KPMG

Clarity on Swiss Taxes

Competitive edge
Switzerland's position in
a new level playing field

June 2023

Photo by Daniel Hager

Preparing for Pillar Two

Writing this editorial for Clarity on Swiss Taxes 2023, I'm wondering why I'm still doing it myself instead of simply having artificial intelligence do the job. After all, technology advances are set to revolutionize the world of tax – and introduce a whole host of risks and opportunities. Digitalization coincides with ongoing regulatory shifts, which are keeping tax departments on their toes and will continue to do so.

Currently, the tax community is focusing on BEPS Pillar Two. It's top of mind for many tax experts and finance ministries across the globe as they discuss and elaborate on the technical details. In Switzerland, it's also on the political agenda at both the federal and cantonal level. Preparations to make the necessary constitutional amendments are in full swing, and – provided there are no surprises in the legislative process – the country is on track with the same implementation timeline as other major jurisdictions. But what's next? Switzerland's position as an attractive business location for multinational enterprises (MNEs) hinges not least on its competitive tax rates and toolbox of tax incentives. A global minimum tax rate will change the playing field in Switzerland and abroad, making it more important than ever for Switzerland to highlight and promote its other – numerous – locational advantages.

Contrary to popular opinion, tax is a lively subject and there's always something going on. Against this background, we have once more compiled the Swiss and global tax rates in a handy reference guide. In this edition of Clarity on Swiss Taxes, we also focus on recent developments in Pillar Two and provide a detailed outlook on its implementation.

With that, I wish you happy reading.

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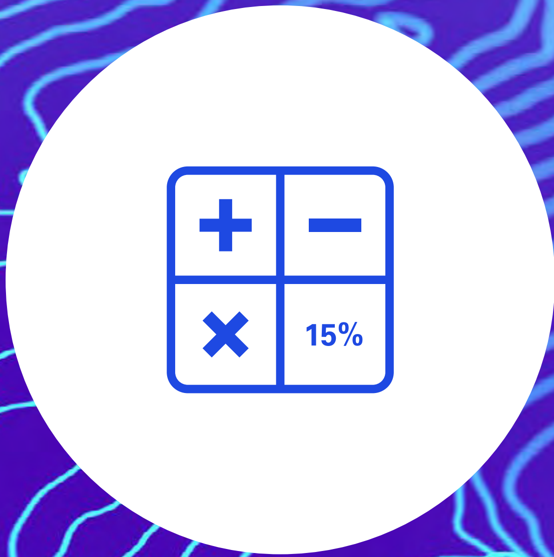

Global minimum tax

What started years ago with the OECD/G20 project "Addressing the Tax Challenges arising from the Digitalisation of the Economy" and was approved on 8 October 2021 by more than 130 countries of the OECD/G20 Inclusive Framework, is now focusing with Pillar Two on the introduction of a global minimum tax rate of 15 percent On the other hand, Pillar One – which addresses a reallocation of a portion of the income tax base of the largest and most profitable MNEs – is less advanced. The planned introduction of global minimum tax rate will limit or in some cases eliminate international tax competition. As a low-tax location for international companies, Switzerland is particularly affected by this development.

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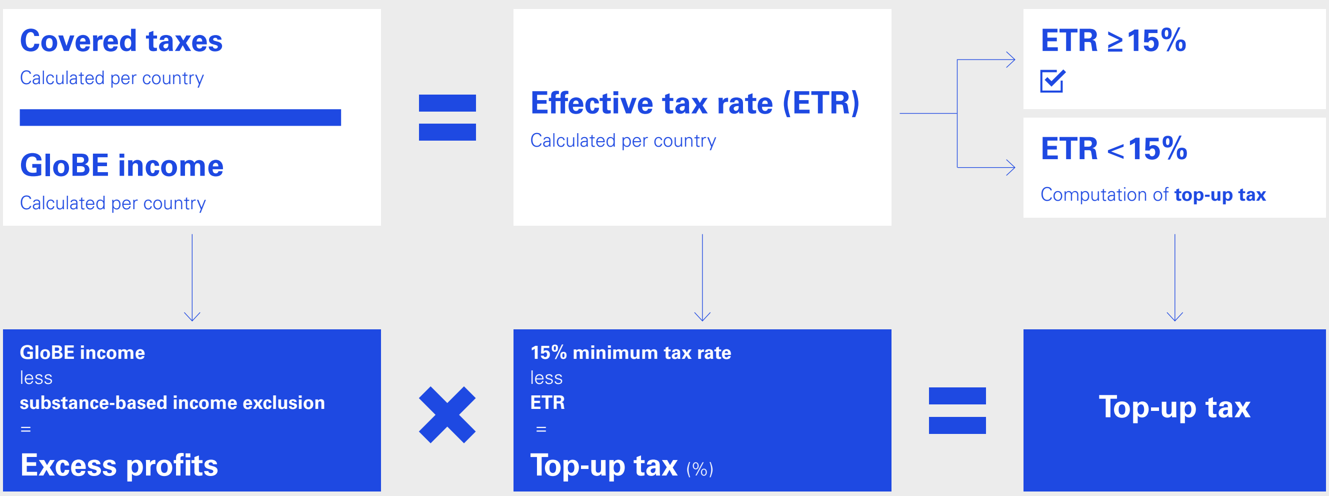
OECD/G20 project for a global minimum tax

Based on current international developments, a global minimum tax rate of 15 percent is expected to apply to large companies with consolidated revenues in excess of EUR 750 million from 2024 onwards. Also, it is expected that Switzerland will ensure this tax burden for in-scope Swiss companies by means of a top-up tax (see below for further details).

The relevant GloBE Model Rules provide that if the tax burden or effective tax rate (ETR) – expressed as the ratio of covered taxes to the relevant profit (GloBE income) – of all group companies in a country is below 15 percent, the difference up to 15 percent is levied by means of a top-up tax, with routine profits being exempt from this top-up tax (substance-based income exclusion). Primarily, this occurs at the ultimate parent company or at an intermediate company (Income Inclusion Rule, IIR) and otherwise secondarily in the other jurisdictions in which the group operates (Undertaxed Profits Rule, UTPR). However, the respective country can already collect the difference in advance through a domestic top-up tax, so that no taxation abroad is necessary (Qualified Domestic Minimum Top-up Tax, QDMTT). The computation mechanism can be illustrated as follows:

Top-up tax computation



Impact of minimum tax on tax incentives

If a country's tax burden and thus its covered taxes are reduced through tax relief or tax measures to promote, e.g. investment in research and development (R&D) (such as the patent box or an additional deduction for R&D), but the relevant GloBE income remains the same, this generally leads to a higher top-up tax under the GloBE regime. This means that, for companies affected by the top-up tax, the tax advantages resulting from the tax incentives are cancelled out to a not insignificant extent. An advantage remains where the tax burden is reduced from a higher level to 15 percent or the substance-based income exclusion takes effect. Similarly, companies (especially SMEs) that are not subject to the global minimum tax can benefit from lower taxation (possibly by using existing tax incentives) even after the minimum rate has been introduced. The existing tax incentive instruments (such as the additional R&D deduction and the patent box) will therefore continue to play a certain role in tax incentives (for innovation).

In contrast, measures that are treated as (additional) income under the GloBE Model Rules (e.g. subsidies) are not considered "harmful", as they are only taken into account in the denominator of the ETR calculation (see infographic on page 3) and not as a reduction of covered taxes. In this context, special mention should be made of the Qualified Refundable Tax Credits (QRTC), which are treated as subsidies, as set out in the GloBE Model Rules.

Qualified refundable tax credits are those that are refundable within four years of the entitlement arising. In order to be considered refundable, the unused tax credit must be paid out to the company. In this respect, QRTCs are a type of subsidy that is managed administratively via the tax authorities. In other words, they are a direct subsidy that is in principle paid independently of the income tax, but which is offset against the income tax purely for the sake of simplification (instead of a higher tax payment from the taxpayer to the state and a separate payment from the state to the taxpayer). If the tax credit can only be offset against income tax amounts, i.e. if payment or offseting against other types of tax is not permitted, the tax credit is not considered to be qualified. Accordingly, this reduces the covered taxes used to compute the ETR, which leads to a lower ETR compared to a QRTC and may trigger or increase a top-up tax.

The figure below illustrates the effect of qualified and non-qualified refundable tax credits and an additional deduction on the minimum tax. A company with a pre-tax profit of 100, which is subject to a local tax rate of 15.0 percent on the pre-tax profit (i.e. a tax rate of 15 before credit), benefits from a credit amount of 5:

Qualified refundable tax credits (QRTC)

Profit before tax	100
Tax rate	15%
Tax credit	5

Variant 1
Tax credit is not subject to corporate income tax under national law

$$\textbf{ETR} = \frac{15}{105} = 14.3\%$$

Variant 2
Tax credit is taxed as part of income under national law:

$$\textbf{ETR} = \frac{15.75}{105} = 15.0\%$$

Non-qualified refundable tax credits

Profit before tax	100
Tax rate	15%
Tax credit	5

Variant 1
Tax credit is not subject to corporate income tax under national law:

$$\textbf{ETR} = \frac{10}{100} = 10.0\%$$

Variant 2
Tax credit is taxed as part of income under national law:

$$\textbf{ETR} = \frac{10.75}{100} = 10.75\%$$

Additional deduction

Profit before tax	100
Tax rate	15%
Additional deduction	33.33*

$$\textbf{ETR} = \frac{10^{**}}{100} = 10.0\%$$

* 33.33 × 15% = 5
** 15% × (100 – 33.33) = 10.0

As shown above, non-qualified refundable tax credits and additional deductions have a much larger effect on (leading to a reduction of) the ETR compared to the QRTC. In principle, the more the ETR is reduced, the higher the top-up tax will be.

Implementation in Switzerland and questions arising

In a session held on 12 January 2022, the Federal Council passed a resolution to implement the minimum tax in Switzerland by amending the constitution. On 11 March 2022, the Federal Council published its consultation on a constitutional amendment proposing the introduction of a (domestic) top-up tax. If Switzerland does not levy this top-up tax, the corresponding tax substrate is likely to be siphoned off abroad. Following adoption of the dispatch on 23 June 2022, Parliament discussed the proposal and approved it on 16 December 2022 in line with the Federal Council. Accordingly, 75 percent of revenue generated from the top-up tax is to remain with the cantons, which in turn will have the opportunity to secure and promote the attractiveness of their location. This parliamentary decision is subject to a mandatory referendum and the vote is scheduled for 18 June 2023.

The constitutional amendment authorizes the Federal Council to enact an ordinance setting out the relevant provisions for the introduction of the minimum tax. It also already lays down transitional provisions in this regard. A first draft of this ordinance was published on 17 August 2022 as part of the consultation process. In this draft, reference was made to the GloBE Model Rules with regard to technical implementation and it was envisaged that Switzerland would levy all types of top-up tax (primary (IIR), secondary (UTPR) and the domestic top-up tax). The introduction is planned for the beginning of 2024 and the timing is therefore – at least with regard to the primary and domestic top-up tax – in line with most other countries.

During the consultation procedure, however, various comments were received on whether and in which scenarios the corresponding types of top-up tax should be introduced. Due to the international interdependence of the regulations, unintended effects may arise depending on the specific situation (see example in box); avoiding one disadvantage may, for example, lead to another. Accordingly, the Federal Council will still have to decide how to introduce elements of the global minimum taxation toolbox, or indeed which instruments to select in order to combine the aims of securing taxes in Switzerland and optimizing the overall tax burden for groups as far as possible.

Example

Local top-up tax (QDMTT) in a blended CFC tax regime (e.g. US GILTI) – highly simplified

Variant 1
Switzerland levies QDMTT

US Top Co — GILTI levied, including due to CH Op Co

NL Mid Co — No IIR

CH Op Co — ETR 12%
QDMTT: 12%* → 15%

* Switzerland levies the QDMTT based on the ETR of 12% (which does not take into account GILTI taxes)

Variant 2
Switzerland does not levy QDMTT

US Top Co — GILTI levied, including due to CH Op Co

NL Mid Co — **IIR: 14%** → 15%**

CH Op Co — ETR 12% or 14%**
No QDMTT

** NL levies IIR based on the ETR of 14% (which takes GILTI taxes into account as covered taxes).

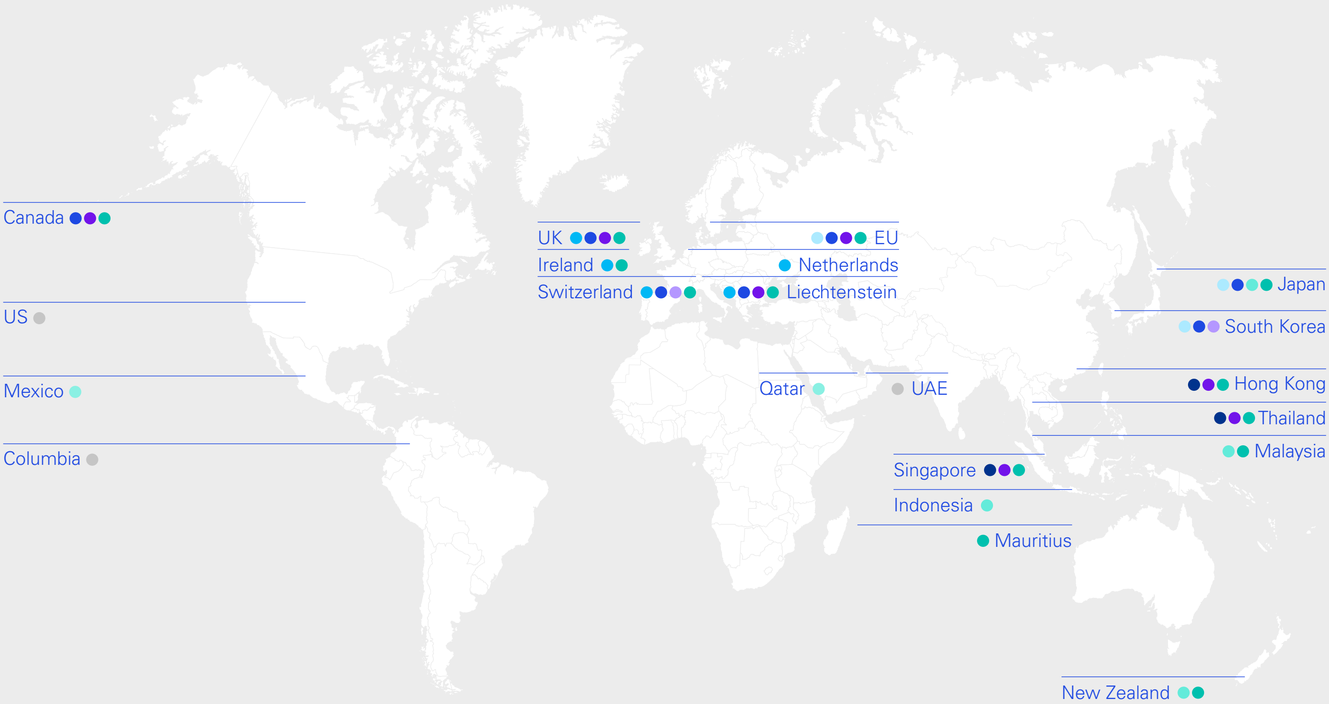
Assumption
It is assumed that the US Top Co cannot credit the Swiss QDMTT (many US groups have an excess foreign tax credit situation).

