

Competition, Harmonization and Redistribution: Corporate Taxes in Switzerland

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Overview

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 - 1.2 Corporate tax rates
 - 1.3 Special tax privileges
 - 1.4 Corporate tax revenue
 - 1.5 The elasticity of canton-level corporate income
2. The long road to tax base harmonization
3. Allocation of taxing rights across cantons
4. Fiscal equalization

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.

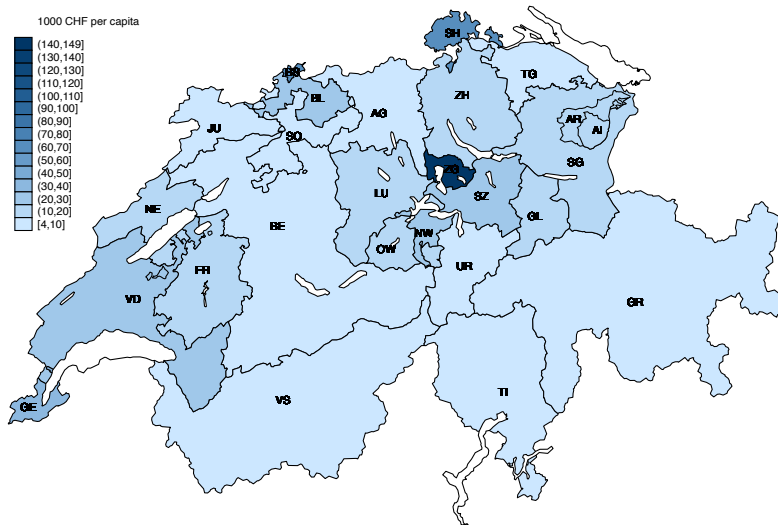
Corporate tax base

- 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

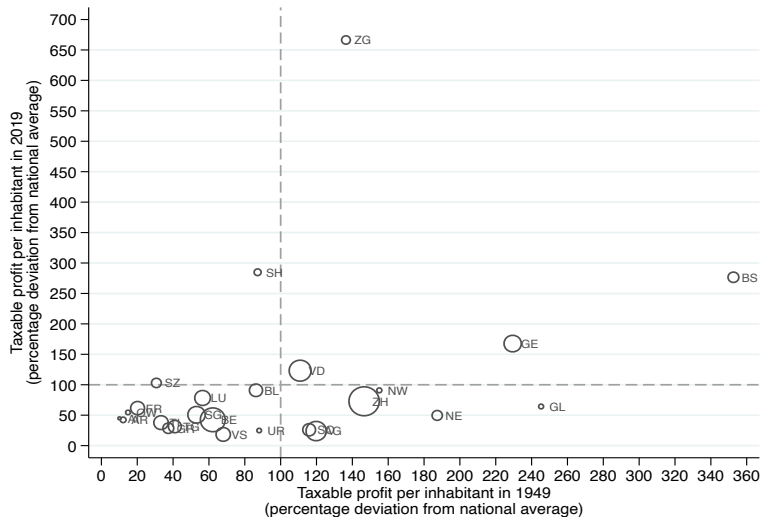


Taxable profits per capita, 2019



4,127 CHF
—
148,976 CHF

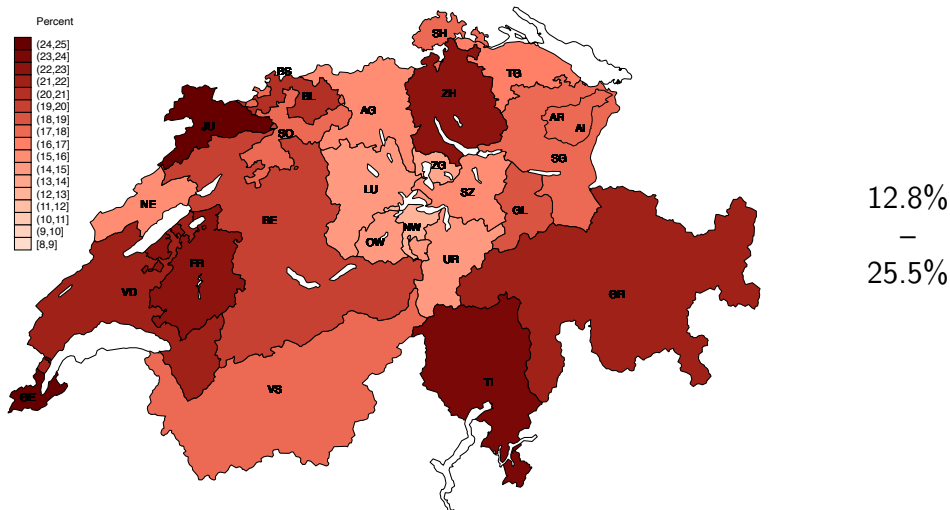
Taxable profits per capita, 1949 and 2019



