required to disclose the required information from 2025 onwards.[4]

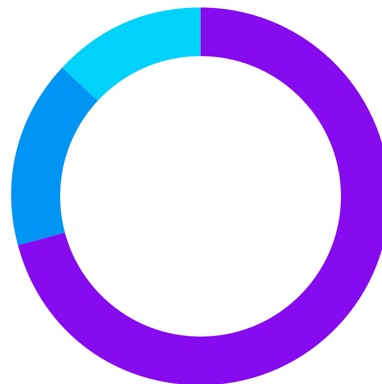
Companies impacted by the EU Public CbCR directive



Impacted by EU Public CbCR	**63%**
Not impacted by EU Public CbCR	**37%**

We found that a total of 63% of the analyzed companies are expected to be impacted by the EU Public CbCR directive. Of the impacted companies, 29% already do tax reporting either according to the GRI 207 standard (13%) or on a voluntary basis (16%). However, only 5% of the impacted companies already do CbCR and make it publicly available.

Tax reporting status of companies impacted by the EU Public CbCR directive



No tax transparency reporting	**71%**
Tax transparency reporting	**29%**
Voluntary tax transparency reports	16%
Reports mentioning GRI 207 standard	13%

[4] Analysis is based on the assumption that a Swiss-based group will be affected by the directive if its consolidated revenue exceeded the threshold of EUR 750 million in 2020 and if the company simultaneously had subsidiaries or qualifying branches in one of the EU Member States.

Summary

A significant number of the largest 150 companies already publish sustainability reports or information using the GRI standards as a basis. However, taxes are rarely addressed within these reports. Moreover, 50% of the companies publish a voluntary tax report that is not specifically based on the new tax standard GRI 207.

Where tax transparency information is published, it mainly comments on the tax approach and does not include other tax topics that are important and relevant from a sustainability perspective. Even the comparatively advanced reports (level 3) do not yet fully comply with the GRI 207 standard and could be enhanced by more detailed descriptions and information on tax-related matters.

At the same time, a large number of the companies will be impacted by the EU Public CbCR directive in the future, indicating that even those companies that have already prioritized tax transparency must continue to make progress. Companies that have not yet done any tax reporting must catch up as soon as possible.

Through the EU Public CbCR directive and other drivers discussed in this article, we anticipate a strong increase in the number of companies that actively engage in the tax transparency debate and therefore the number of published tax transparency reports in the years to come. Publishing information voluntarily and sooner than required by, e.g., the EU CbCR directive, particularly also gives companies the chance to show a complete picture and align tax aspects with the overall ESG communication strategy.

Taking stock of the current situation and considering the way forward

Today, businesses are at different points in their tax transparency journey and will have different tax transparency destinations depending on industry, prior activity and preferences. Regardless of where they currently stand, organizations should consider how taxes relate to their sustainability goals and how the tax transparency landscape affects them. This means:

- Identifying who in the organization is responsible for preparing and driving ESG topics and sustainability reports
- Assessing whether the tax governance framework meets the expectations of the different stakeholders
- Designing a tax transparency roadmap and describing which information and data will be disclosed over the next couple of years
- Evaluating whether the required data – information the company wants or has to disclose – can be extracted from the current systems
- Performing a risk assessment based on the current CbC profile, considering what steps may need to be taken and how to put data into context to manage potential reputational risks ahead of time
- Considering whether to seek independent assurance for some or all of the reported data
- Aligning the overall communication strategy on ESG topics with the tax transparency objectives

Overall conclusion and outlook

Governments, the public sector and private stakeholders agree: tax is a key component in the ESG discussion. Green tax regulations are emerging rapidly across the globe as governments seek to tap new budget resources to fund their ESG targets. At the same time, public pressure is mounting on companies to do more to do more in terms of transitioning to more sustainable business practices. Tax incentives and income or indirect tax credits will also play a bigger role in the tax policy agenda. At the same time, the topic of tax transparency arises as an important metric of the governance framework that needs to be closely aligned with the ESG KPIs (Key Performance Indicators) of said organization. This debate has gained enormous traction through the inclusion of a specific tax section in the GRI standards (GRI 207) and the introduction of the EU Public CbCR directive.

As they progress along their ESG journey, organizations will have to assess the impact of ESG tax policies on their operational business model, reconsider the business value drivers and priorities and embrace transformation where required. Tax planning and the development of a strategic approach aligned with their ESG framework will become critical differentiators in managing ESG and taxes.

While few of the 150 largest SIX-listed companies have published tax transparency reports (of which most are still on a high level basis), we expect an increase in the volume and quality as the EU Public CbCR directive takes effect and stakeholder pressure mounts.

Against this background, now is the time for companies to understand where they are on their tax transparency journey and develop a clear roadmap on how to develop this topic over the next years. Moving ahead on the path of sustainability is the only way forward. Facing this inevitable truth is the first step in the right direction.

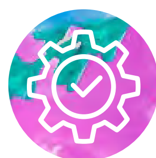
Key tax considerations of sustainable ESG and tax strategy and planning

Assess green taxes and the related compliance demands

(carbon/plastic taxes and other ESG taxes)

Review impact across the transactional and operating model

Integrate tax planning in the ESG strategy, explore incentives, tax credits, and other funding options



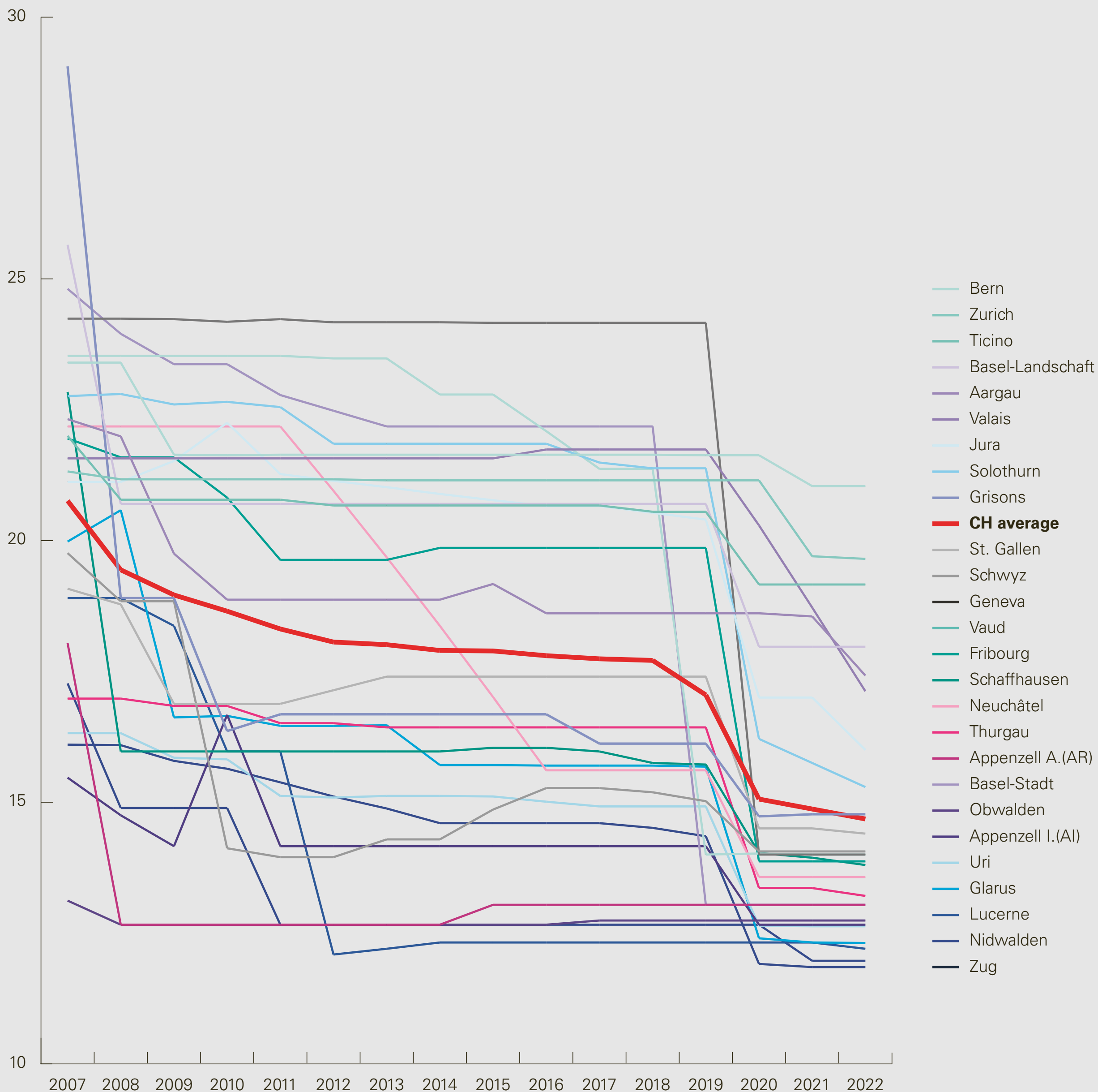
Develop a tax transparency and governance framework