Conclusion
The corporate group is subject to a higher overall tax burden in variant 1 than in variant 2 because in variant 2 the IIR top-up tax (which considers GILTI taxes as covered taxes) is lower than the QDMTT in variant 1 (which does not consider the GILTI taxes as covered taxes).

If Switzerland thus waives the QDMTT, the Netherlands (instead of Switzerland) can levy the minimum tax, but to a lesser extent than under the Swiss QDMTT. The difference benefits the corporate group in this example.

Developments in other countries

Pillar Two of the OECD/G20 project and the statement of 8 October 2021 by more than 130 countries have triggered legislative processes in many countries. Some have already published draft amendments to their legislation or have even adopted them. Other countries have announced their intention to do so. At the end of 2022, the EU also agreed on a directive to implement global minimum taxation. Some countries do not directly provide for the introduction of the GloBE Model Rules but are nevertheles making changes which are to be seen in connection with minimum taxation. The overview below summarizes the situation in selected countries:



Recent global announcements*

Legislation enacted / approved
- EU Directive (December 2022)
- Japan (March 2023) – IIR legislation
- South Korea (December 2022)

Draft legislation released
- Switzerland (August 2022)
- Netherlands (October 2022)
- Germany (March 2023)
- Ireland (March 2023)
- Liechtenstein (March 2023)
- Sweden (March 2023)
- UK (March 2023)

Other related announcements
- US corporate alternative minimum tax enacted 15% (not Pillar 2 compliant)
- UAE new corporate tax 9%
- Colombia 2022 tax reform – 15% minimum tax

IIR (2024)
- EU – potential deferrals where few UPEs
- Japan
- Canada
- South Korea
- Liechtenstein
- Switzerland
- UK

IIR (2025)
- Hong Kong (SAR), China
- Singapore
- Thailand

UTPR (2024)
- South Korea (?)
- Switzerland (?)

UTPR (2025)
- EU –potential deferrals where few UPEs
- Hong Kong (SAR), China
- Canada
- Liechtenstein
- Singapore
- Thailand
- UK

Intention to apply IIR and UTPR
(timing uncertain)
- Australia
- Indonesia
- Japan (UTPR)
- Malaysia
- Mexico
- New Zealand
- Qatar

Intention to apply DMTT
- Canada (2024)
- EU (optional)
- Hong Kong (SAR), China (2025)
- Ireland (2024)
- Japan
- Liechtenstein (2024)
- Malaysia
- Mauritius
- New Zealand
- Singapore (2025)
- Switzerland (2024)
- Thailand (2025)
- UK (2024)

* Status as of 1 May 2023

Requirements for future location promotion measures

Due to the global minimum tax and introduction of a domestic top-up tax, the tax burden for affected companies will increase in some cantons. Other location measures can be taken to counteract the additional burdens and maintain the attractiveness of the location. According to the planned implementation in Switzerland, the additional tax revenues give the cantons respective leeway to take possible location measures.

Some cantons are now considering whether and which measures – for example QRTCs or subsidies – they should introduce (or possibly expand). A glance at the subsidies available in the EU or the US (see next page) provides inspiration for such measures.

When developing new location promotion measures, it is important to ensure, on the one hand, that they have no – or at least only a minimal – negative effect on minimum taxation. On the other hand, they must be accepted by the OECD and the EU. Developing potential location measures that are both accepted and effective is a challenge for the cantons (each canton has a different starting point, different needs and possibilities, and the measures concerned have different degrees of effectiveness). The following basic principles must be observed when designing measures:

1. They should be compatible with GloBE Model Rules (generally accessible and independent of profit).
2. They should be compatible with (EU) state aid regulations, free trade agreements, WTO agreements, etc. (incl. non-selectivity).
3. They should benefit the affected companies as much as possible (effectiveness).
4. They must be implementable in terms of domestic policy, in view of possible cantonal votes/referenda. It must also be considered whether existing laws need to be amended or even whether a new law is necessary.

Overall, the aim is to equip Switzerland and its cantons with other factors to compensate for any disadvantages they may have compared to competitors abroad (especially the higher cost base). If measures that fulfill the above-mentioned basic principles turn out to be unfeasible, it will be more important than ever to focus on preserving and further expanding the non-tax locational advantages:

- Switzerland's appeal to highly qualified individuals from abroad is important for companies. In particular, it must be ensured that highly qualified non-EU nationals and those who have completed their studies in Switzerland in a sector with high added value can also access the Swiss labor market.
- Measures targeting alleged poor social integration of expats in Switzerland, such as language courses for non-working spouses of foreign employees, should be reconsidered. They are not conducive to Switzerland's ambitions as a business location with international reach.
- One of the key advantages for Switzerland as a business location is the country's labor law, which is employer-friendly compared to other countries. It is vital to maintain this locational advantage. Internationally competitive income taxes are also important for attracting qualified personnel from abroad.
- From an economic point of view, the low average productivity growth per capita in Switzerland in recent years is unfavorable. In many sectors, growth has been achieved only by increasing volumes rather than productivity. In addition, the public sector is growing disproportionately fast and is rapidly approaching the same high level seen in Europe.
- To remain an internationally competitive business location, Switzerland must protect highly productive sectors such as industry, technology, international trade and transport, life sciences, fashion and creative industries, and the financial sector from additional administrative burdens. Targeted support in the area of R&D is also an important instrument to promote the key value drivers of the national economy.
- In terms of foreign trade, more can also be done for Switzerland as a business location: On the one hand, the Swiss economy is a hub for countless sectors' value chains. On the other, the presence of a large number of international organizations and associations makes for strong international links with Switzerland.

This globally unique combination of economic and political connections makes Switzerland an attractive business location for international companies. And Switzerland could make even better use of this advantage. A good example is the "Access Consortium" initiative launched by Swissmedic, which promotes cooperation with regulatory authorities from Australia, Singapore, the UK and Canada in the area of drug approval. The life sciences industry, for example, can benefit from this.

From tax competition to subsidy competition

Developments in state aid in the EU and the US

Challenged by China, which has impressively demonstrated how state-supported long-term industrial, scientific and technological development schemes, coupled with strategically planned acquisitions and expansion projects, can move a country toward the top tier of leading economies in a very short space of time, the EU and the US are now also developing their own strategies and support measures for industry and innovation.

In addition, both the EU and the US are putting sustainability at the heart of their economic and technological growth strategies.

The EU has a comprehensive Green Deal investment plan in place, which will allocate around EUR 500 billion to the EU budget between 2021 and 2027. Recently, the US created a USD 350 billion subsidy pot (including tax credits) through its Inflation Reduction Act (IRA) for incentives to reduce greenhouse gases, invest in home-grown manufacturing and support the development and commercialization of new technologies (see the box on the next page for further details). It remains to be seen to what extent these contributions qualify as subsidies/QRTC).

Developments in the US and the EU are causing the focus to shift from tax competition to subsidy competition. Particularly in the EU, large economically strong member states, which can supplement the EU subsidies with national subsidy measures, have an advantage over smaller countries with fewer available funds.

European Green Deal

At the EU level, numerous measures to strengthen industrial and technological development are related to the EU's flagship program, the European Green Deal. This follows the idea that Europe's technological and economic revival should serve sustainability at the same time. The European Green Deal, aims to reduce greenhouse gas emissions by at least 55 percent by the end of 2030. A third of the EUR 1,800 billion from the NextGenerationEU program and the regular EU budget is to be used to finance projects that serve the goals of the Green Deal.

Efficient allocation of the available funds is a challenge for the EU and its member states. On the one hand, funds are spread over numerous different programs, and on the other, some funds are distributed and controlled by the EU itself while others are managed by the individual member states. Clear rules on state aid have been issued to ensure that subsidies are used appropriately by member states.

For companies wishing to invest in research and development, industrialization projects or sustainable transformation of their value chains, the challenge is to identify the appropriate EU funding programs and to submit the complex applications for funding.

US Inflation Reduction Act (IRA)

In the US, government support for sustainability-focused industrial and technological development recently received a boost from the enactment of the US Inflation Reduction Act (IRA). The IRA includes more than USD 350 billion in federal funds to provide incentives to reduce greenhouse gases and encourage investment in domestic manufacturing and support for the development and commercialization of new technologies. Support is provided through tax credits, grants, loans and guarantees.

This program is mainly funded by savings that the public sector can achieve by lowering drug prices, as well as from additional revenues from the introduction of a minimum tax on corporate profits (albeit not in the meaning of Pillar Two), a tax on share buybacks, as well as better tax compliance thanks to new hires at the tax authorities.

The IRA is the largest competitiveness and sustainability program the US has launched in the past two years. Other multi-billion-dollar funding measures include the CHIPS & Science Act (USD 280 billion) and the Infrastructure Investment and Jobs Act (adding an additional USD 550 billion to existing programs), which provide incentives for businesses.

The eligible group of companies that can apply for government support or for tax credits has been kept deliberately large. Besides investments in the development and production of "clean tech", e.g. batteries or solar panels, the program also promotes measures to reduce energy consumption or greenhouse gases. The only mandatory requirement for eligibility for IRA funding is a substantial presence, preferably with production infrastructure or research and development activities in the United States (known as the "Made in the USA" program).

The (new) competition from the US

A key differentiating feature of the IRA compared to the incentive measures on offer in the EU is its focus on tax credits. Unlike the EU's many different incentive programs, which are difficult even for experts to grasp, the tax incentive measures offered by the US to companies willing to invest are comparatively easy to access. In addition, it is also possible to monetize unused tax credits. How these tax credits should be qualified under the GloBE Model Rules remains to be determined.

In recent months, easy access to IRA funding instruments has led to some European companies announcing large investment projects in the US.

EU response

Alarmed by a potential or actual migration of technology and investments to the US, the EU enacted its Temporary Crisis and Transition Framework (TCTF) in March 2023. The TCTF is designed to enable individual member states to provide targeted direct subsidies for companies operating in the field of renewable energies and components as well as the provision or recycling of raw materials for these products.

Support can take the form of direct grants or tax benefits (e.g. tax credits), loans or guarantees. A ceiling applies, both in terms of the amount of grants a member state can award – from EUR 150 million to EUR 350 million per company – and in terms of the amount of support as a percentage of total investment costs. The latter ranges from 15 percent to 60 percent, depending on the type of support, the location of the project and the size of the company applying for aid. The TCTF is initially set to expire on 31 December 2025.

By introducing the TCFT, the EU is relaxing its strict state aid rules to a certain degree. In principle, this allows greater flexibility (or potentially less restriction from a state aid perspective) for countries like Switzerland that may consider introducing similar subsidies. How individual TCFT subsidies qualify in the context of the OECD minimum taxation requirements depends in particular on how the individual subsidy measures are structured (e.g. classic subsidy or, in the case of tax credits, whether they are qualified or refundable, respectively).

CONCLUSION

Competitive edge

Switzerland's position in a new level playing field

The current focus on Pillar Two of the OECD/G20 project concerning a global minimum tax rate of 15 percent for multinational enterprises with revenue of EUR 750 million or more will lead to a fundamental shift in the forces and mechanisms of international tax competition as part of location competition. With its low tax rates, Switzerland (still) stacks up favorably compared to international location competitors, but the country must prepare for changes. For companies affected by the minimum tax, an ordinary tax rate of less than 15 percent basically no longer has any effect. Also, tax advantages gained through the additional R&D deduction or the patent box (as well as any others through tax holidays/regional policy) are essentially cancelled out. (Partial) relief can only be provided through the substance-based income exclusion for companies with a lot of substance in Switzerland in the form of personnel costs and tangible assets.

Switzerland would therefore do well to focus more on other location factors, such as safeguarding its attractiveness and ensuring the availability of qualified workers, maintaining employer-friendly labor laws, offering competitive personal income taxes, reducing the administrative burden and further improving its foreign trade framework.

Regarding fiscal location factors, it is significant that the Qualified Refundable Tax Credits (QRTC) and direct subsidies have a much smaller (negative) impact under the new minimum taxation than the additional R&D deduction and the patent box. Accordingly, competition will tend to shift from taxes to subsidies/QRTC. Indeed, the race for subsidies has already begun with the introduction of the EU Green Deal and the Inflation Reduction Act (IRA). This clearly reflects where the trend for location promotion is heading: subsidy competition is in full swing.