Corporate tax rates

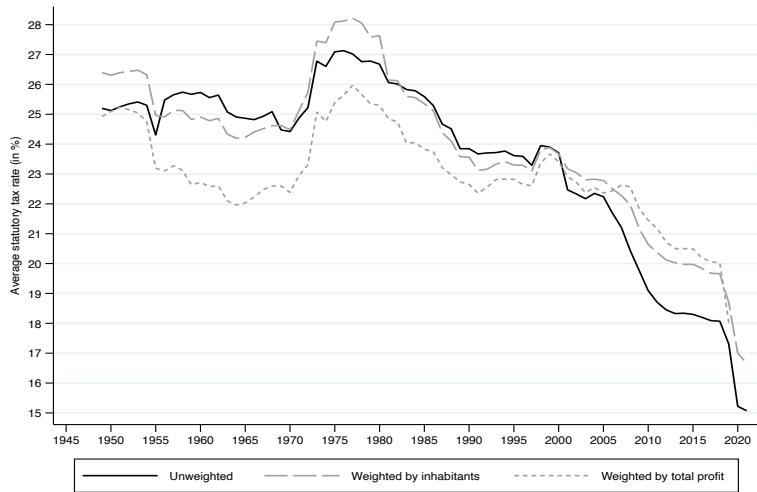
- **Consolidated:** federal+cantonal+municipal
- **Effective:** tax bill in % of before-tax profit
- **Statutory:** according to tax code
- **Corporate:** tax bill on corporate income and corporate equity

Effective statutory corporate tax rates, 2018



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

Evolution of effective statutory corporate tax rates, 1949–2021.

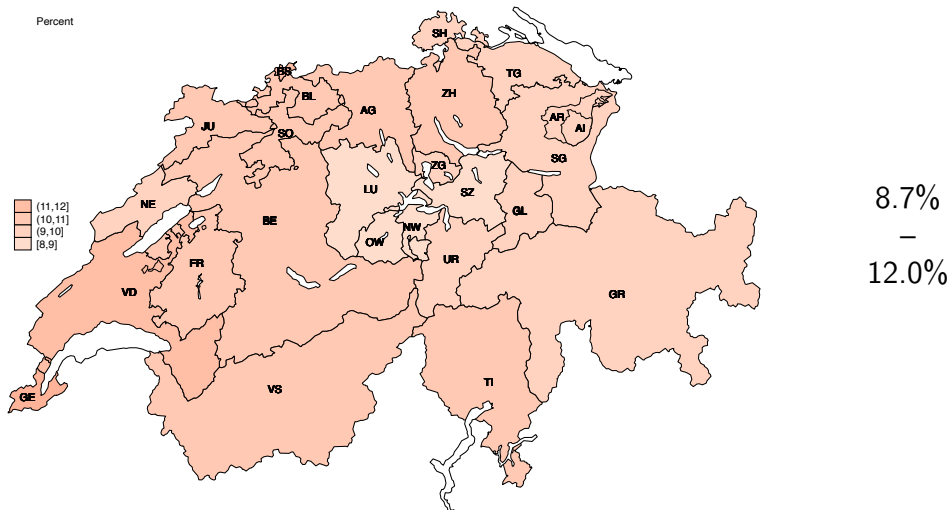


Federal+cantonal+municipal tax rate for company with 2 million capital and 240,000 profit.