Corporate taxation

Corporate income tax

Continuing sporadic reductions

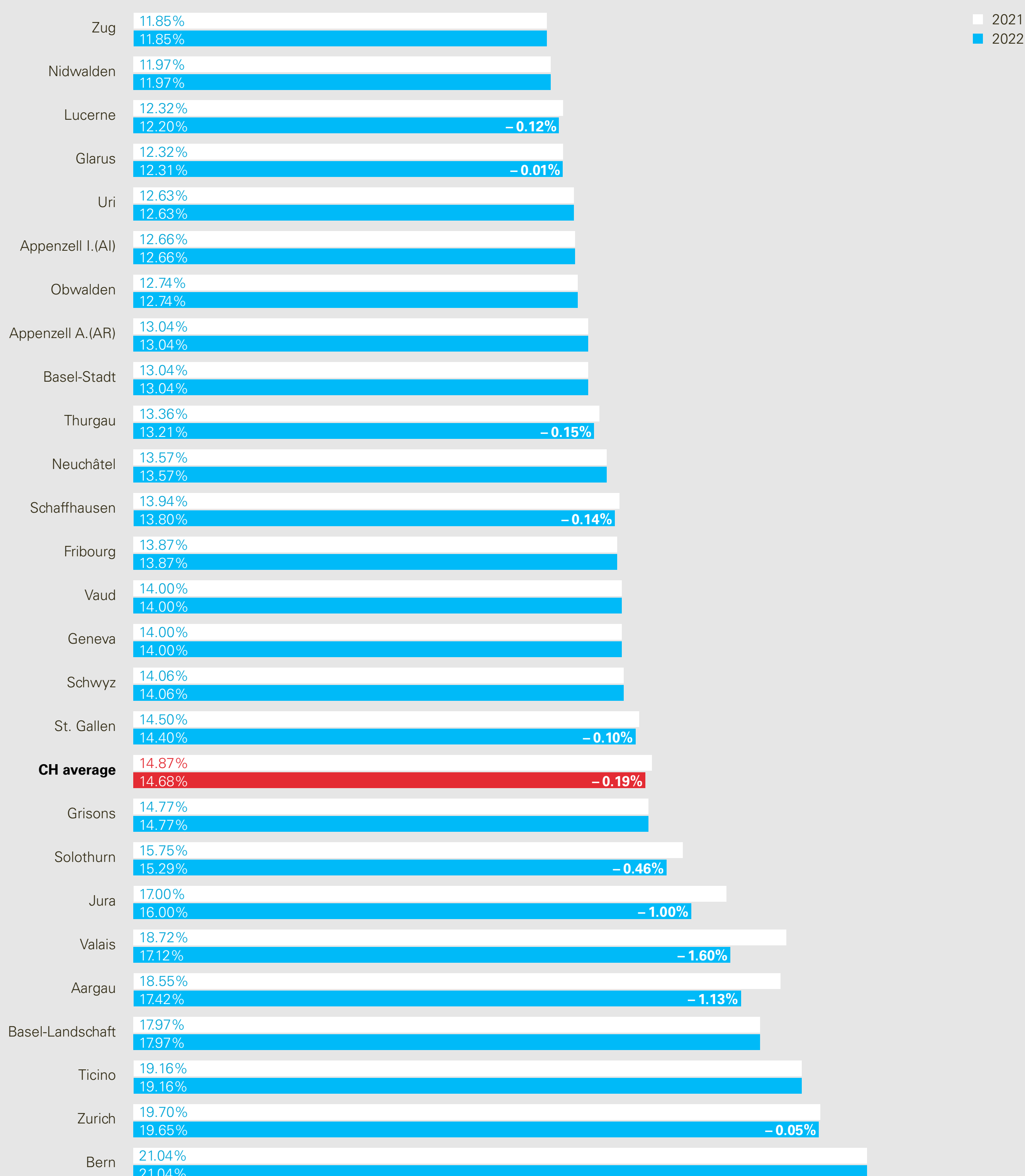
Corporate tax rates in the cantons – trend from 2007 to 2022
After corporate tax rates were reduced a few times in the (distant) past, rates stagnated somewhat for a while until Basel-Stadt and Vaud cut their rates in 2019 and most other cantons followed suit in 2020. Individual cantons have reductions scheduled for 2022.



Note: Max. effective pre-tax rate for federal/cantonal/municipal taxes in the relevant cantonal capital. Corporate tax multipliers for AR, BL, BE, GE, JU and TI for 2021.
Source: KPMG Switzerland

Corporate income tax rates in the cantons – 2021 and 2022
After many rates had been reduced in the previous years due to the Corporate Tax Reform (TRAF), the period from 2021 to 2022 only saw tax rates reduced in a few individual cases. The most major reductions were made in the cantons of Valais, Jura and Aargau (subject to popular referendum on 15 May 2022).

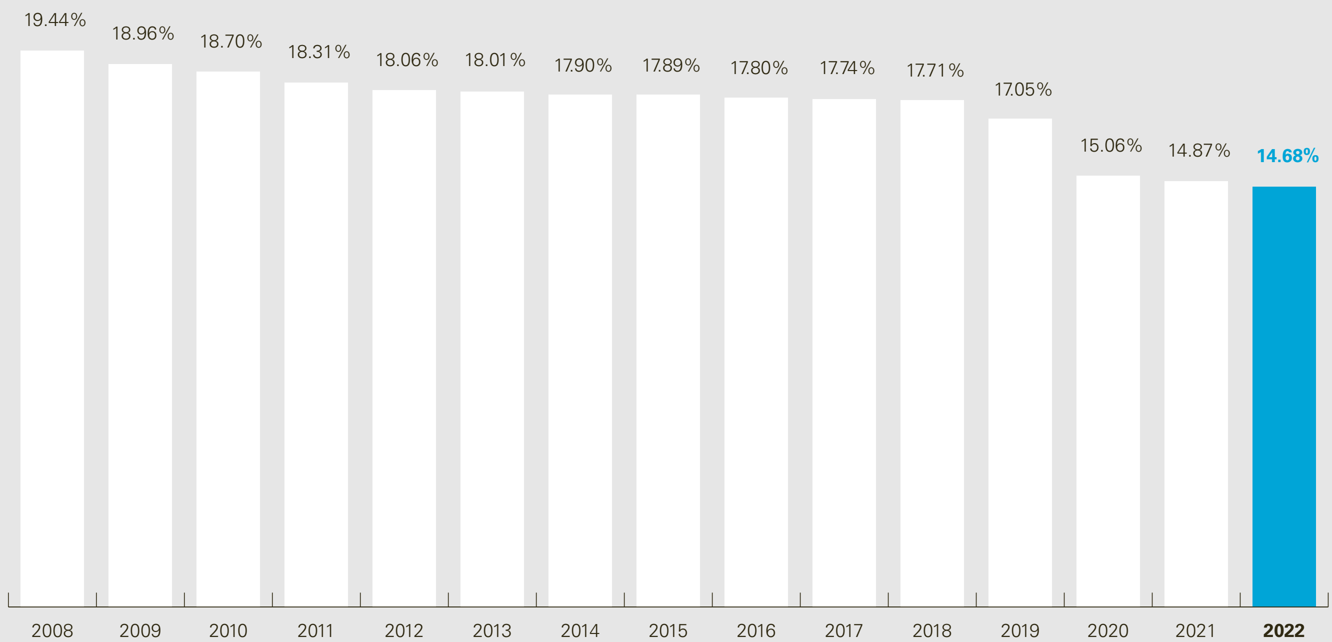
Individual reductions to corporate tax rates in the cantons in 2022
Individual cantons have only reduced their corporate tax rates marginally in the third year following the Corporate Tax Reform (TRAF). This mainly relates to cantons that are spreading their rate reductions over several years. That is the reason why further reductions are inevitable until 2025.