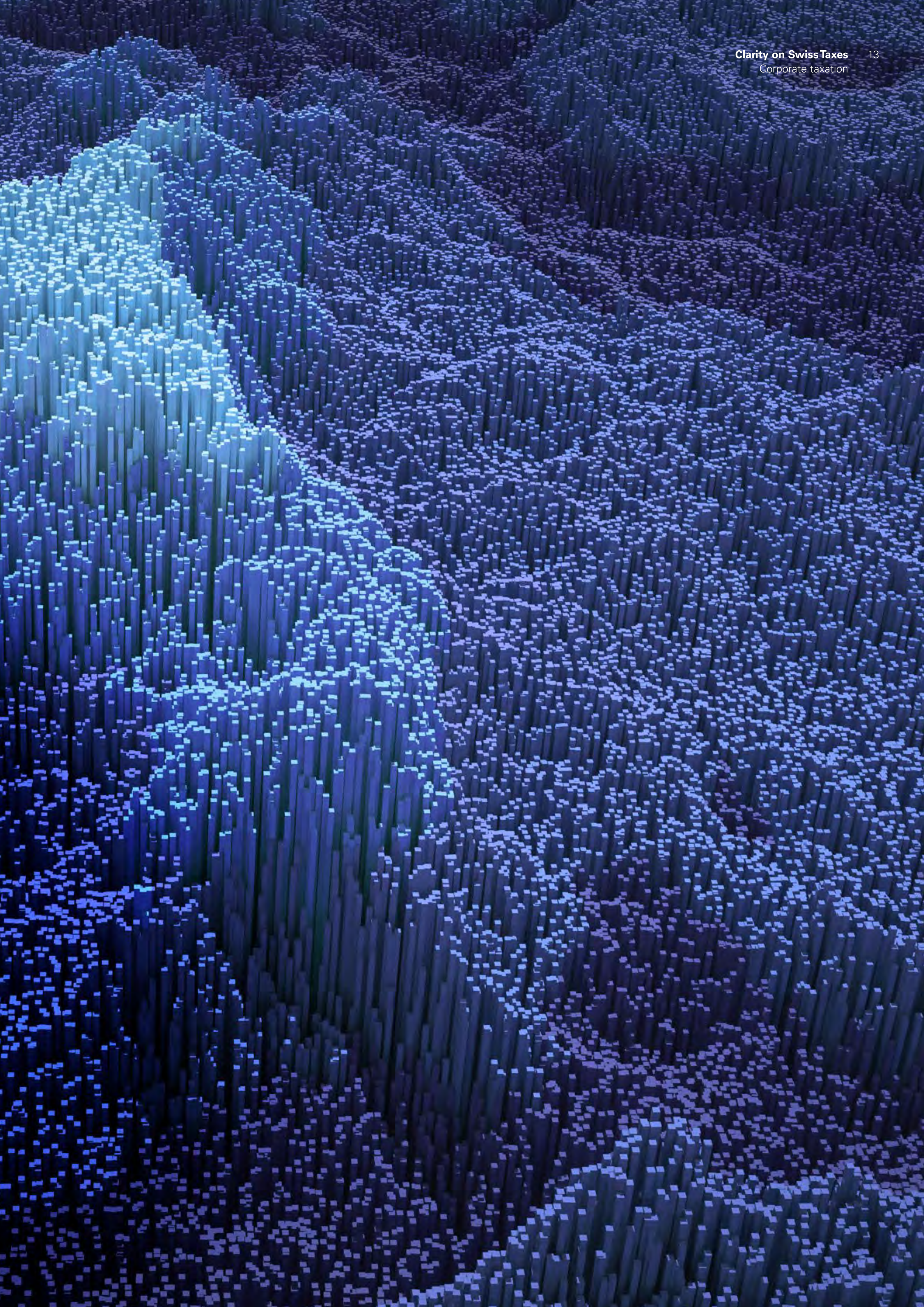
Finally, let us not forget that corporate groups below the threshold of EUR 750 million can still benefit from the existing rules (e.g. location promotion through the patent box, additional R&D deduction, tax holidays). These instruments should not be abandoned without good cause.

Corporate taxation

Compared with the previous year, the average corporate income tax rates in Switzerland decreased by a marginal 0.08 percentage points. With a cantonal tax rate of 11.80 percent, Zug continues to offer the most attractive corporate income tax rates in a cantonal comparison. The frontrunners remain unchanged, with Bern followed by Zurich and Ticino. For 2023, Basel-Landschaft saw the largest reduction (2.07 percentage points), while Neuchâtel increased by 1.32 percentage points.

In a European comparison, the cantons of central Switzerland remain competitive and continue to rank ahead of low-tax countries such as Ireland and Cyprus. Various countries in northern, western and southern Europe are once again at the top compared to other European countries in 2023. The significant increase of 6 percentage points in the UK stands out. In contrast, there were only occasional tax rate reductions in European countries compared with the previous year.

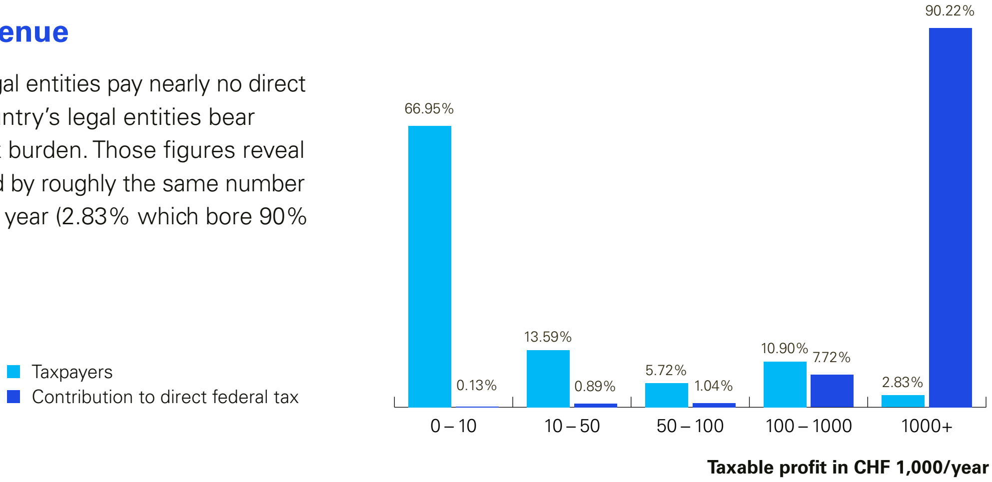
Globally, the traditional offshore domiciles continue to lead in terms of tax rate attractiveness. A global comparison of corporate income tax rates compared with the previous year shows few changes, apart from the increase/introduction of a 9 percent corporate income tax in Dubai.



Corporate income tax

Contribution to tax revenue

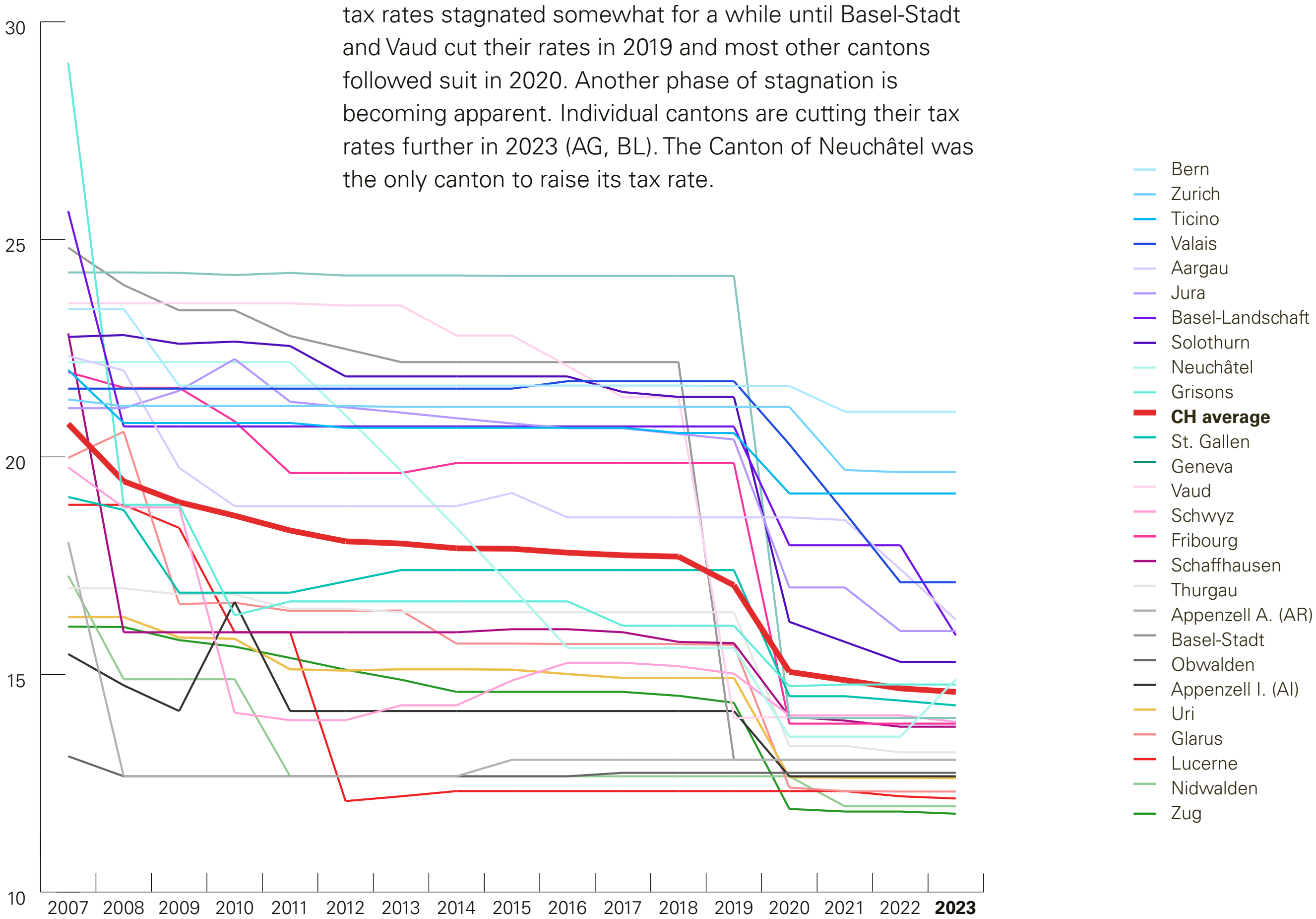
While some two thirds of the legal entities pay nearly no direct federal taxes, 2.83% of the country's legal entities bear 90.22% of the direct federal tax burden. Those figures reveal that the tax burden is shouldered by roughly the same number of companies as in the previous year (2.83% which bore 90% of the tax burden).



Corporate tax rates in the cantons

Trend from 2007 to 2023

After being reduced a few times in the (distant) past, corporate tax rates stagnated somewhat for a while until Basel-Stadt and Vaud cut their rates in 2019 and most other cantons followed suit in 2020. Another phase of stagnation is becoming apparent. Individual cantons are cutting their tax rates further in 2023 (AG, BL). The Canton of Neuchâtel was the only canton to raise its tax rate.



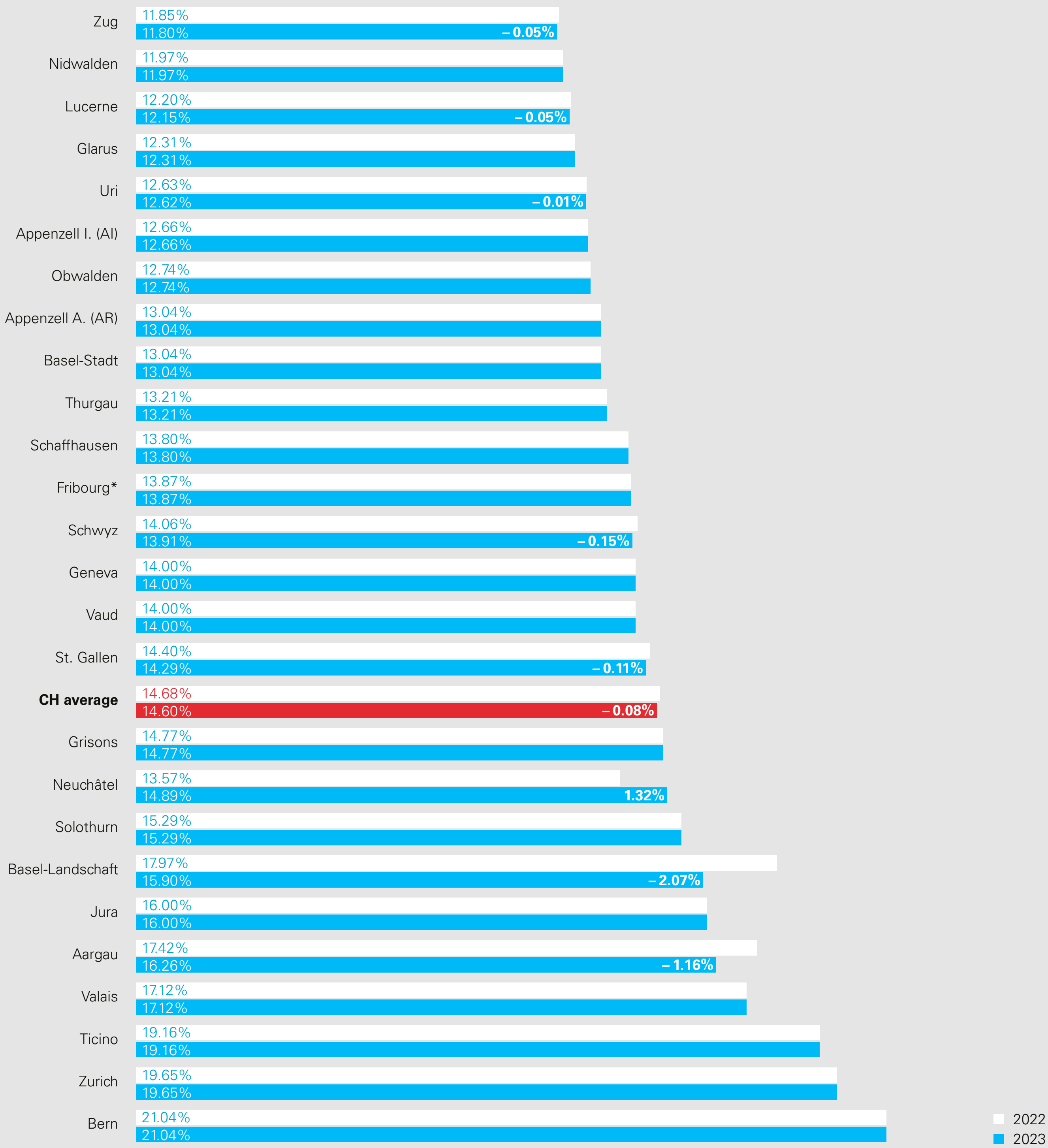
Note: Max. effective pre-tax rate for federal/cantonal/municipal taxes in the relevant cantonal capital. Corporate tax multipliers for GE, TG and VD for 2022.
Source: KPMG Switzerland

Corporate tax rates in the cantons
2022 and 2023

After many rates had been reduced in the previous years due to the Corporate Tax Reform (TRAF), the period from 2022 to 2023 only saw tax rates reduced in a few individual cases. The biggest cuts were made in the cantons of Aargau and Basel-Landschaft.