Special tax privileges

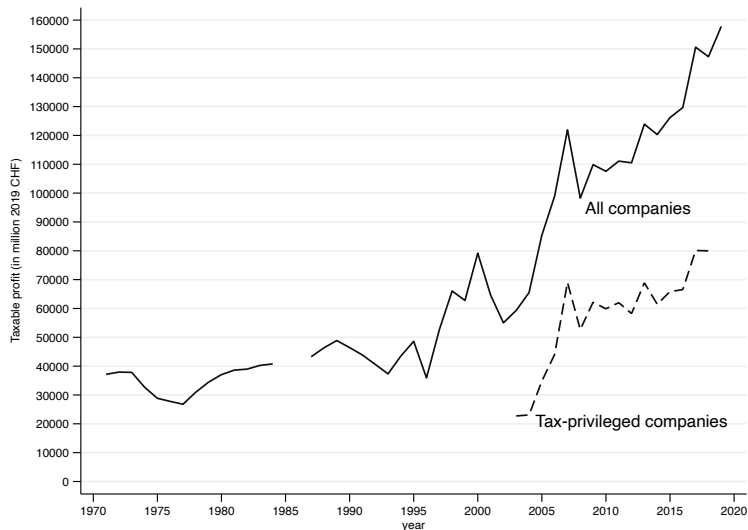
- Cantonal and municipal tax privileges
- “mixed companies”: minor domestically generated profits and large share of foreign-sourced profits.

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

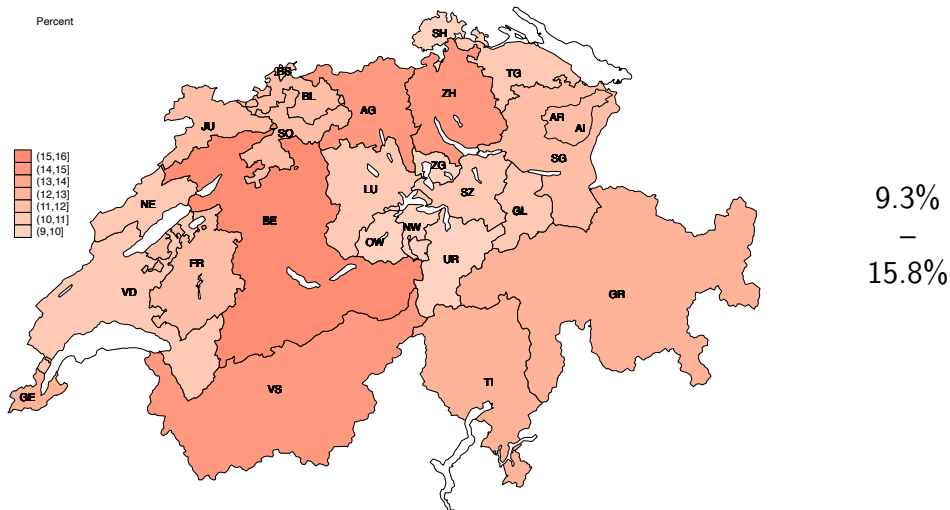
- OECD BEPS Action 5 – Harmful tax practices
 - tax privileges abolished as of 1 Jan 2020
 - patent box introduced with varying discount across cantons
 - many cantons lowered statutory tax rates substantially

Effective statutory corporate tax rates, 2018 - 2021



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

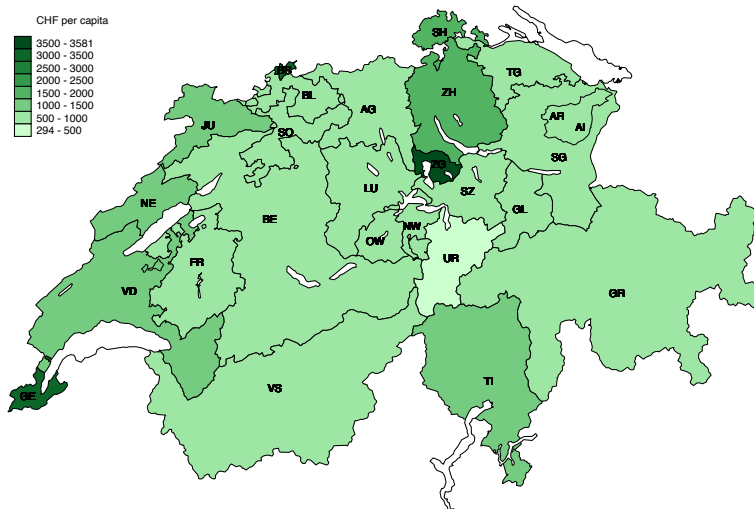
Effective corporate tax rate with patent box, 2025



Federal+cantonal+municipal tax rate for large company with utilization of patent box. BAK Taxation Index 2025.