Note: Max. effective pre-tax rate for federal/cantonal/municipal taxes in the relevant cantonal capital. Corporate tax multipliers for AR, BL, BE, GE, JU and TI for 2021.
Source: KPMG Switzerland

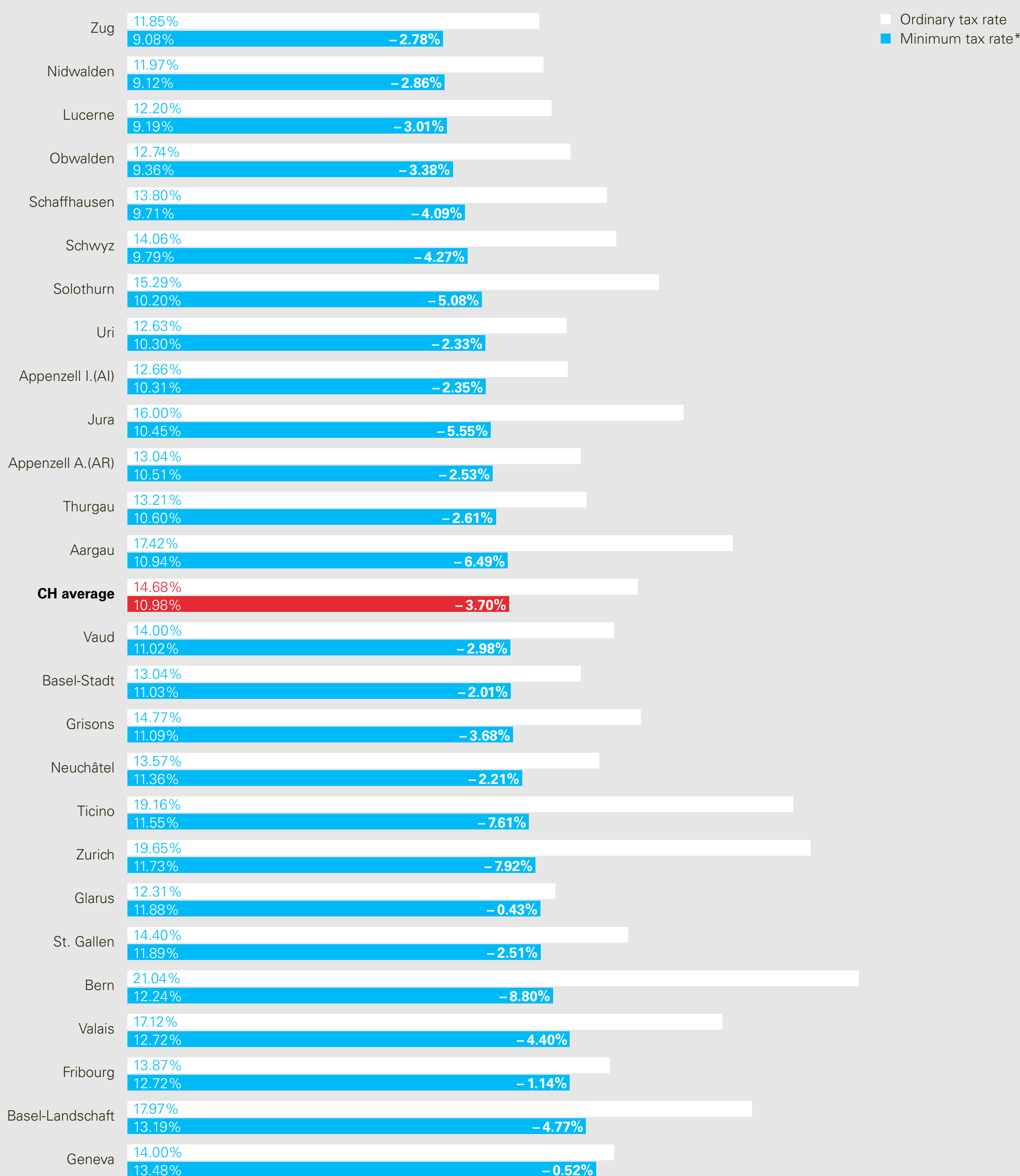
Corporate income tax rates in the cantons – trend: 2008 to 2022

While the average tax rate had been noticeably reduced from 2019 to 2020 (as a result of the Corporate Tax Reform TRAF), only a marginal reduction was made from 2020 to 2021 and to 2022. Another slight decline can be expected in the next three years since a few cantons are planning further cuts.



Minimum tax rate

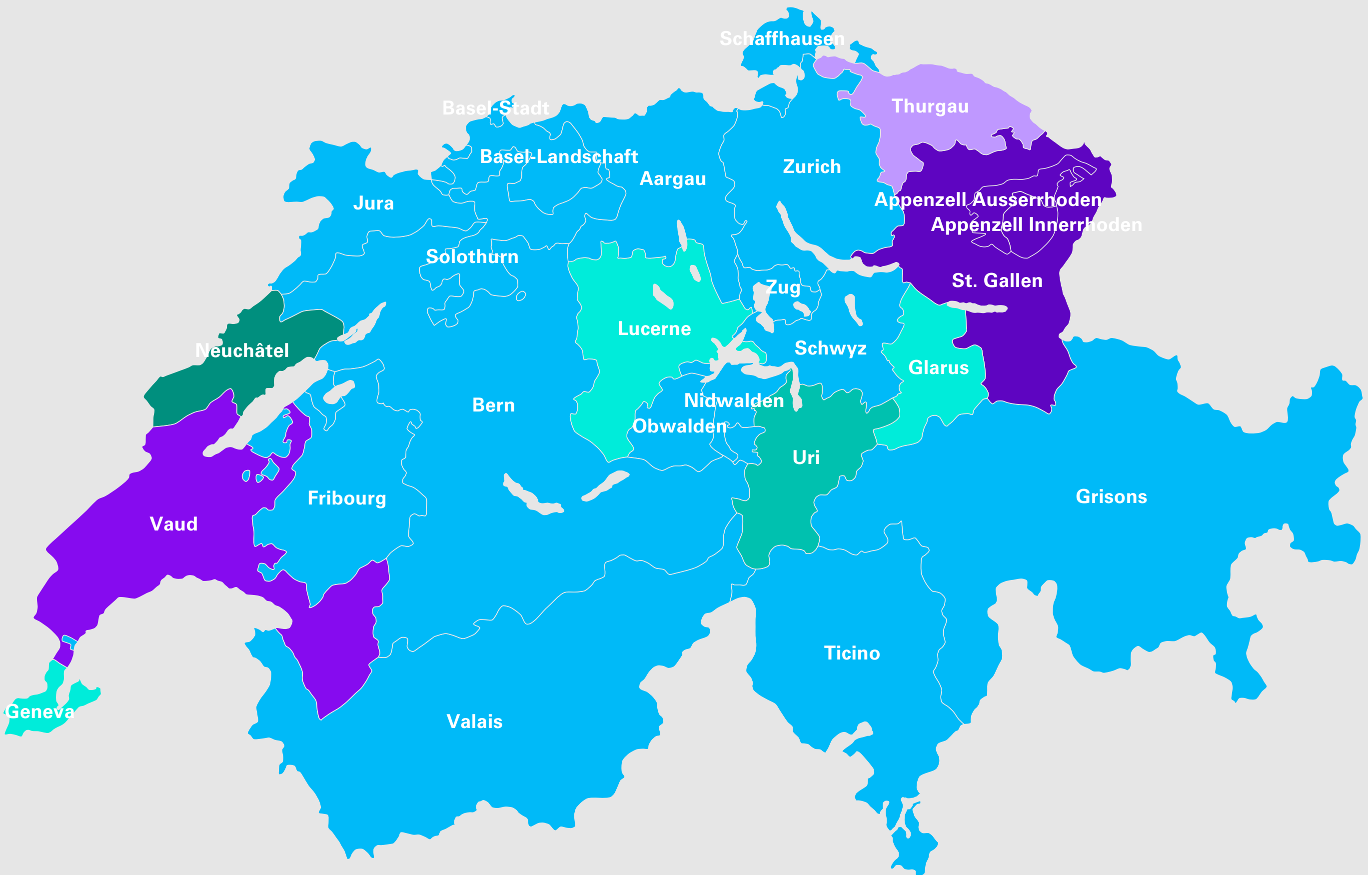
A comparison of the minimum tax rates (maximum relief provided by the new instruments or transitional rules) reveals that the cantons are closing ranks, in part because high-tax cantons, in particular, are using new instruments to provide more extensive relief while the low-tax cantons are frequently more likely to grant limited deductions.