Individual reductions to corporate tax rates in the cantons in 2023

Individual cantons have only reduced their corporate tax rates marginally in the fourth 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.

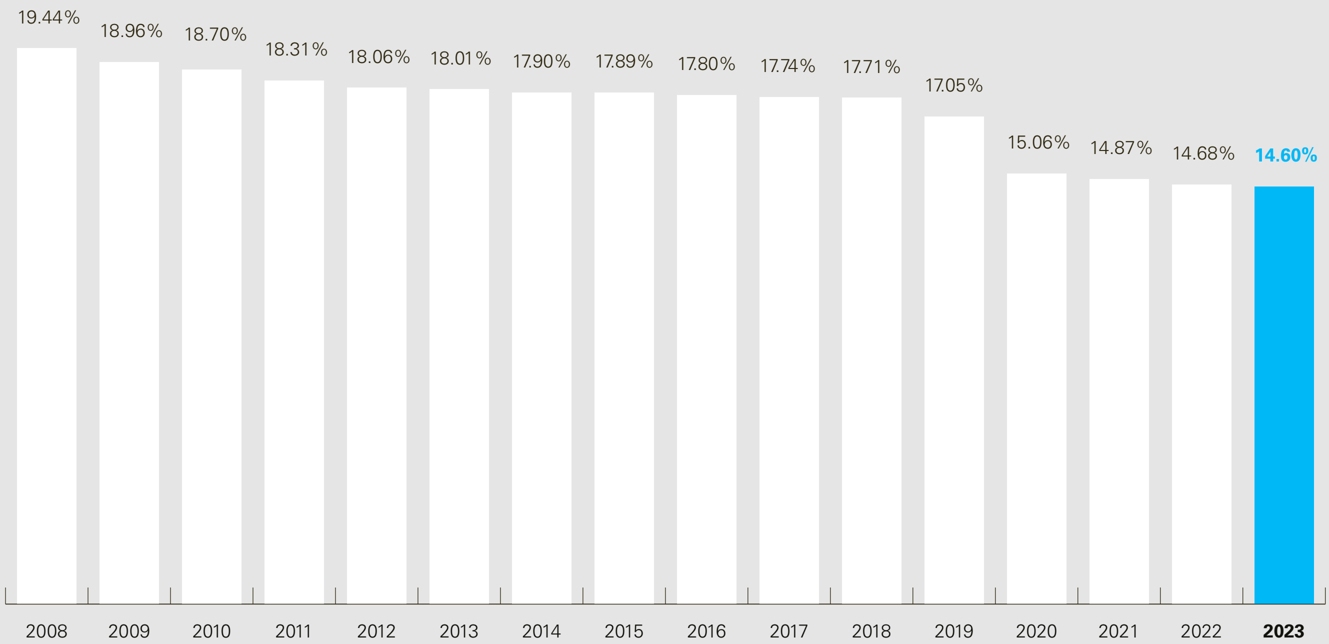


Note: Max. effective pre-tax rate for federal/cantonal/municipal taxes in the relevant cantonal capital. Corporate tax multipliers for GE, TG and VD for 2022.
Source: KPMG Switzerland

* Excluding social security contribution. The contribution rate amounts to 8.5% of the simple cantonal corporate tax.

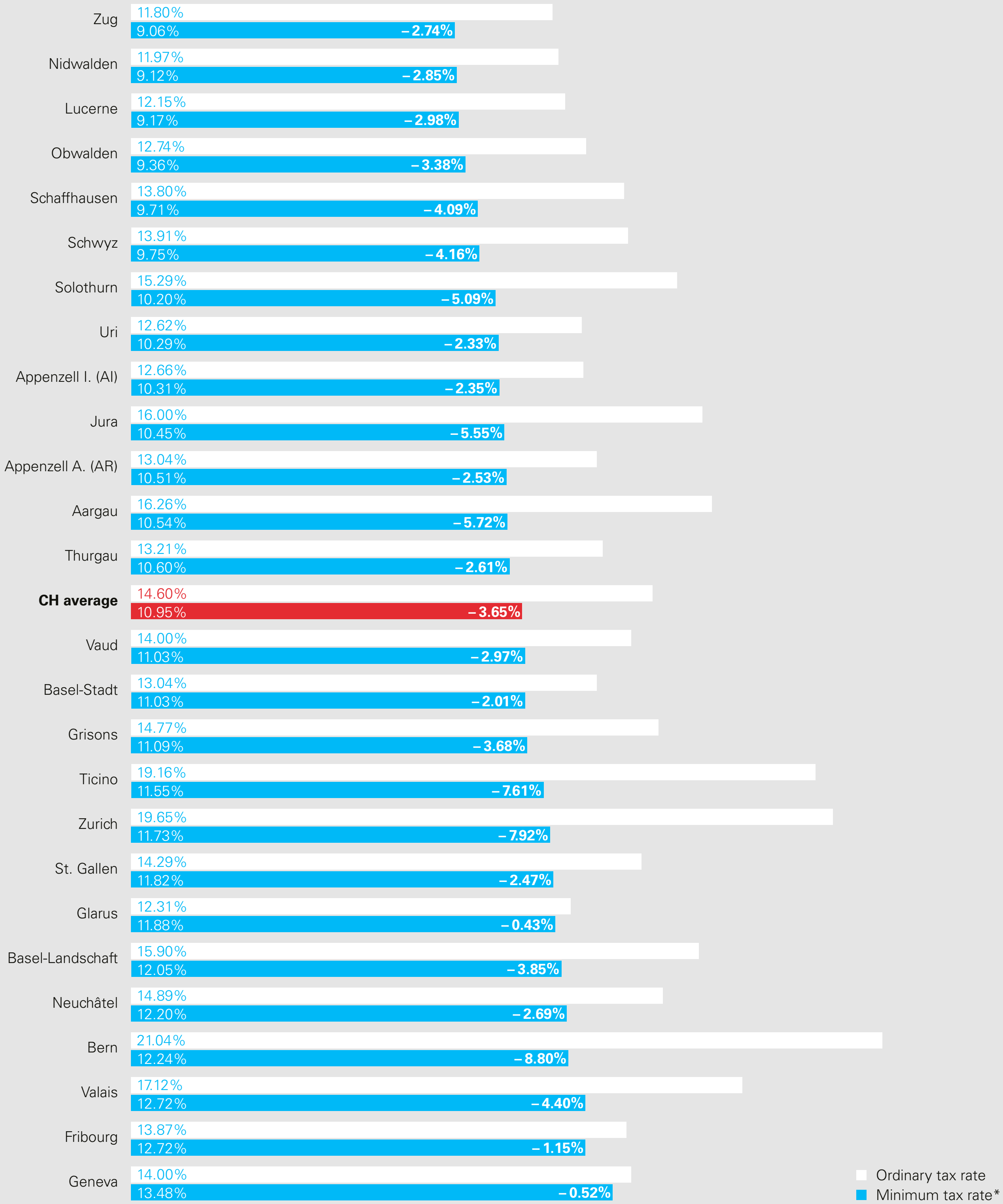
Corporate tax rates in the cantons
Trend from 2008 to 2023

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 2022 to 2023. Another slight decline is possible in the next two years since a few cantons are planning further cuts. However, individual increases cannot be ruled out either.



Minimum tax rate

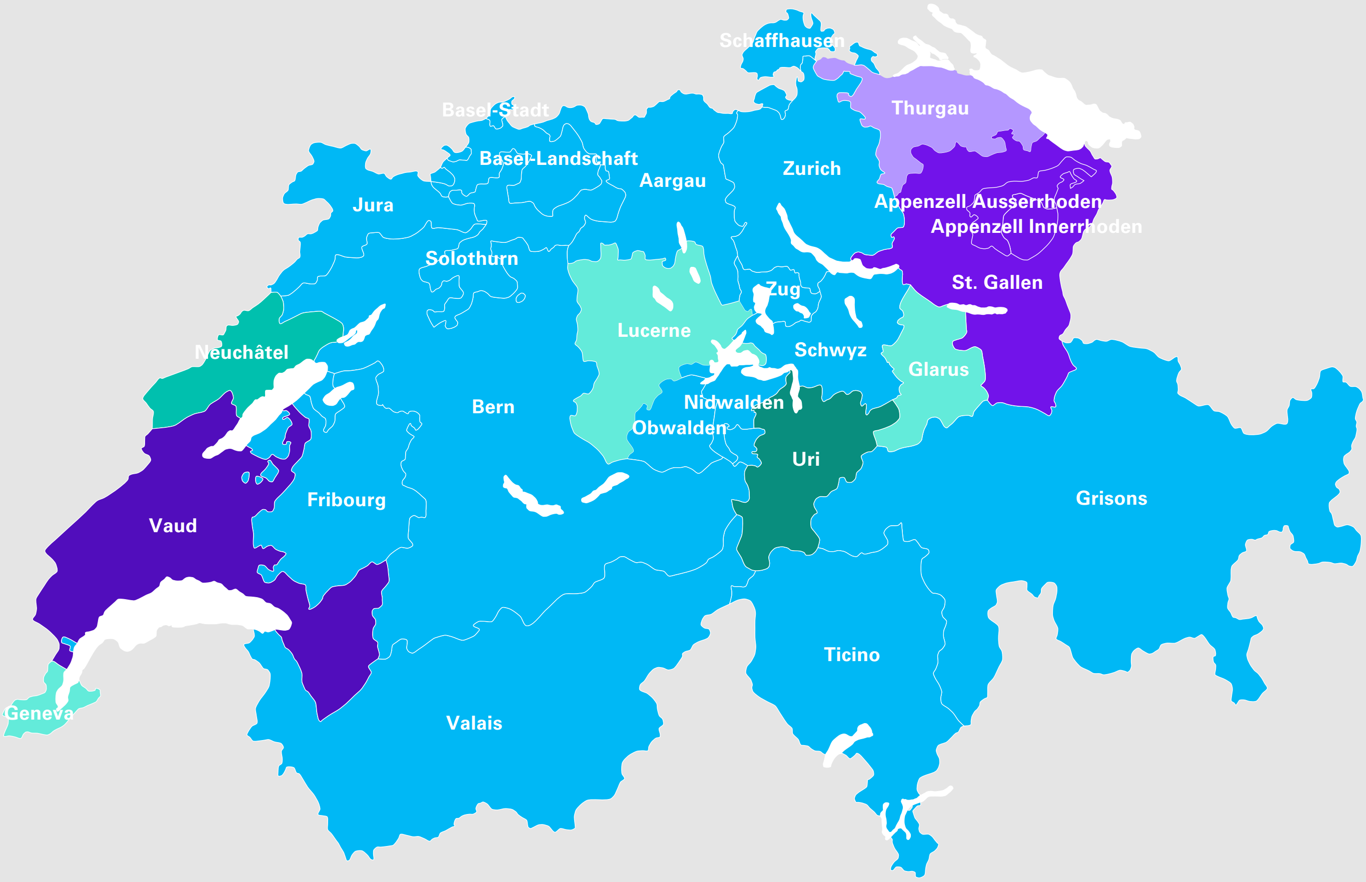
A comparison of the minimum tax rates (maximum relief provided by the new instruments or transitional rules) reveals that the cantons are closing ranks, in part because high-tax cantons, in particular, are using new instruments to provide more extensive relief while the low-tax cantons are frequently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