Corporate tax revenue

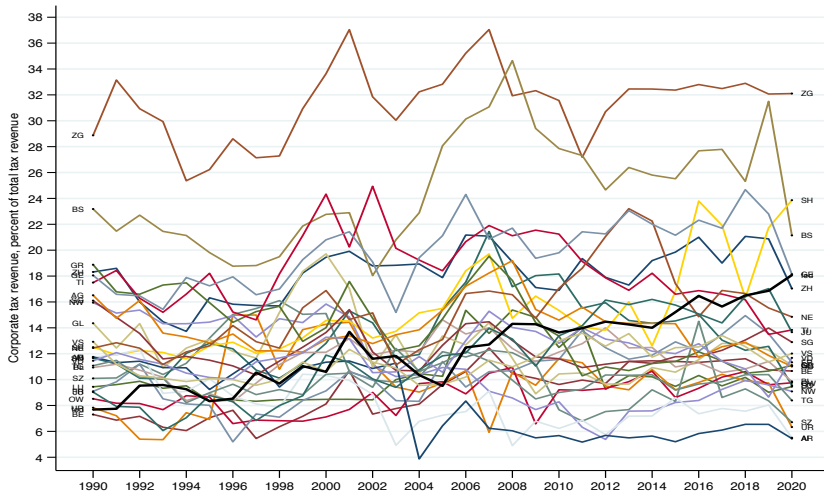
Sub-federal corporate tax revenue, 2020



294 CHF
—
3581 CHF

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

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

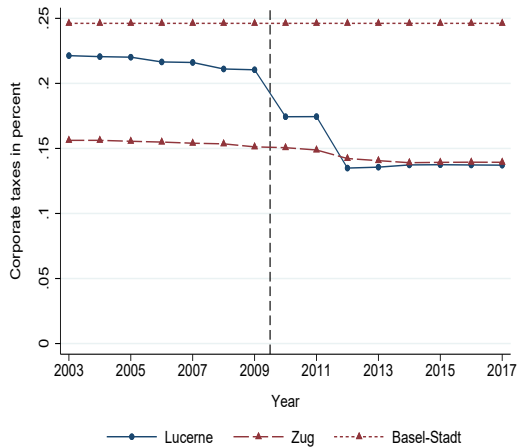


Individual cantons+municipalities (colored lines) and federation (solid black line).

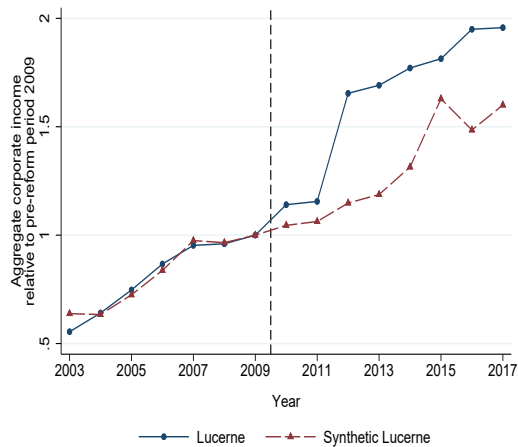
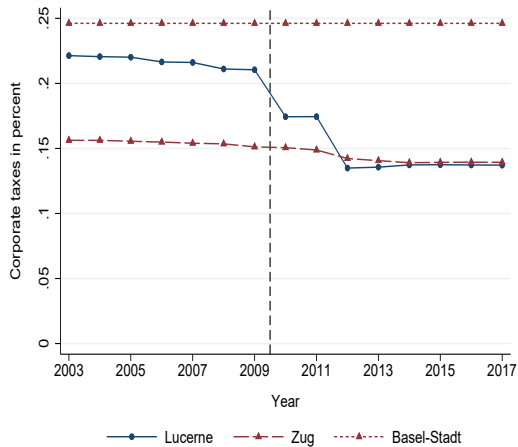
The elasticity of canton-level corporate income