* if the options offered by the measures are exhausted with due regard to the relief limit

Patent box relief

While most of the cantons are planning to limit the relief to a maximum of 90%, a few cantons – Geneva, Glarus, Lucerne, Neuchâtel and Uri in particular – are setting this threshold significantly lower.



Patent box relief

- 90%
- 60%
- 50%
- 40%
- 30%
- 20%
- 10%

Additional R&D deduction

With the exception of a few cantons in Central Switzerland (Lucerne, Nidwalden, Uri), Glarus, Schaffhausen (only from 2025 onward) and Basel-Stadt, all cantons have introduced the additional deduction for R&D, with most of them capping this deduction at a maximum of 50%.

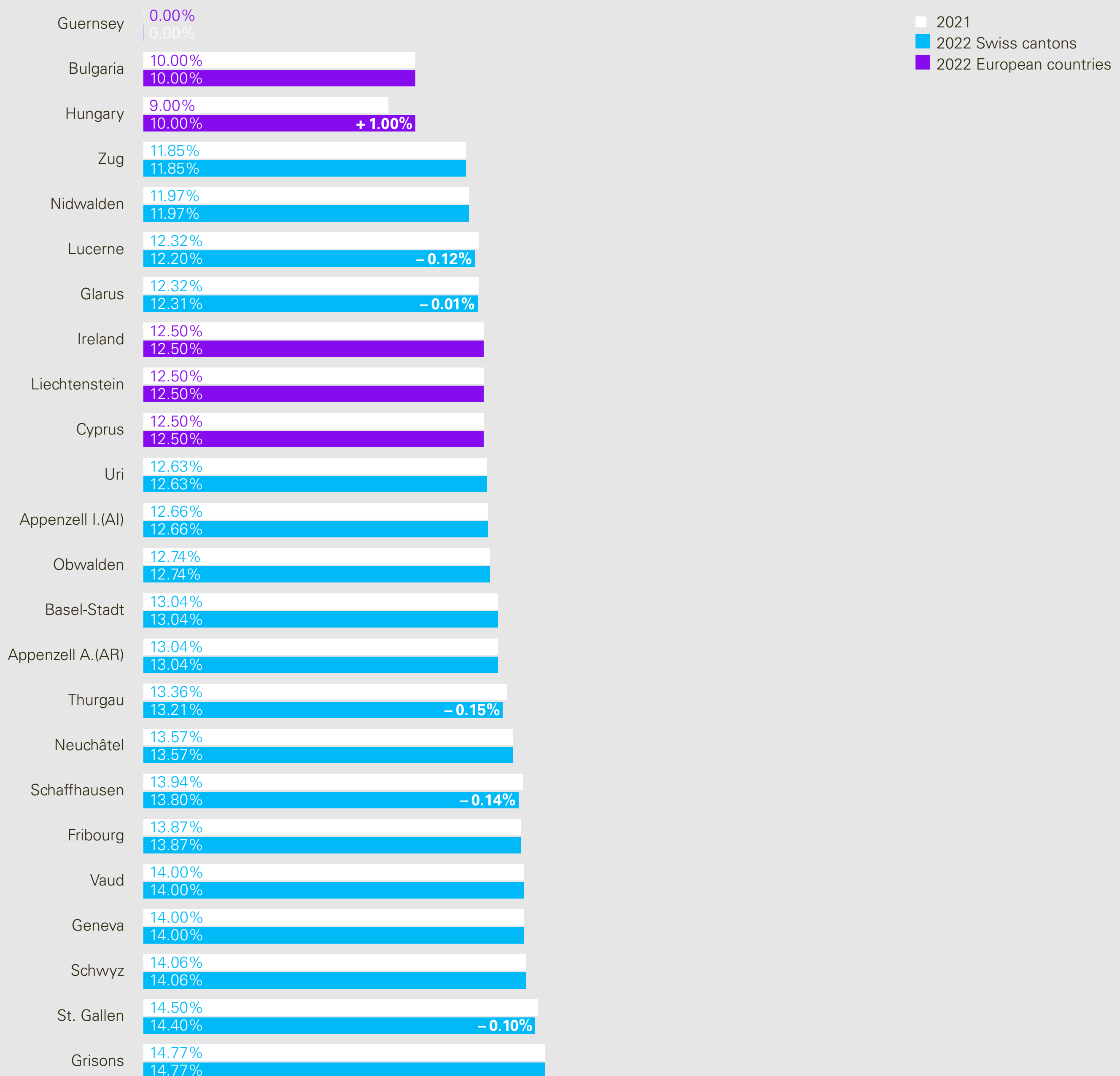
Additional R&D deduction

- 50%
- 40%
- 30%
- 20%
- n/a

Comparison between cantons and the countries of Europe
A comparison with Europe reveals very few changes made to the lower tax rates. The cantons of Central Switzerland are still positioned positively and they were also joined by Basel-Stadt, Geneva and Vaud in 2020. The Channel Islands and a few countries in (South-)Eastern Europe are the only locations that still offer lower ordinary corporate tax rates. Ireland is Switzerland's most important competitor in Europe in 2022 as well.