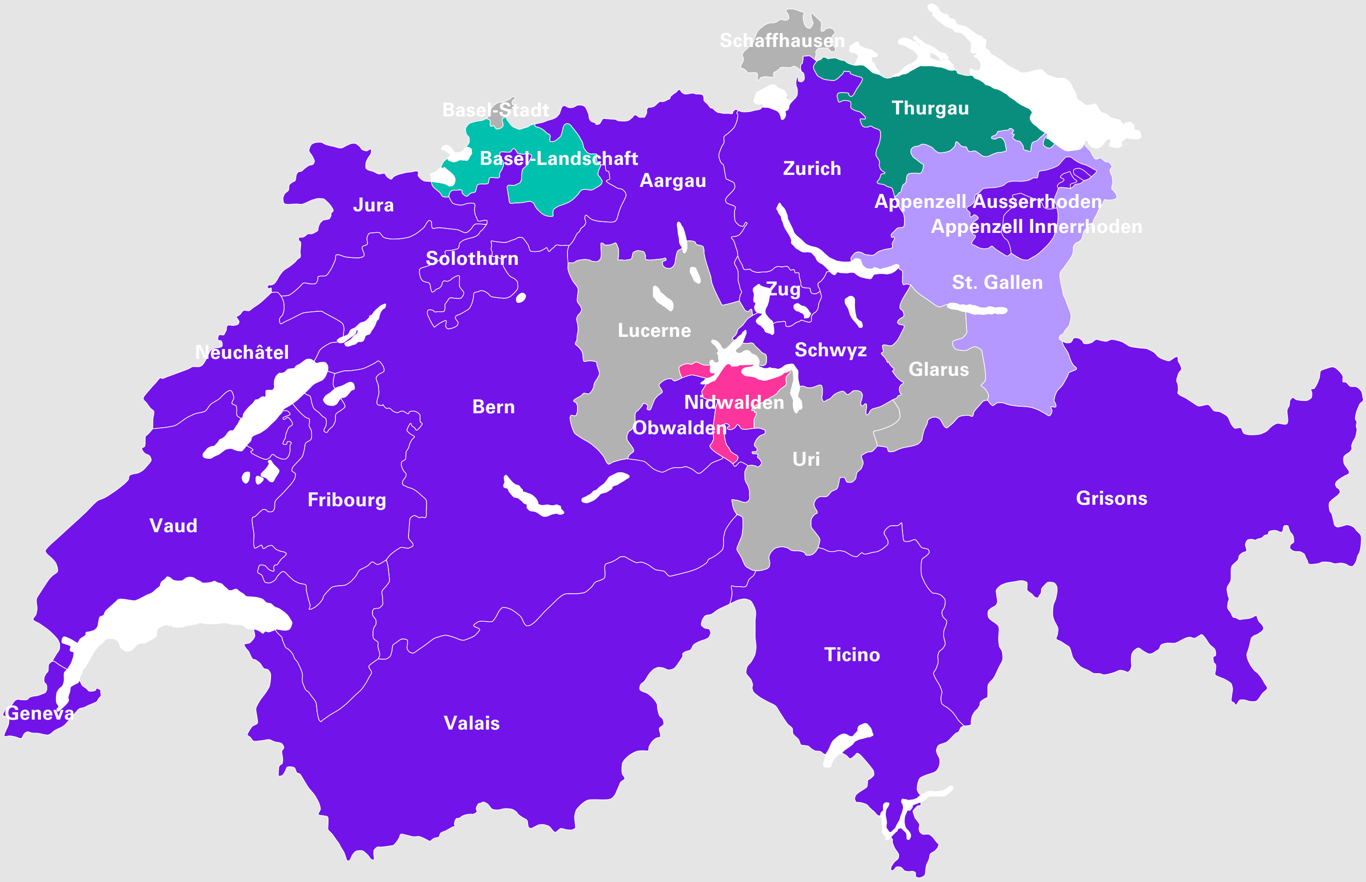


Patent box relief

- 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

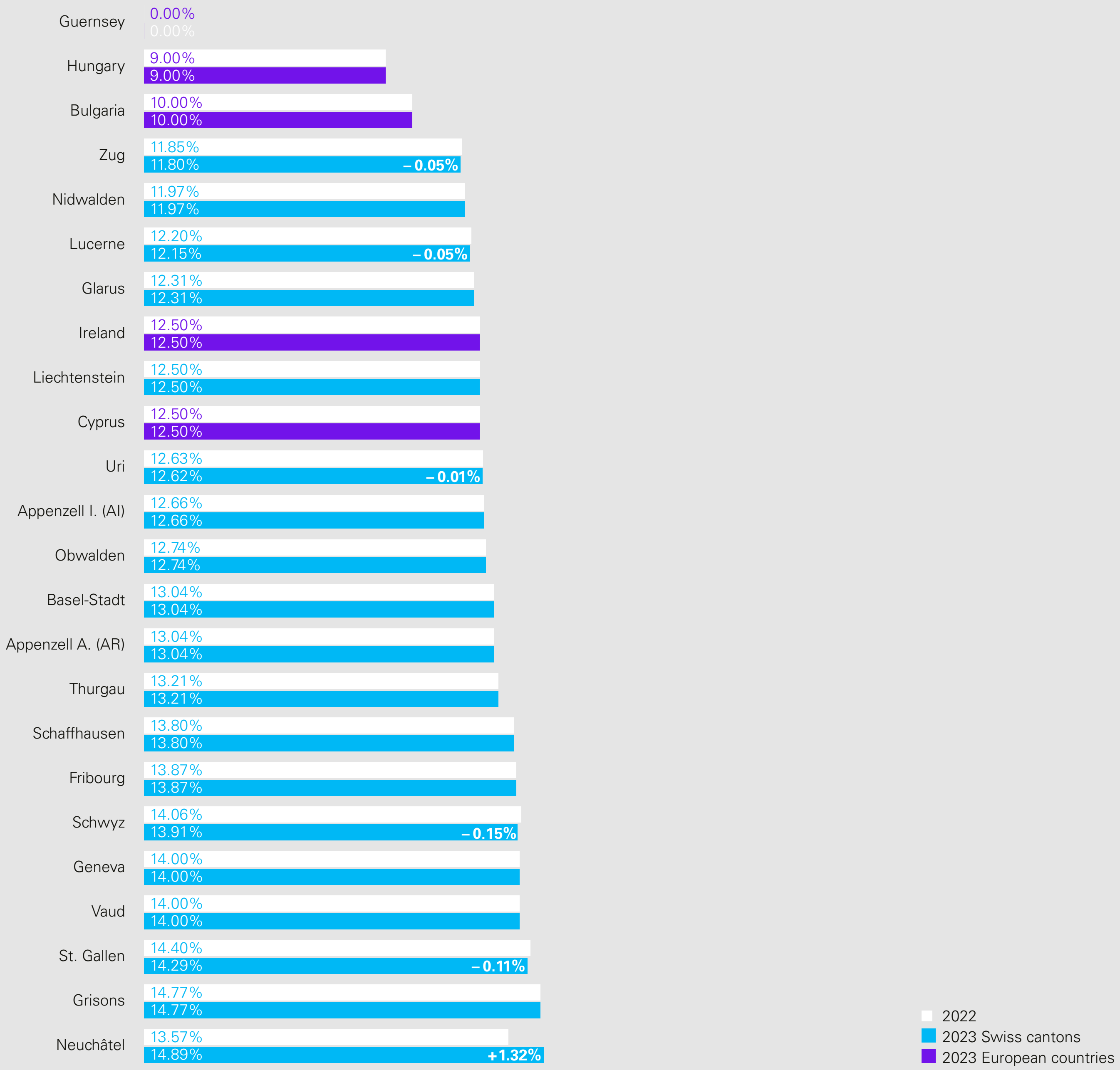
- 50%
- 40%
- 30%
- 20%
- 0% (rate amount to be determined by the government council)
- n/a

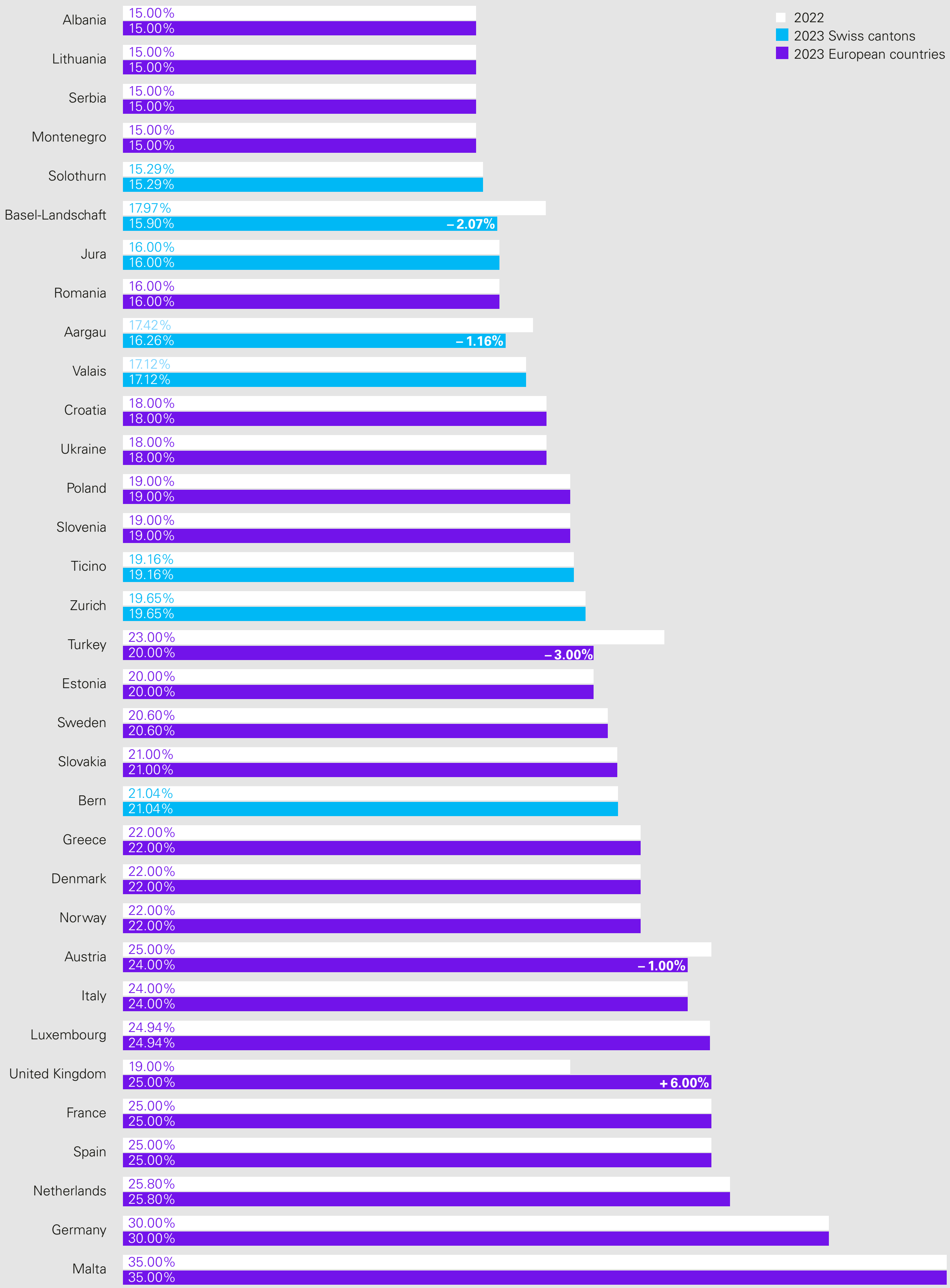
Comparison between cantons and the countries of Europe

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 once again in 2023.

Very few changes have been made in the European midfield.

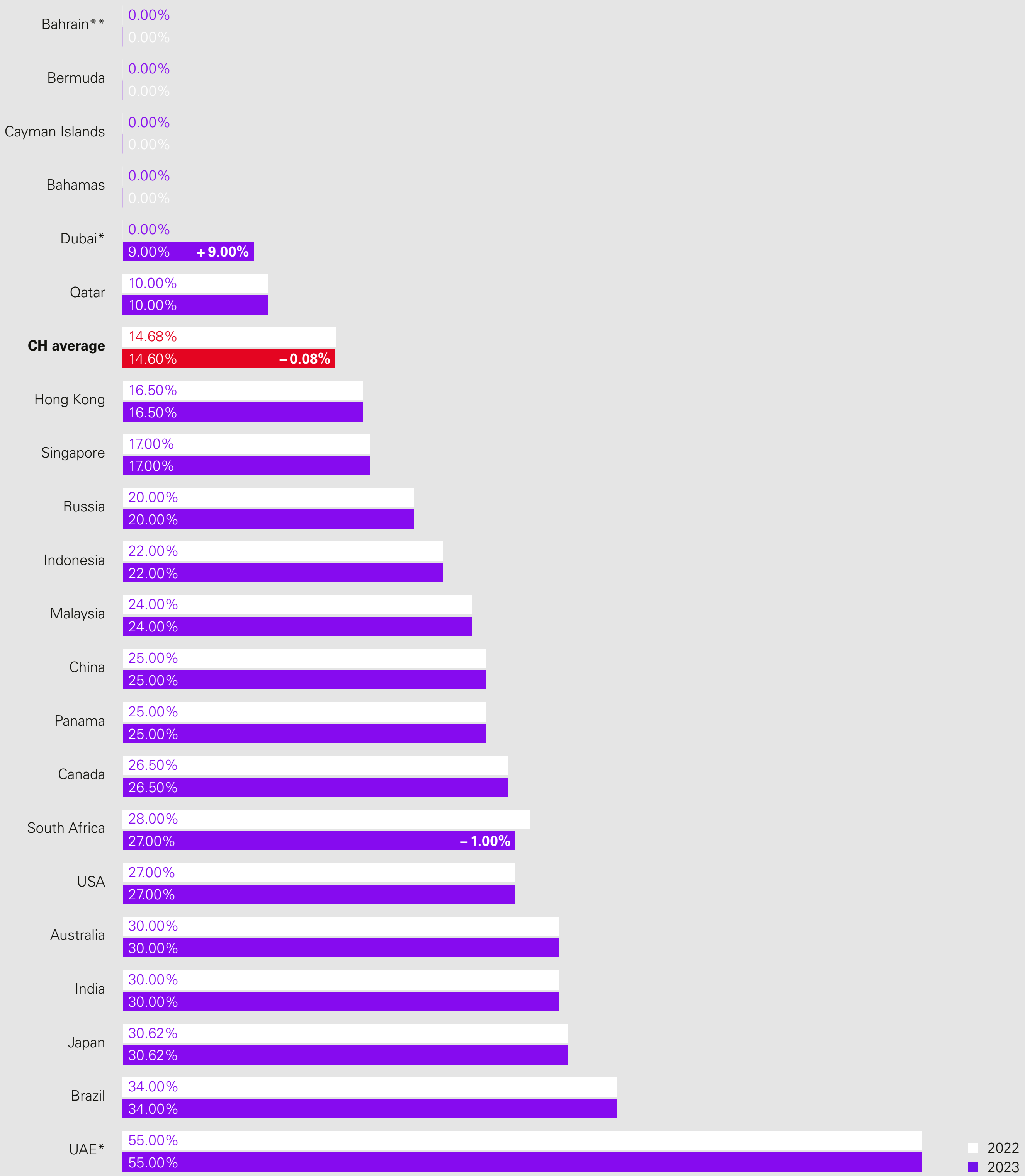
Coming in last in terms of the attractiveness of their ordinary corporate tax rates were several countries in Northern, Western and Southern Europe. Slight improvements were made this year by a few Swiss cantons that tend to be in the upper range (Aargau and Basel-Landschaft).