- 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



Lucerne's corporate tax reform



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

Allocation of taxing rights across cantons

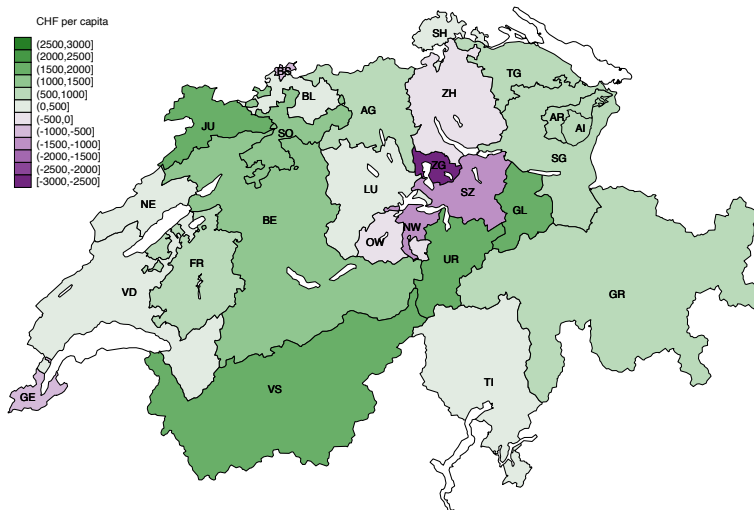
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- Allocation of taxing rights between permanent establishments
 - De facto formula apportionment according to labor and capital costs, sales, etc.
 - Case law established by federal court

Fiscal equalization

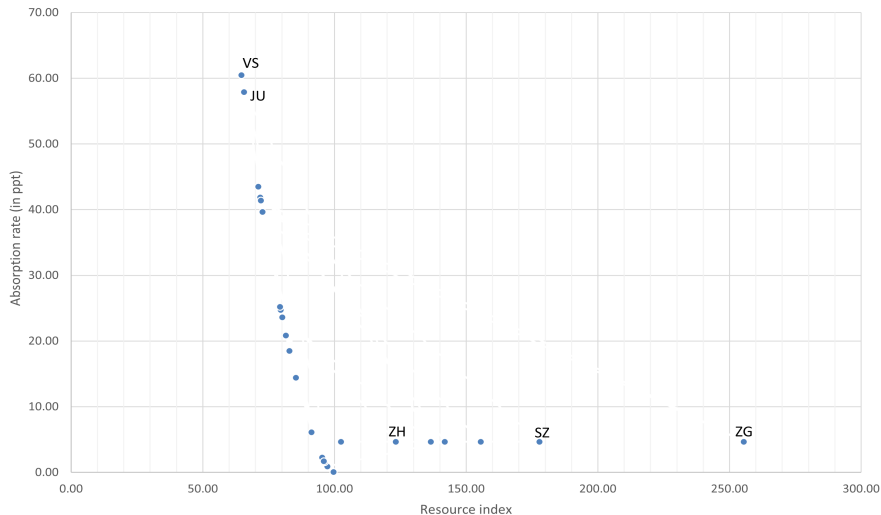
- – **2008**: complex system of transfers with redistributive properties and equalization scheme based on revenue equalization
- **2008**: new system of tax base equalization

Horizontal equalization transfer per capita, 2019



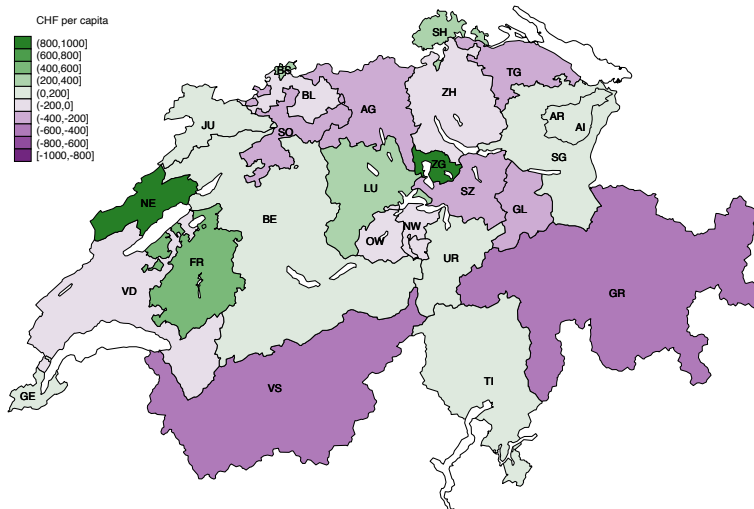
- 2571 CHF (Payer)
 -
 1982 CHF (Recipient)

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