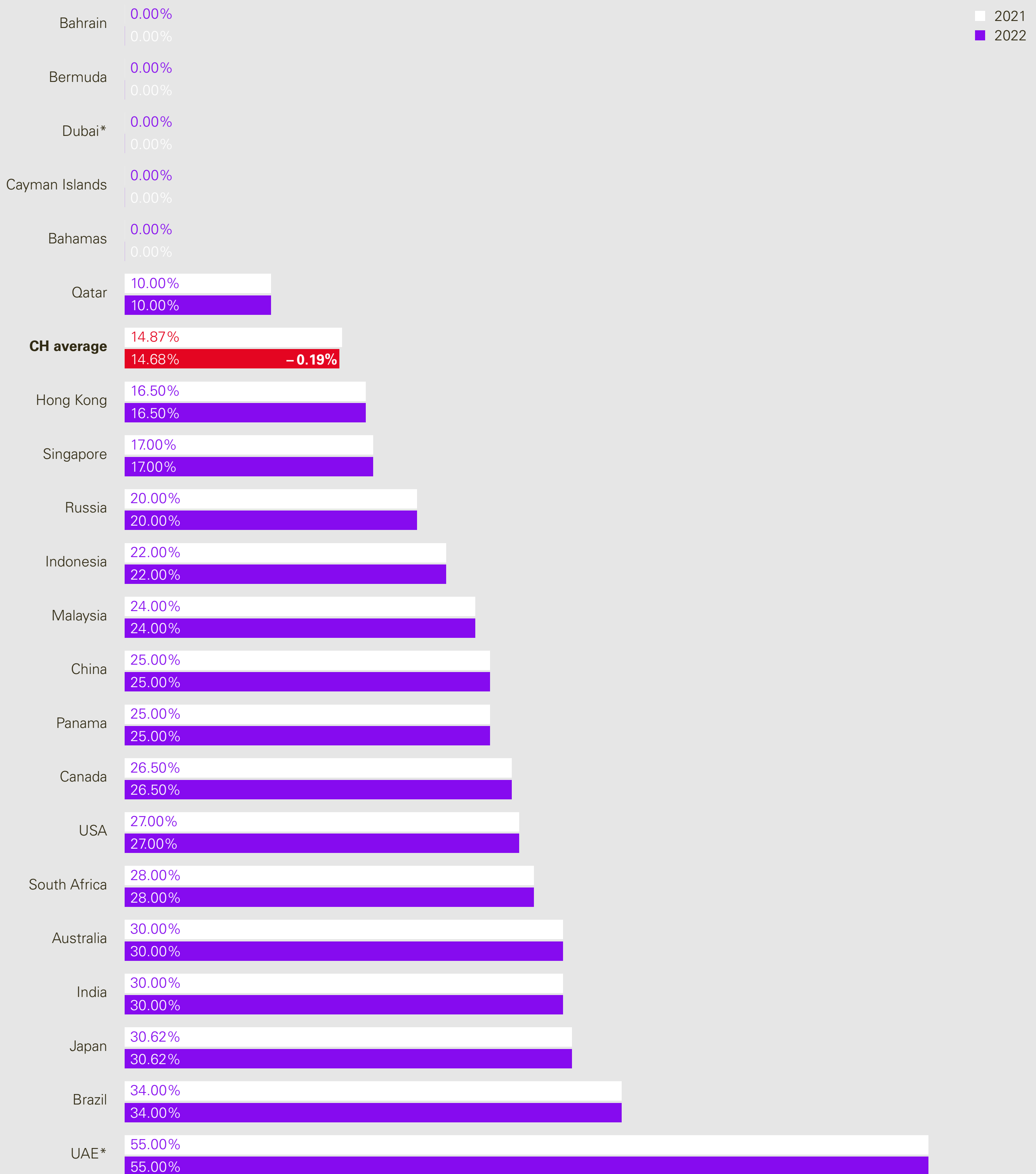
Very few changes have been made in the European midfield. A new addition to the midfield is Montenegro, where the newly progressive tax rate can reach 15 percent.

Coming in last in terms of the attractiveness of their ordinary corporate tax rates were several countries in Northern, Western and Southern Europe. As was already the case in 2021, France is reducing its corporate tax rate in 2022, this time to 25%. Slight improvements were achieved again this year by a few Swiss cantons that tend to be on the upper end (Valais and Aargau).



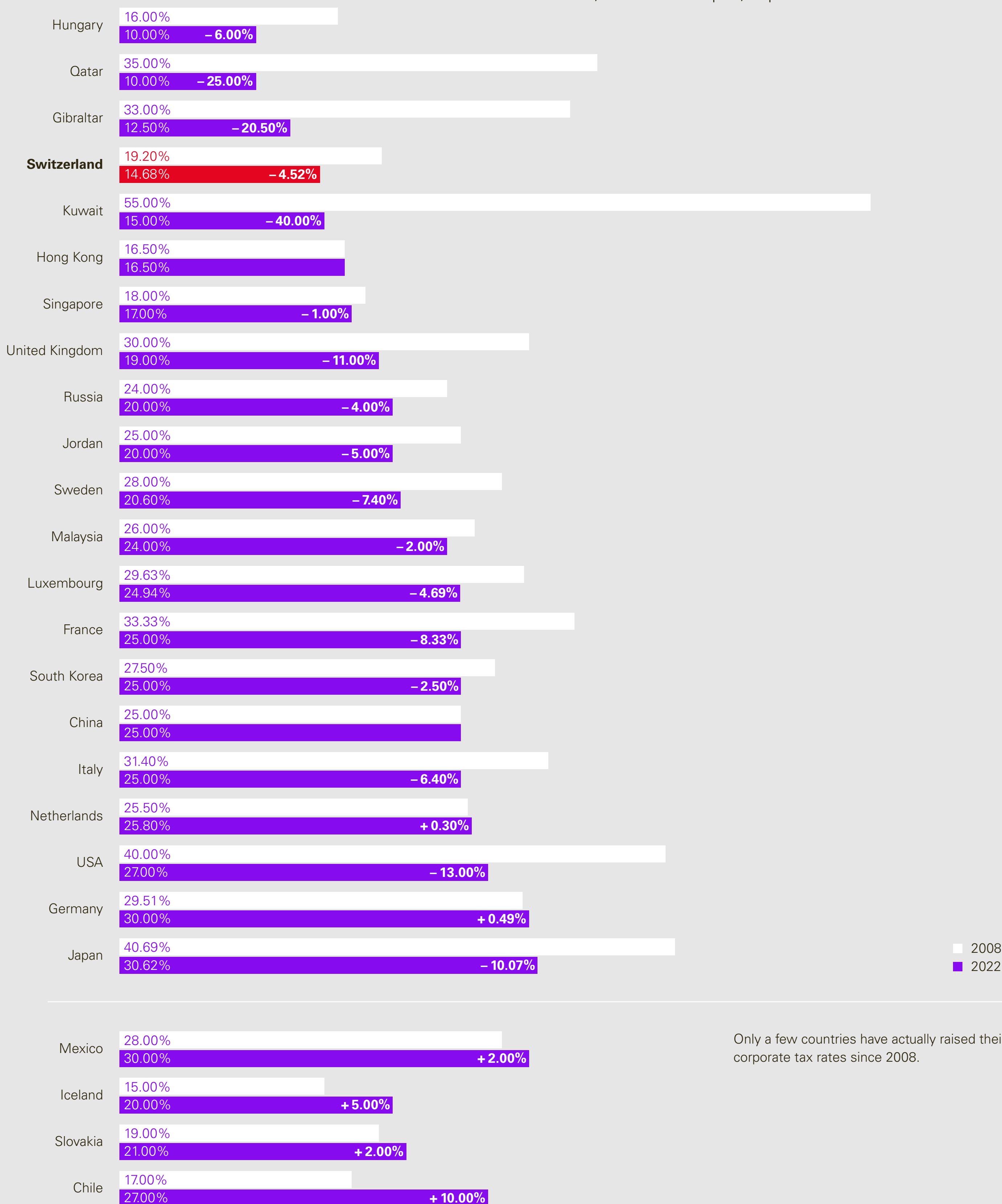
2021
2022 Swiss cantons
2022 European countries
Albania
15.00%
15.00%
Lithuania
15.00%
15.00%
Serbia
15.00%
15.00%
Montenegro
9.00%
15.00%
Solothurn
15.75%
15.29%
Romania
16.00%
16.00%
Jura
17.00%
16.00%
Valais
18.72%
17.12%
Aargau
18.55%
17.42%
Basel-Landschaft
17.97%
17.97%
Croatia
18.00%
18.00%
Ukraine
18.00%
18.00%
United Kingdom
19.00%
19.00%
Poland
19.00%
19.00%
Slovenia
19.00%
19.00%
Ticino
19.16%
19.16%
Zurich
19.70%
19.65%
Estonia
20.00%
20.00%
Sweden
20.60%
20.60%
Slovakia
21.00%
21.00%
Bern
21.04%
21.04%
Greece
22.00%
22.00%
Denmark
22.00%
22.00%
Norway
22.00%
22.00%
Turkey
25.00%
23.00%
Luxembourg
24.94%
24.94%
France
26.50%
25.00%
Austria
25.00%
25.00%
Spain
25.00%
25.00%
Italy
24.00%
25.00%
Netherlands
25.00%
25.80%
Germany
30.00%
30.00%
Malta
35.00%
35.00%

Non-European comparison (selected countries)
The traditional offshore domiciles are still in the lead in terms of their tax attractiveness. A comparison with countries outside Europe reveals that Switzerland is still solidly positioned in the top third (ahead of Hong Kong and Singapore).



* with exceptions (0%–55%)

Trend: countries 2008 and 2022
Corporate tax rates in many countries have declined sharply in the past few years, with more comprehensive reductions in excess of 10 percentage points seen in the Middle East, the US, the UK and Japan, in particular.



Only a few countries have actually raised their corporate tax rates since 2008.