2022
2023 Swiss cantons
2023 European countries
Albania 15.00% 15.00%
Lithuania 15.00% 15.00%
Serbia 15.00% 15.00%
Montenegro 15.00% 15.00%
Solothurn 15.29% 15.29%
Basel-Landschaft 17.97% 15.90% – 2.07%
Jura 16.00% 16.00%
Romania 16.00% 16.00%
Aargau 17.42% 16.26% – 1.16%
Valais 17.12% 17.12%
Croatia 18.00% 18.00%
Ukraine 18.00% 18.00%
Poland 19.00% 19.00%
Slovenia 19.00% 19.00%
Ticino 19.16% 19.16%
Zurich 19.65% 19.65%
Turkey 23.00% 20.00% – 3.00%
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%
Austria 25.00% 24.00% – 1.00%
Italy 24.00% 24.00%
Luxembourg 24.94% 24.94%
United Kingdom 19.00% 25.00% + 6.00%
France 25.00% 25.00%
Spain 25.00% 25.00%
Netherlands 25.80% 25.80%
Germany 30.00% 30.00%
Malta 35.00% 35.00%

Non-European comparison
Selected countries

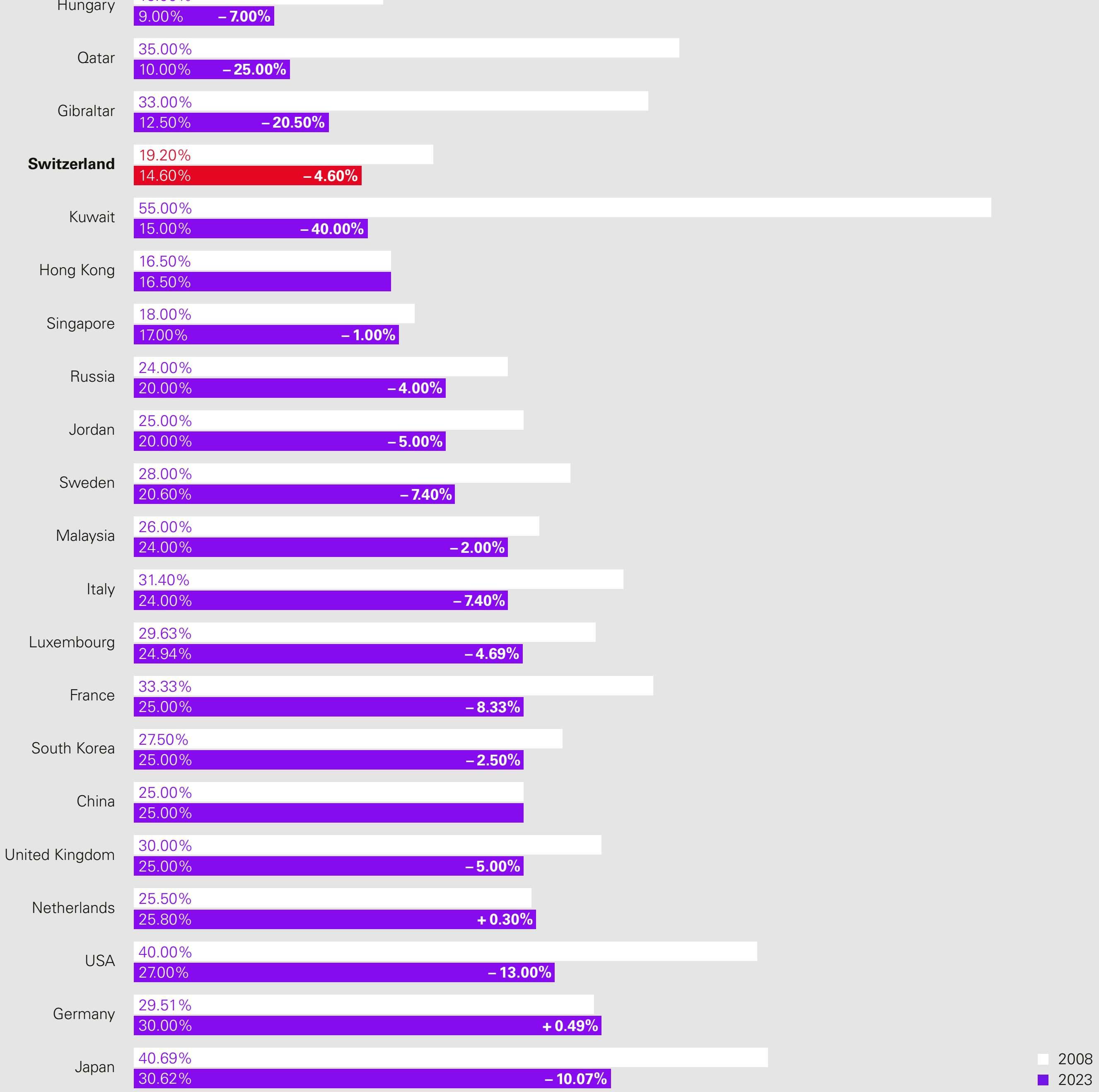
The traditional offshore domiciles are still in the lead in terms of their tax attractiveness. A comparison with countries outside Europe reveals that Switzerland is still solidly positioned in the top third (ahead of Hong Kong and Singapore).

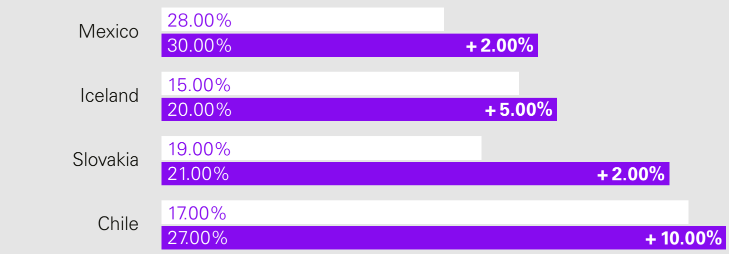


* with exceptions (0%-55%)
** 46% for exploration, production or refining of hydrocarbons.

Trend countries
2008 – 2023

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 and Japan, in particular.





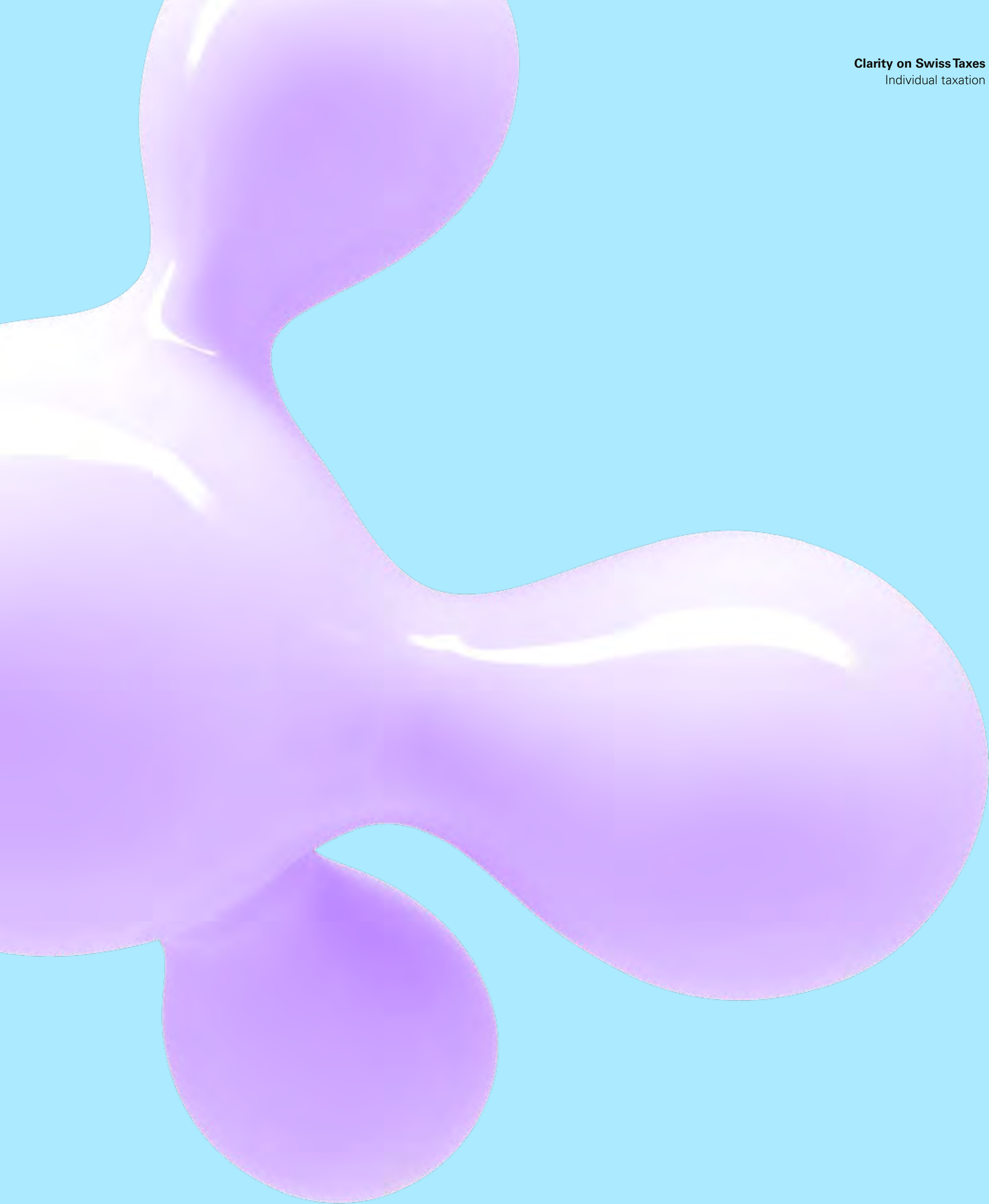
Only a few countries have actually raised their corporate tax rates since 2008.

Individual taxation

On average, the Swiss tax rates for individuals in Switzerland have changed only minimally by 0.06 percent compared with previous years. A cantonal comparison shows that the most attractive income taxes are found in Zug, which has a cantonal tax rate of 22.06 percent. The cantons of Western Switzerland still remain at the top of the list, especially Geneva. The Canton of Schaffhausen surprisingly reduced its taxes by 1.22 percent for 2023.

Compared to Europe, the cantons of Central Switzerland remain competitive and can continue to keep up with the low-tax havens like Jersey and the Isle of Man. Compared to other European countries, Scandinavian countries continue to top the list in 2023. By contrast, many countries in Eastern Europe have drastically cut their tax rates over the past decade by introducing flat rate taxes.

In a global comparison, the traditional offshore domiciles as well as Hong Kong and Singapore are still in the lead in terms of the attractiveness of their tax rates. Generally speaking, the income tax rates for individuals in Switzerland and abroad are stable.

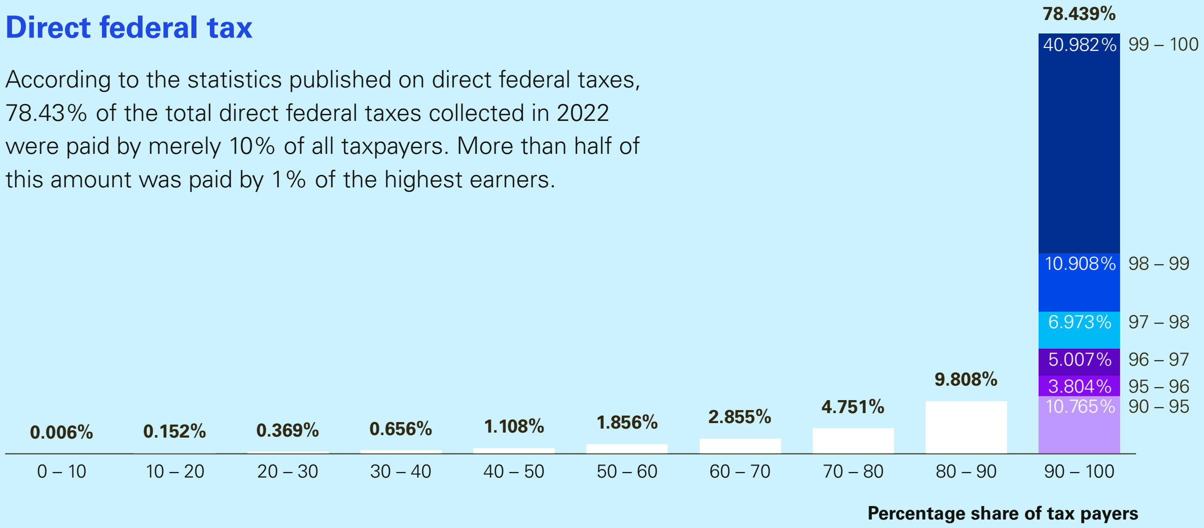


Income tax rates in the cantons

Switzerland remains an attractive business location for private individuals. Tax rates for individuals have changed only minimally compared to the previous years and have remained stable with an average maximum tax rate of around 33.45%. Compared with other European and non-European countries, Switzerland is holding on to its midfield status.

Direct federal tax

According to the statistics published on direct federal taxes, 78.43% of the total direct federal taxes collected in 2022 were paid by merely 10% of all taxpayers. More than half of this amount was paid by 1% of the highest earners.

