Competition, Harmonization and Redistribution: Corporate Taxes in Switzerland

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Overview

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Corporate taxation in the cantons

- 3 layers of government:
  Federation, 26 cantons, 2000+ municipalities.

- All three jurisdictional levels levy taxes on corporate income.

- Cantons are administratively in charge of collecting taxes.

- Cantons are sovereign if their sovereignty is not explicitly limited by the federal constitution.
Corporate tax base

- Corporate income (profits)
  → Taxed by all three levels
- Corporate equity capital
  → Taxed solely by cantons and municipalities
The evolution of total taxable profit in Switzerland
Taxable profits per capita, 2019

1000 CHF per capita

4,127 CHF
148,976 CHF
Taxable profits per capita, 1949 and 2019
Corporate tax rates

- **Consolidated**: federal + cantonal + municipal
- **Effective**: tax bill in % of before-tax profit
- **Statutory**: according to tax code
- **Corporate**: tax bill on corporate income and corporate equity
Effective statutory corporate tax rates, 2018

Federal+cantonal+municipal tax rate for company with 2 million capital and 240,000 profit.

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Special tax privileges

- Cantonal and municipal tax privileges
- “mixed companies”: minor domestically generated profits and large share of foreign-sourced profits.
Effective corporate tax rate on privileged firms, 2016

Fed.+cant.+mun. tax rate for “mixed” company with 10 million CHF equity, 50% return and 95% of foreign-sourced profits.
The evolution of tax-privileged profit in Switzerland
Corporate tax reform 2019

- OECD BEPS Action 5 – Harmful tax practices
  - tax privileges abolished as of 1 Jan 2020
  - patent box introduced with varying discount across cantons
  - many cantons lowered statutory tax rates substantially
Effective statutory corporate tax rates, 2018 - 2021

Federal+cantonal+municipal tax rate for company with 2 million capital and 240,000 profit.
Effective corporate tax rate with patent box, 2025

Federal+cantonal+municipal tax rate for large company with utilization of patent box. BAK Taxation Index 2025.
Corporate tax revenue
Sub-federal corporate tax revenue, 2020

Cantonal plus municipal revenue from corporate income and corporate equity capital taxation.

294 CHF
3581 CHF
Corporate tax revenue as a share of total tax revenue, 1990–2020

Individual cantons + municipalities (colored lines) and federation (solid black line).
The elasticity of canton-level corporate income

- Krapf and Staubli (2020)
  - Large elasticities in remote locations and zero in cities.
- Lucerne case study as natural experiment
  - Corporate tax rates decreased by 7.6 percentage points over three years.
Lucerne’s corporate tax reform

The elasticity of canton-level corporate income
Lucerne’s corporate tax reform

The elasticity of canton-level corporate income

Corporate taxation in the cantons

- Lucerne’s corporate tax reform
- Aggregate corporate income relative to pre-reform period 2009
The long road to tax base harmonization

- **1948**: “concordat” of 13 cantons which agree on common practices
- **1960**: all cantons join

⇒ no tailored agreements with individual taxpayers
   akin to BEPS Action 5 against harmful tax practices
- **1977**: federal jurisdiction over tax harmonization amended to constitution
- **1990**: referendum on Federal Tax Harmonization Act (FTHA)

⇒ common definition of tax base and tax instruments, no limit on tax schedule
   motives: (a) simplification for firms, (b) facilitation of tax equalization
- **1993**: FTHA comes into force
- **2001**: cantons adjust cantonal tax laws according to FTHA
Allocation of taxing rights across cantons

- Allocation of taxing rights among legal entities
  - Arms-length principle in accounting of individual entities akin to BEPS Actions 8-10 on Transfer Pricing
  - Exchange of information across cantons akin to BEPS Action 13 Country-by-Country Reporting
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- Allocation of taxing rights between permanent establishments
  → De facto formula apportionment according to labor and capital costs, sales, etc.
  → Case law established by federal court
Fiscal equalization

- 2008: complex system of transfers with redistributive properties and equalization scheme based on revenue equalization
- 2008: new system of tax base equalization
Horizontal equalization transfer per capita, 2019

- 2571 CHF (Payer)
- 1982 CHF (Recipient)
Incentive effects of fiscal equalization, 2022
The End
Equalization transfer due to corporate tax base, 2019

- 470 CHF (Payer)
- 947 CHF (Recipient)
The interesting case of the canton of Zug