Individual taxation

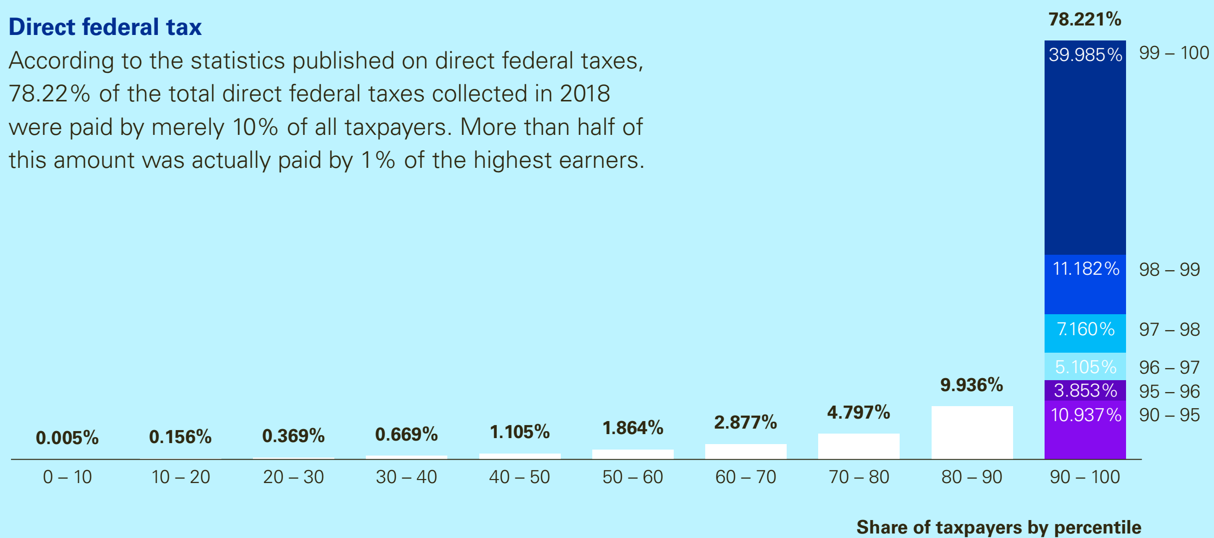
Income tax

Income tax rates in the cantons

Overall, Switzerland remains an attractive location for private individuals in terms of income taxation. Again for 2022 there are only minor changes and the average maximum tax rate for Switzerland is a bit lower at around 33.52%. Compared on a global level, Switzerland therefore maintains its midfield status.

Direct federal tax

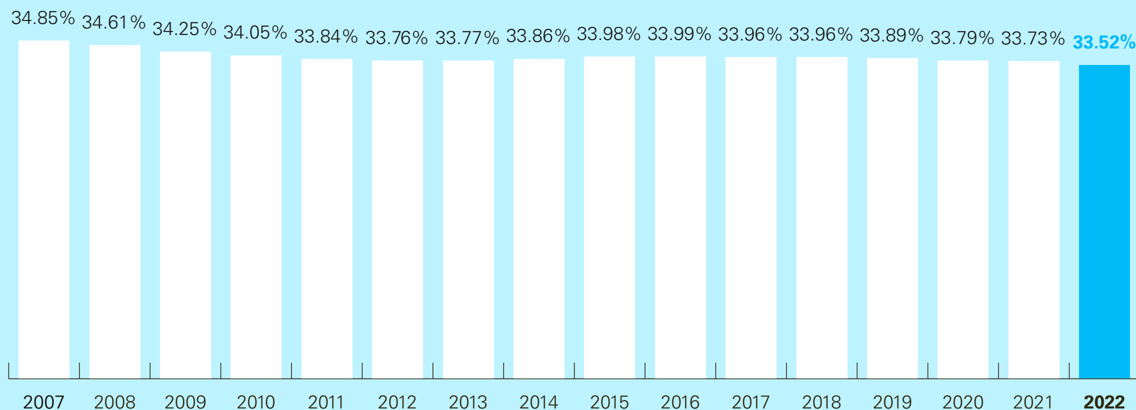
According to the statistics published on direct federal taxes, 78.22% of the total direct federal taxes collected in 2018 were paid by merely 10% of all taxpayers. More than half of this amount was actually paid by 1% of the highest earners.



Source: https://www.estv.admin.ch/estv/de/home/allgemein/steuerstatistiken/fachinformationen/steuerstatistiken/direkte-bundessteuer.html

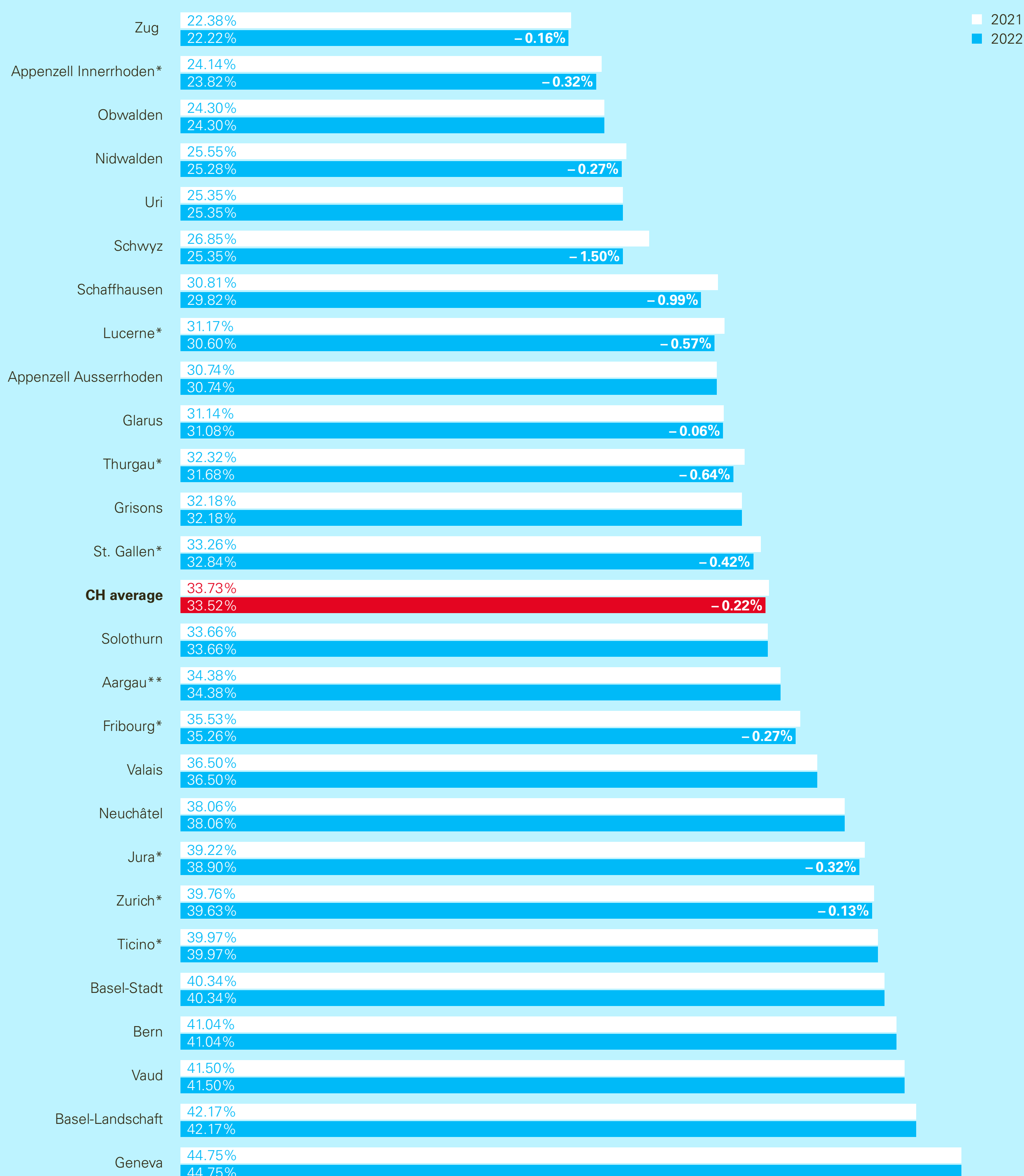
Income tax rates in the cantons – trend from 2007 to 2022

The trend seen in the past 15 years is that cantons have reduced their marginal tax rates for individuals in Switzerland by 1%. This downward trend seems to be stopping in 2022. Most cantons seem to be experiencing stable financial development, despite the coronavirus pandemic.