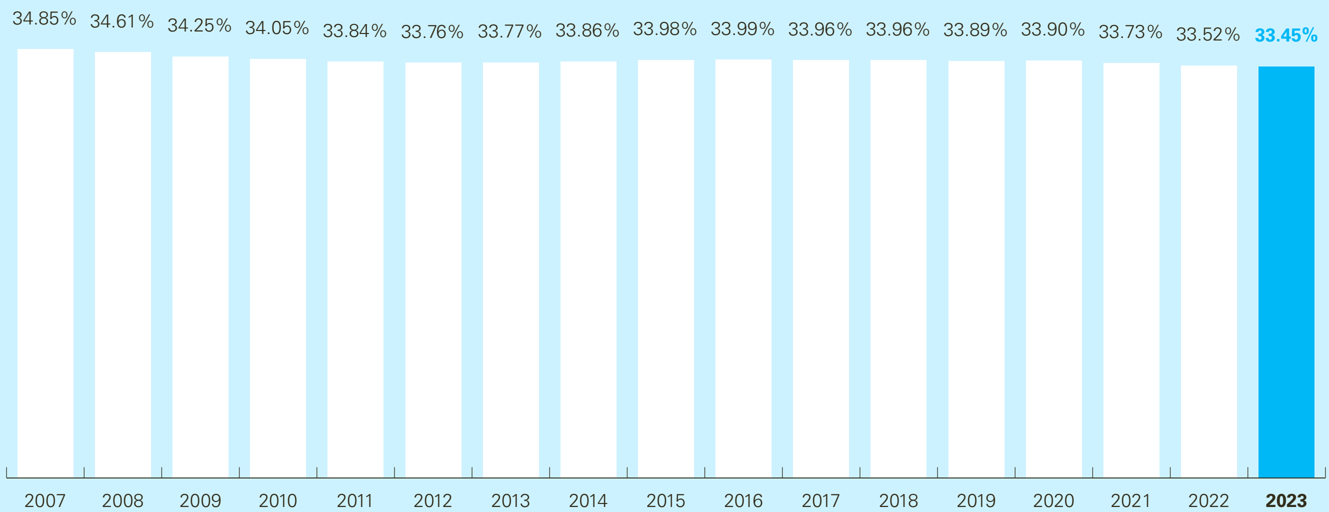


Source: https://www.estv.admin.ch/estv/de/home/die-estv/steuerstatistiken-estv/allgemeine-steuerstatistiken/direkte-bundessteuer.html

Income tax rates in the cantons

Trend from 2007 to 2022

The trend seen in the past 16 years is that cantons have reduced their marginal tax rates for individuals in Switzerland by 1%. This downward trend seems to be stopping in 2023.

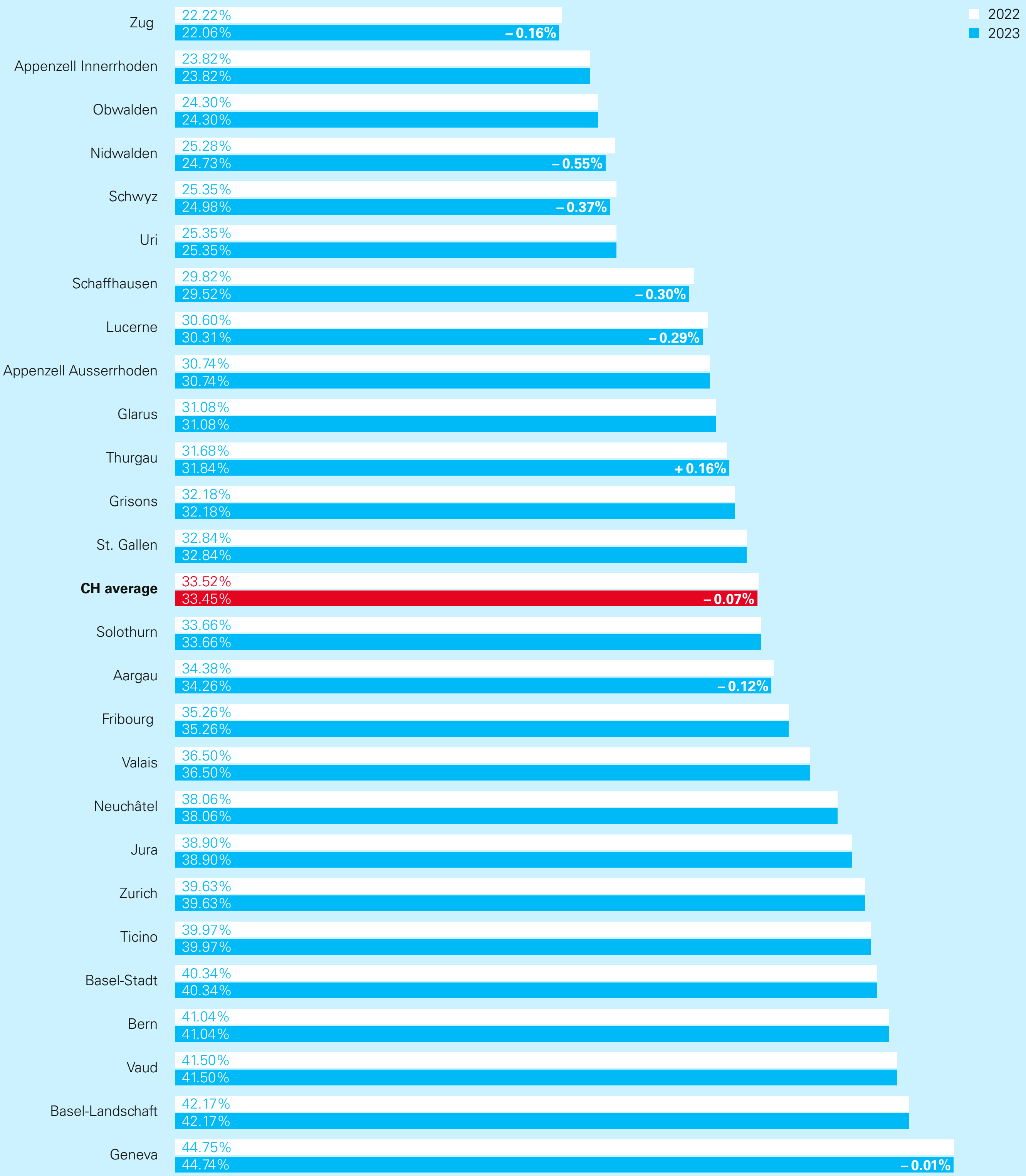


Income tax rates in the cantons*

2022 and 2023

The tax rates for 2023 have declined slightly in some Swiss cantons and risen slightly in others. Taken together, however, the tax rates levied in the cantons are slightly lower overall.

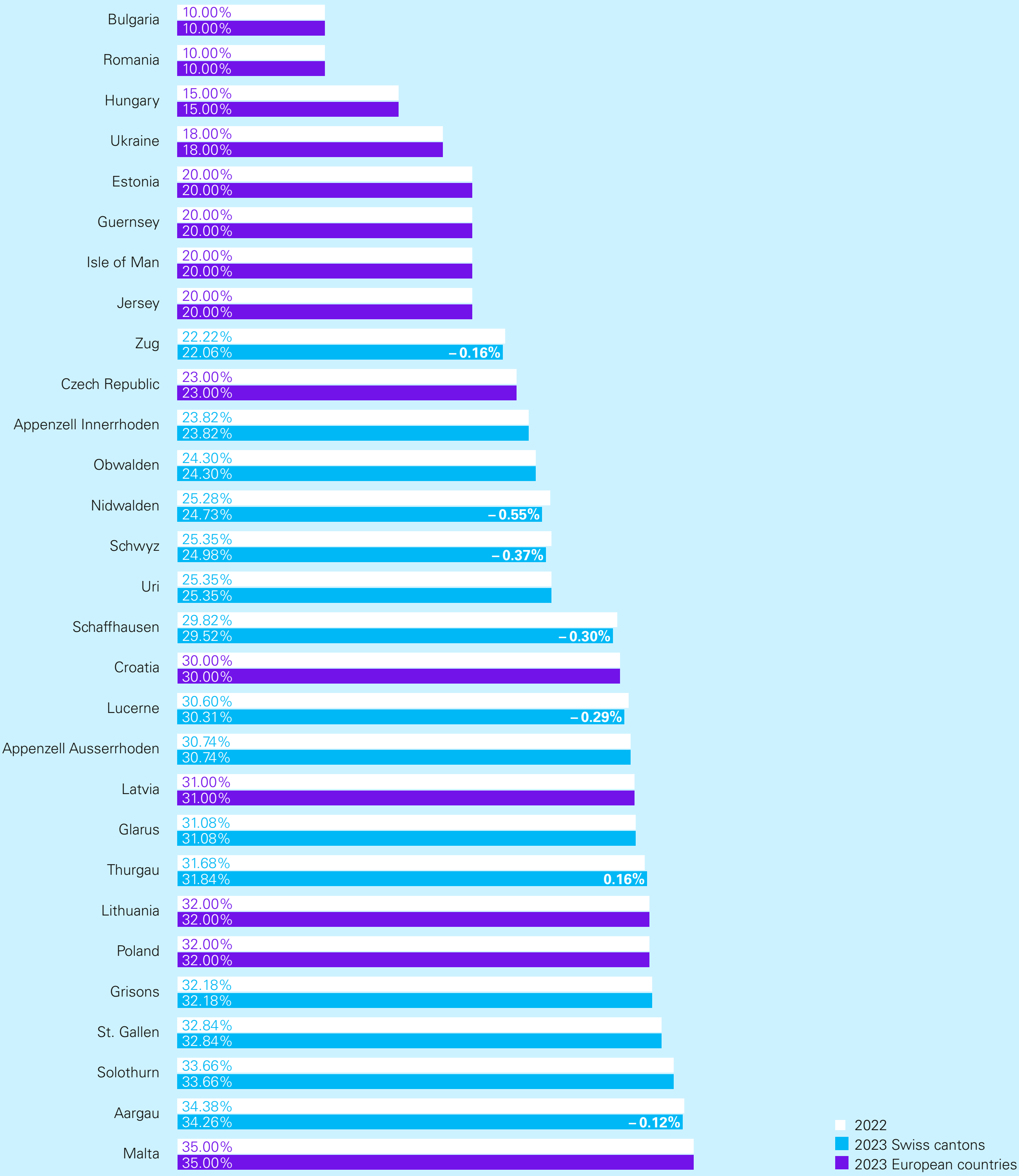
The cantons of Western Switzerland still remain at the top of the list, especially Geneva. Low tax rates are found especially in the cantons of Zug, Appenzell Innerrhoden, Obwalden and Schwyz.