Income tax rates in the cantons – 2021 and 2022

Income tax rates in many cantons in Switzerland have declined slightly for 2022. After a tax hike in 2015, the Canton of Schwyz has now reduced its cantonal tax rate from 150 to 120 percentage points. Likewise, the Canton of Schaffhausen reduced its cantonal tax by 8 percentage points to 94. The cantons of Western Switzerland still remain at the top of the list, especially Geneva.

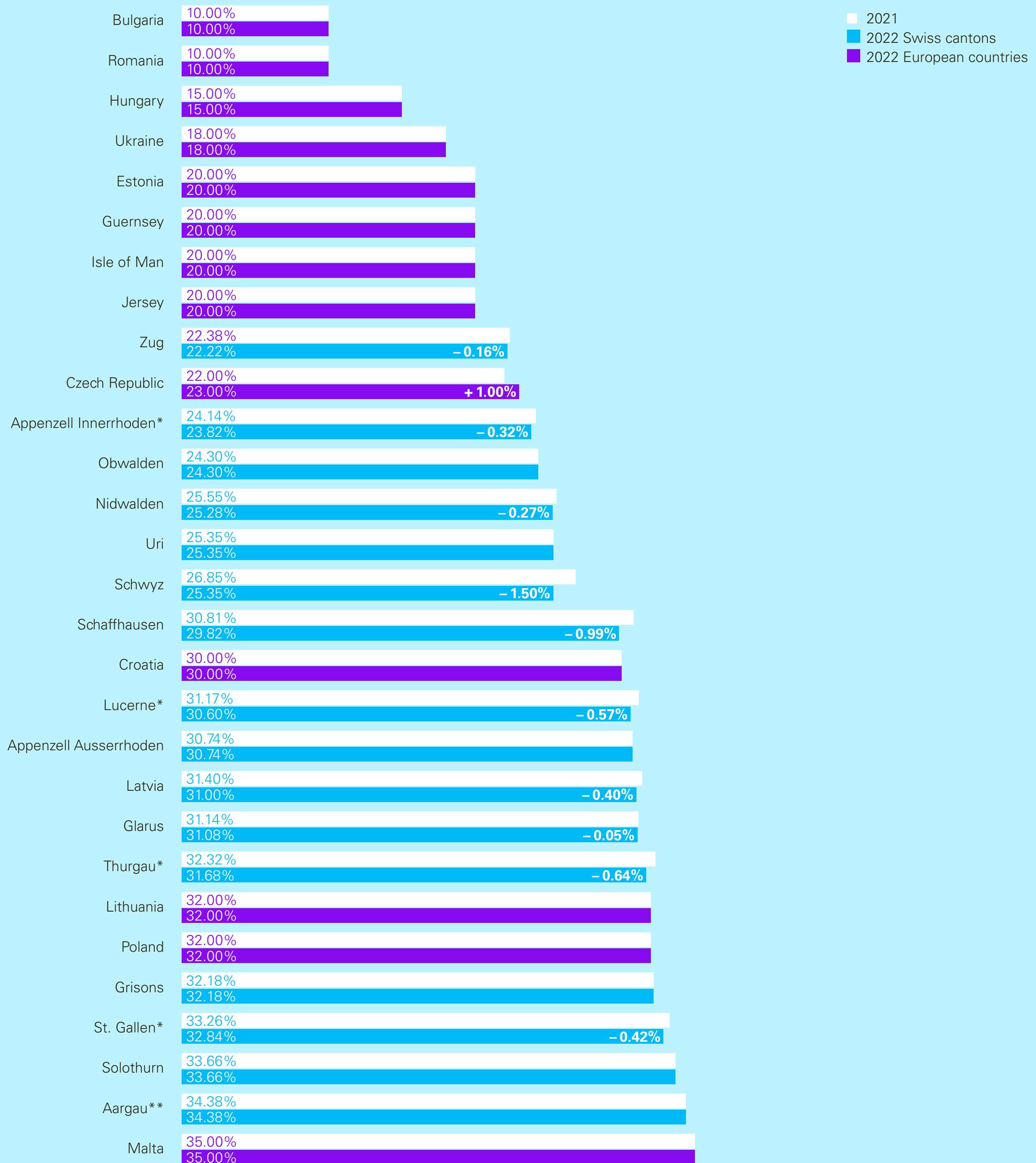


Note: Max. effective income tax rate for federal/cantonal/municipal taxes in the relevant cantonal capital. Income tax rates in the cantons = tax rate in the cantonal capital + 11.5% federal tax. Source: KPMG Switzerland

* based on 2021 tax rates ** partially based on 2021 tax rates

Comparison between the cantons and the countries of Europe

Compared to Europe, the cantons of Central Switzerland are quite competitive and can hold their own against low-tax havens like Jersey and the Isle of Man. Compared to other European countries, Scandinavian countries continue to top the list in 2022.



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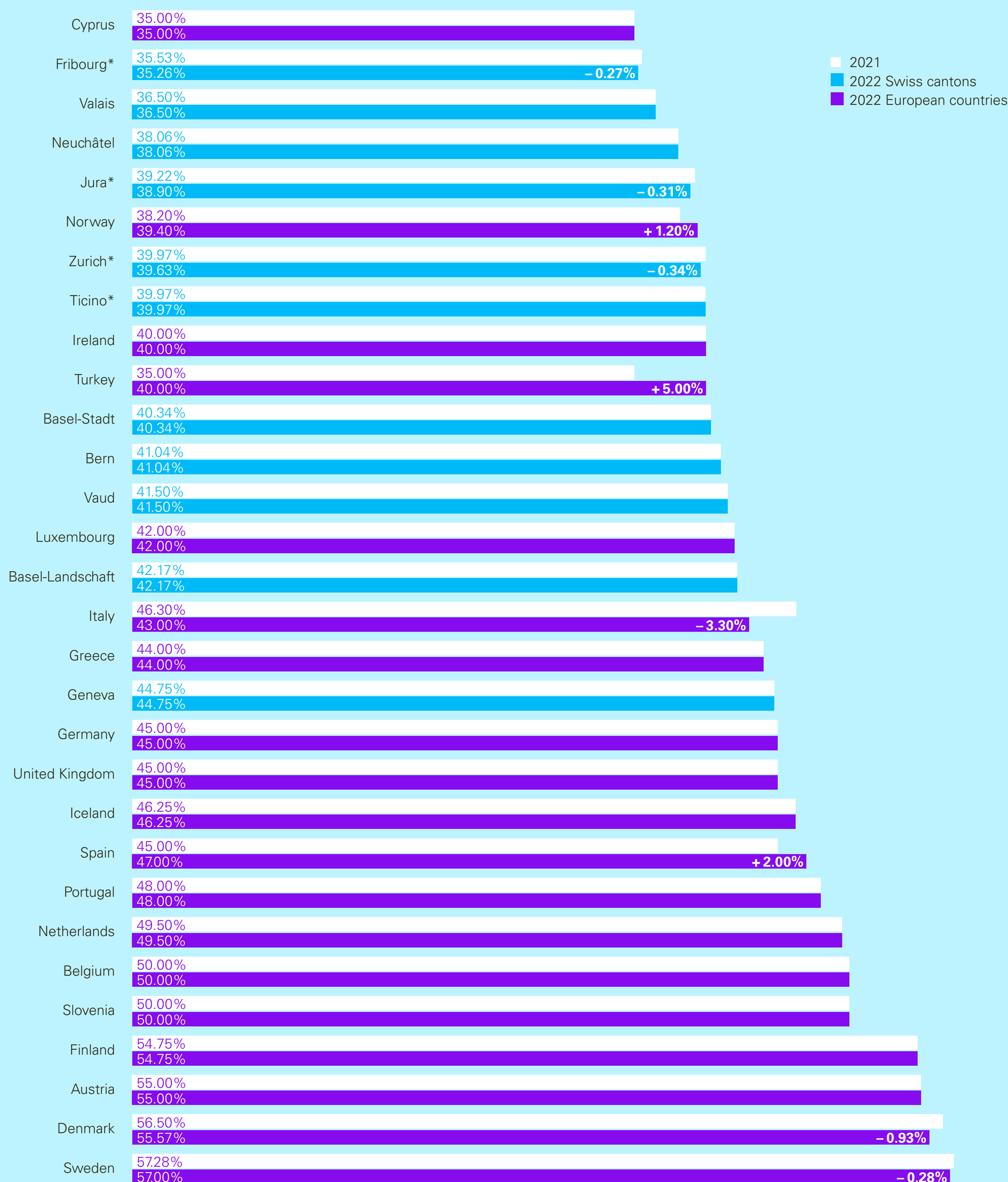

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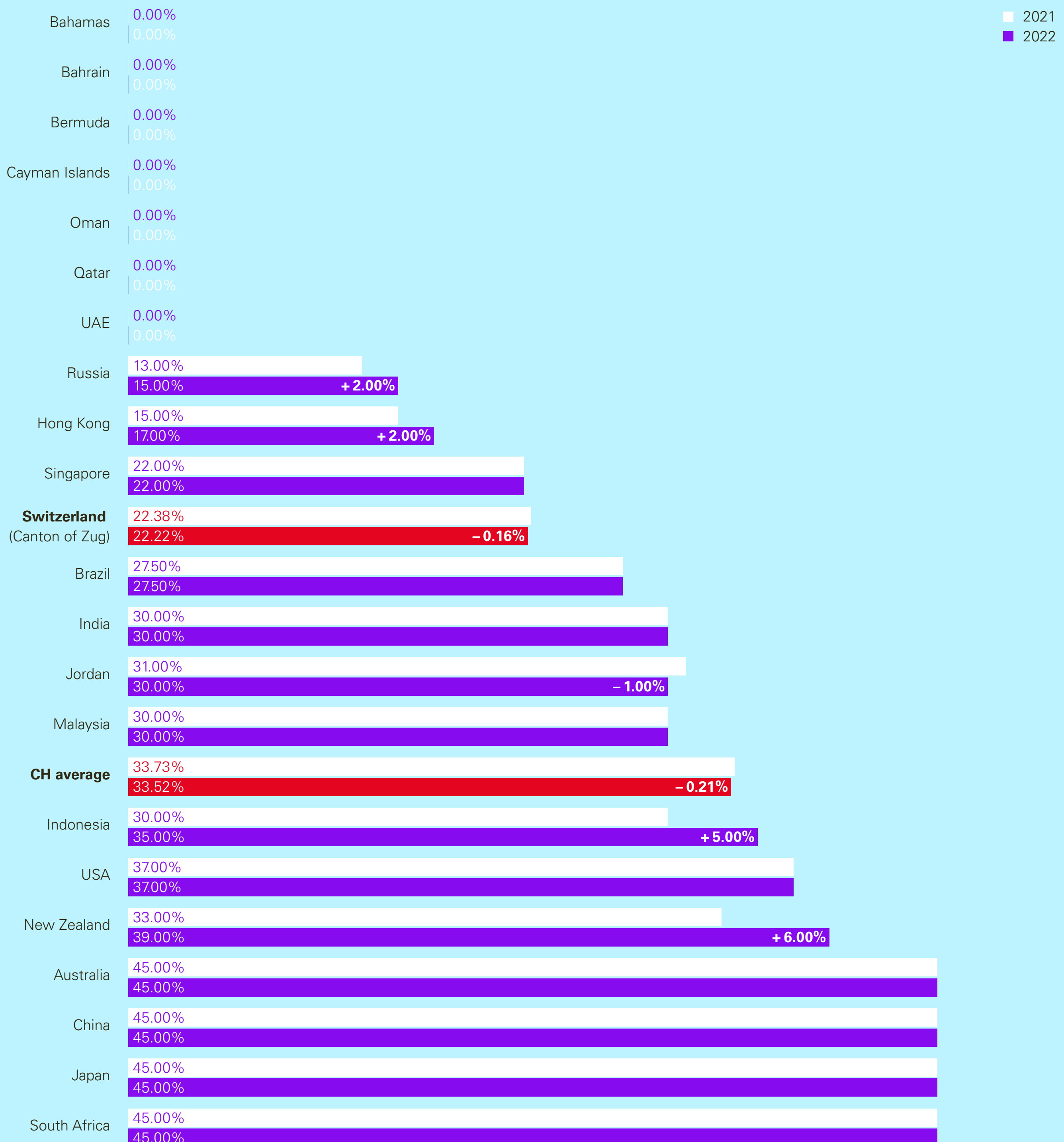
Income tax rates in the cantons = tax rate in the cantonal capital + 11.5% federal tax. Source: KPMG Switzerland
* based on 2021 tax rates ** partially based on 2021 tax rates

Comparison with non-European countries (selected countries)
The traditional offshore domiciles are still in the lead in terms of their tax rate attractiveness. Compared to non-European countries, Switzerland is still in the midfield on average. A comparison between the low-tax cantons of Central Switzerland and non-European countries shows that they are comparable with Singapore. New Zealand and Indonesia report a year-over-year tax hike for individuals.



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Income tax rates in the cantons = tax rate in the cantonal capital + 11.5% federal tax. Source: KPMG Switzerland

Trend: Countries 2007 – 2022

Many countries in Eastern Europe have drastically cut their tax rates over the past decade by introducing flat rate taxes while an upward trend was seen in the tax rates of the Baltic states and a few states in Northern Europe.

Note: Max. effective income tax rate for federal/cantonal/municipal taxes in the relevant cantonal capital.
Income tax rates in the cantons = tax rate in the cantonal capital + 11.5% federal tax. Source: KPMG Switzerland

Glossary

CbCR Country-by-Country Reporting («CbCR») is part of the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan. CbCR applies to multinational companies with a total consolidated revenue of >EUR 750 million. These companies have to provide an annual return, the CbC report, that breaks down key elements of the financial statements by jurisdiction. CbCR provides tax authorities information to help them assess transfer pricing risks and make determinations on how they allocate tax audit resources. The implementation date and timing depend on the individual legislations of the countries.

CRD IV The Capital Requirement Directive ("CRD") IV mainly designed for banks, also applies to investment firms, including those which trade commodities. The rules mainly address the amount of capital and liquidity that banks and investment firms hold. These prudential rules are intended to implement the international regulatory framework for banks (i.e., Basel III).

EU Accounting Directive The EU Accounting Directive provides the legal framework for single company and consolidated accounts for undertakings based in the European Union («EU») that must be transposed into the national legislation of each Member State by 20 July 2015 at the latest.

UN-PRI The UN Principles for Responsible Investment («UN-PRI») are a voluntary regulatory initiative and offer a menu of possible actions for incorporating ESG issues into investment practice compromising of six principles.

GRI standards The Global Reporting Initiative («GRI») standards are a modular system of interrelated reporting standards, enabling organizations to report publicly on their economic, environmental and social impacts and contribution towards sustainable development. The GRI Sustainability Reporting Standards are the first and most widely adopted global standards for sustainability reporting. The GRI Tax Standard is specifically intended to support public reporting of a company's business activities and payments within tax jurisdictions, as well as their approach to tax strategy and governance (effective for reports published on or after 1 January 2021).

EU Public CbCR directive In parallel with «non-public» CbCR, the EU has also introduced «public» CbCR rules which entered into force on 21 December 2021 in order to ensure public accountability and transparency, and promote a more informed public debate around the level of compliance of certain multinational companies. The new rules require multinational groups with total consolidated revenue of >EUR 750 million to report either if they are EU parented or otherwise have EU subsidiaries or branches. The report must disclose information on all members of the group (including non-EU members) within seven key areas and is to be published in an EU Member State business register as well as on the companies' website.

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