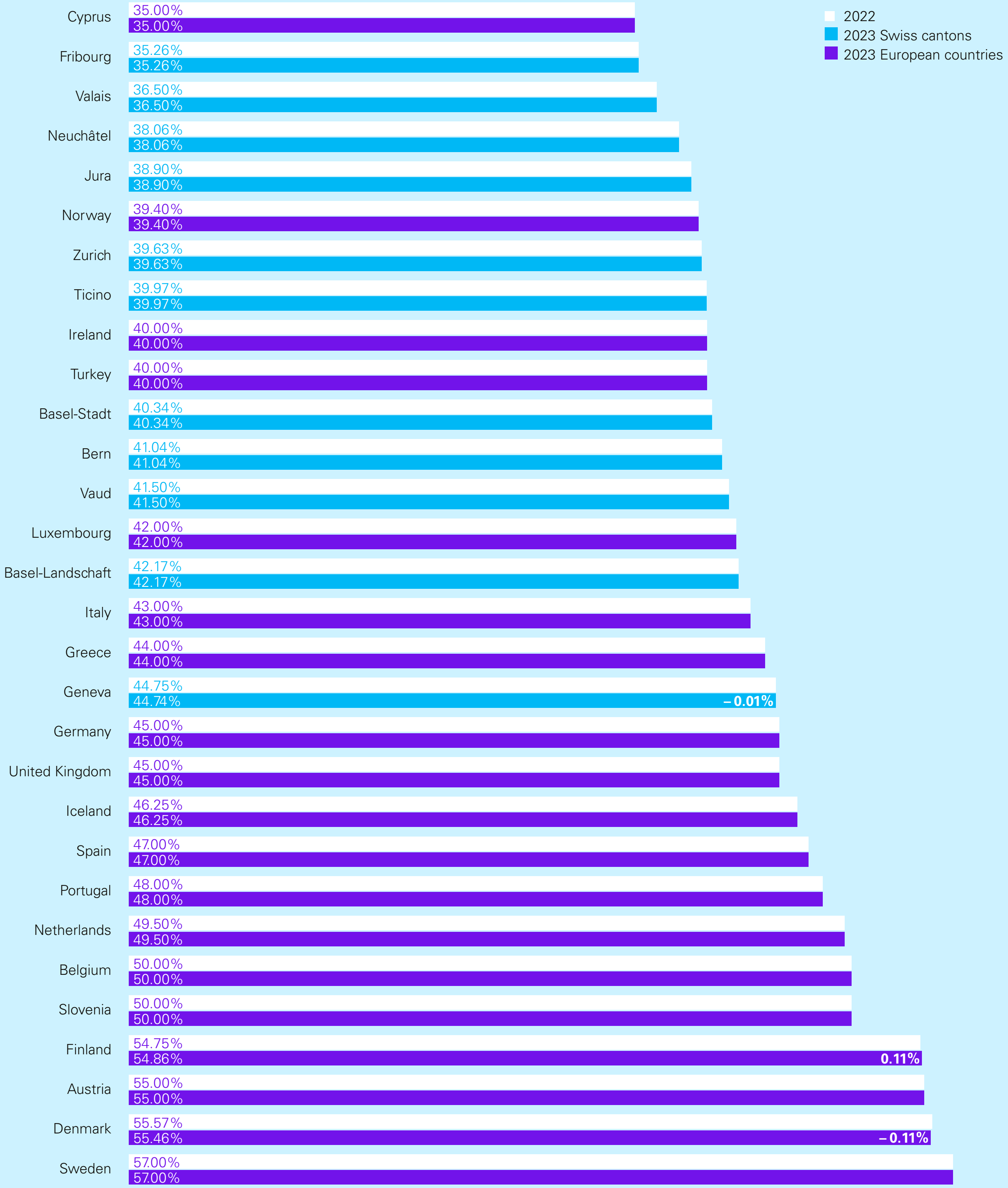


* Single, no church tax, tax rate in the cantonal capital + 11.5% federal tax

Comparison between cantons and the countries of Europe

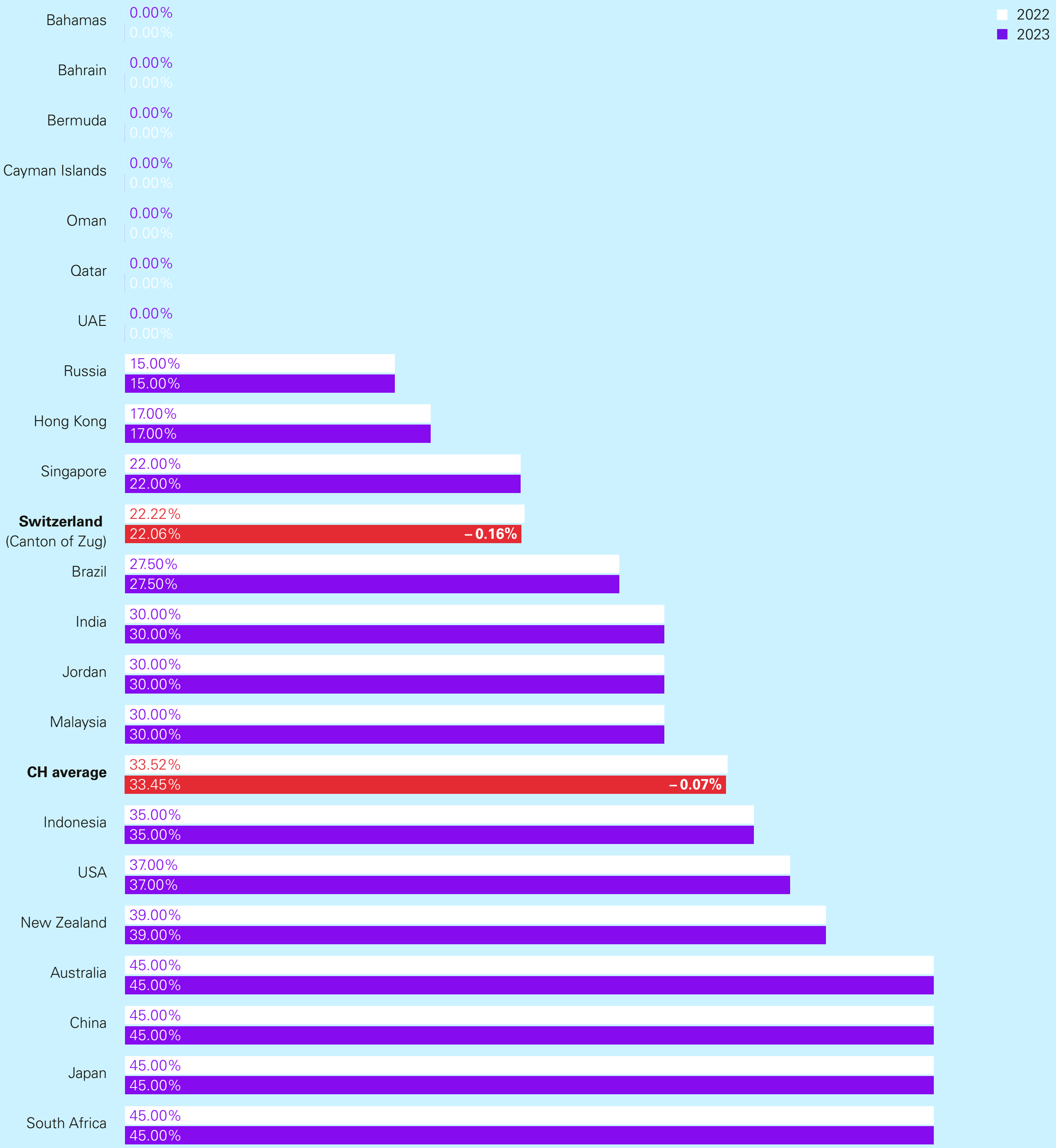
Compared to Europe, the cantons of Central Switzerland are quite competitive and can hold their own against low-tax havens like Jersey and the Isle of Man. Compared to other European countries, Scandinavian countries continue to top the list in 2023.




2022
2023 Swiss cantons
2023 European countries
Cyprus
35.00%
35.00%
Fribourg
35.26%
35.26%
Valais
36.50%
36.50%
Neuchâtel
38.06%
38.06%
Jura
38.90%
38.90%
Norway
39.40%
39.40%
Zurich
39.63%
39.63%
Ticino
39.97%
39.97%
Ireland
40.00%
40.00%
Turkey
40.00%
40.00%
Basel-Stadt
40.34%
40.34%
Bern
41.04%
41.04%
Vaud
41.50%
41.50%
Luxembourg
42.00%
42.00%
Basel-Landschaft
42.17%
42.17%
Italy
43.00%
43.00%
Greece
44.00%
44.00%
Geneva
44.75%
44.74%
– 0.01%
Germany
45.00%
45.00%
United Kingdom
45.00%
45.00%
Iceland
46.25%
46.25%
Spain
47.00%
47.00%
Portugal
48.00%
48.00%
Netherlands
49.50%
49.50%
Belgium
50.00%
50.00%
Slovenia
50.00%
50.00%
Finland
54.75%
54.86%
0.11%
Austria
55.00%
55.00%
Denmark
55.57%
55.46%
– 0.11%
Sweden
57.00%
57.00%

Comparison with non-European countries
Selected countries

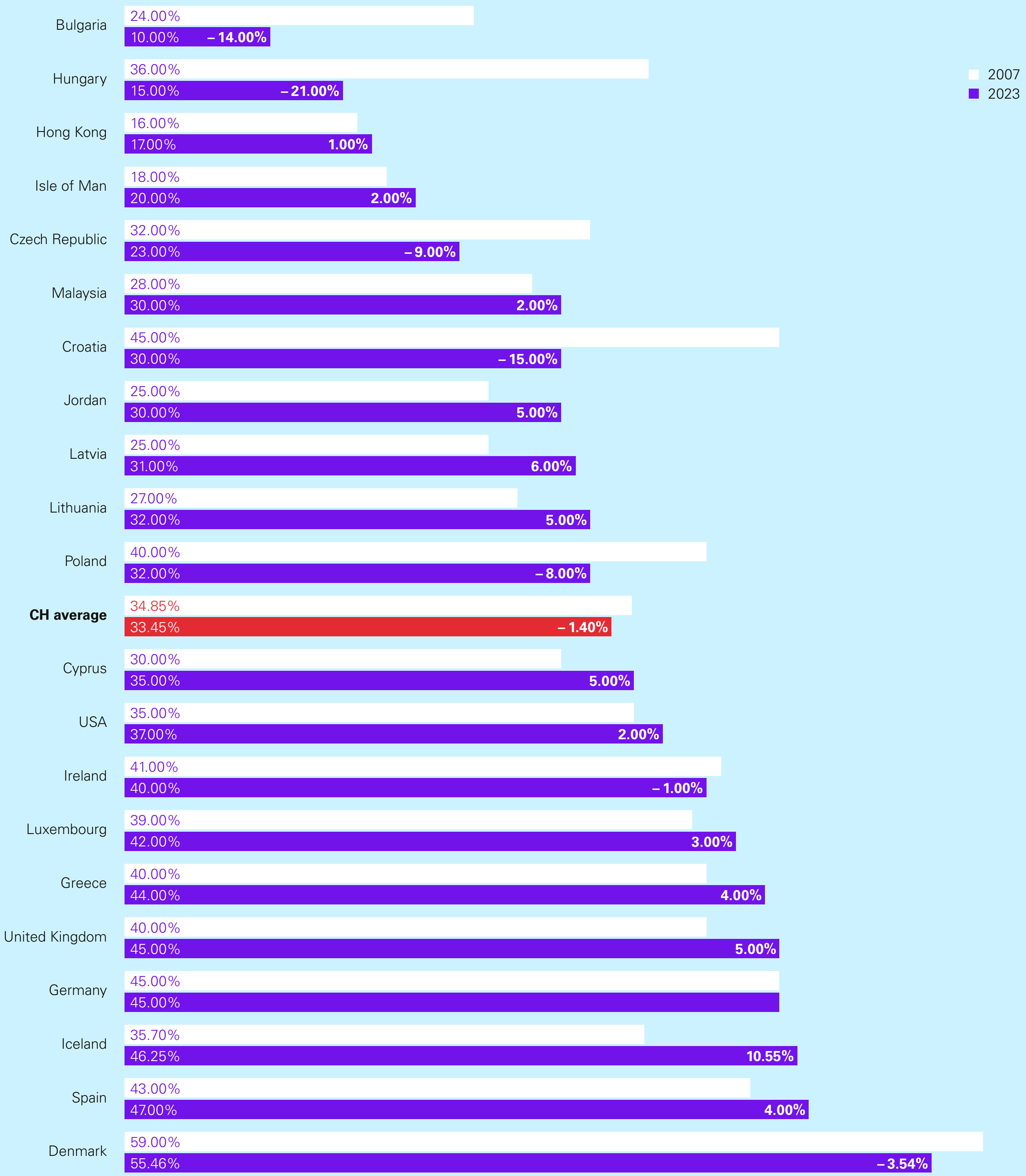
The traditional offshore domiciles are still in the lead in terms of their tax rate attractiveness. Compared to non-European countries, Switzerland is still in the midfield on average. A comparison between the low-tax cantons of Central Switzerland and non-European countries shows that they are comparable with Singapore.

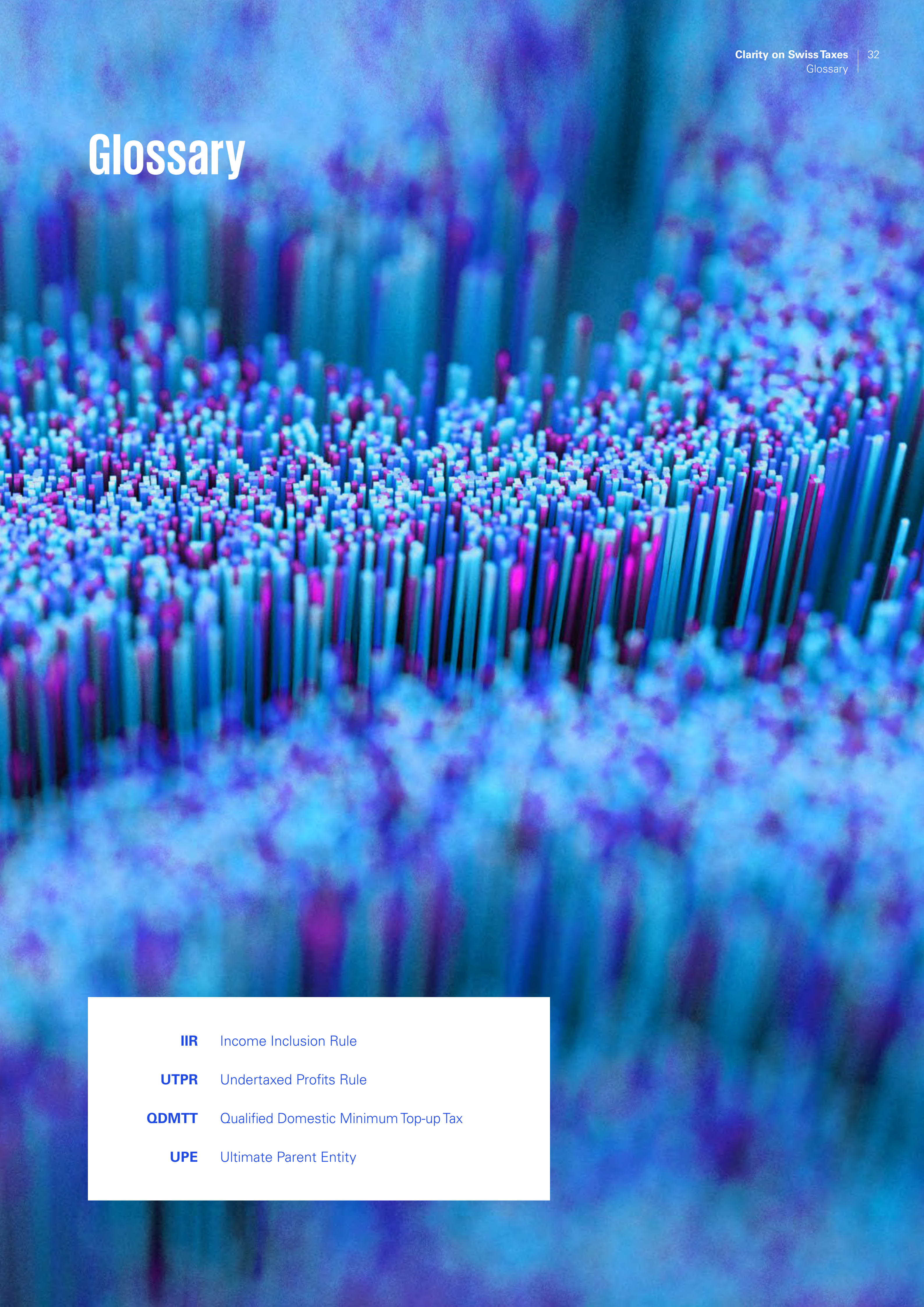


Trend

Countries 2007 – 2023

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.





Glossary

IIR	Income Inclusion Rule
UTPR	Undertaxed Profits Rule
QDMTT	Qualified Domestic Minimum Top-up Tax
UPE	Ultimate Parent Entity

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