

Basel-Stadt's compromise

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Basel-Stadt did not wait for the federal vote. After the defeat of Corporate Tax Reform III, the cantonal government negotiated with the political parties, the trade unions and the business associations a package that became known as the "Basel compromise" on Tax Proposal 17. After its adoption by the cantonal parliament in 2018, the electorate approved it on 10 February 2019 with more than 78 per cent of the votes, a result that contrasted sharply with the rejection of the federal reform two years earlier.¹ Most of its provisions entered into force retroactively on 1 January 2019, while those that depended on federal law, such as the patent box and the capital tax relief, followed on 1 January 2020 after the federal vote.²

The core of the compromise was a substantial reduction of the profit tax. The canton abandoned its progressive tariff, which had depended on the ratio of profit to capital, and replaced it with a proportional rate of 6.5 per cent. Combined with the direct federal tax, the effective rate on profit before tax fell to about 13.04 per cent, compared with roughly 22 per cent at the top of the old tariff.³ The capital tax was set at a low ordinary rate, with a strong reduction for equity attributable to participations, patents and intra-group loans. The patent box was introduced with the maximum relief of 90 per cent permitted by federal law.

Two features distinguished the Basel implementation from that of many other cantons. First, Basel-Stadt did not introduce the optional additional deduction for research and development. Second, it set the relief limitation well below the federal maximum, so that a larger share of profit remains ordinarily taxed even for a company that uses the patent box fully.⁴ These choices may seem surprising for a canton whose largest taxpayers are research-intensive. They reflect a deliberate trade-off. A low ordinary rate benefits all companies equally and does not depend on complex calculations of nexus fractions or research costs. Generous special deductions would have reduced the tax base of the pharmaceutical groups further, while the

canton needed to preserve revenue for the social measures that made the package acceptable. The combination of a moderate ordinary rate and limited special instruments was, in effect, an attempt to make the canton attractive without making its budget hostage to the details of a few groups' tax planning.

The social side of the compromise was as important as the fiscal side. The package expanded the subsidies for health insurance premiums for households with modest incomes, reduced the income tax on lower and middle incomes and raised the taxation of dividends from qualifying participations from 50 to 80 per cent of their amount at the cantonal level. It also provided for higher family allowances, paid by employers.⁵ The design shows that the cantonal government had absorbed the lesson of 2017. Voters were willing to accept lower company taxes if they could see a direct benefit for themselves and if the shareholders of large companies contributed through higher dividend taxation.

The compromise fulfilled a promise that Basel politicians had made repeatedly during the long reform debate, namely that the canton would design its implementation with its dependence on the pharmaceutical industry in mind. A rate of about 13 per cent placed Basel-Stadt in the middle of the Swiss range after the reform. It was higher than the rates of Zug, Lucerne or Nidwalden, which had been in the region of 12 per cent or less, but substantially below the rates of Zurich, Bern and the French-speaking cantons in the first years after the reform. For the pharmaceutical groups, whose former special status had covered only part of their activities, the reform reduced the burden on ordinarily taxed profits while it raised the burden on income formerly taxed under privileged status. For the canton, the expected short-term revenue loss was to be offset in part by the higher federal share and by the expectation that the low rate would keep and attract taxable activity.⁶

1 Notes

1. Canton of Basel-Stadt, press release on the acceptance of the Basel compromise on Tax Proposal 17 in the cantonal vote of 10 February 2019 (more than 78 per cent yes votes). To be verified. ↩
2. Canton of Basel-Stadt, government resolution on the entry into force of the Basel compromise (2019); see also the summary in PwC Switzerland, "STAF: Inkraftsetzung in Basel-Stadt", 27 February 2019. To be verified. ↩
3. Tax Act of the Canton of Basel-Stadt (SG 640.100) as amended by the Basel compromise; the effective combined rate of about 13.04 per cent

including direct federal tax is cited by the cantonal administration and by advisory firms. Figures to be verified. ↩

4. According to PwC Switzerland, "STAF: Inkraftsetzung in Basel-Stadt", 2019, the canton did not introduce the research and development deduction and limited the total relief to 40 per cent of taxable profit. Figures to be verified. ↩
5. On the social components of the Basel compromise, including the expansion of premium subsidies (Prämienverbilligung), the reduction of income tax and the increase in family allowances, see the explanatory documentation of the government of Basel-Stadt for the vote of 10 February 2019. Details of the family allowance increase to be verified. ↩
6. On the expected fiscal effects of the Basel compromise and the comparison with other cantons, see the government's message to the Grand Council on Tax Proposal 17 and the annual cantonal tax burden comparisons of the Federal Tax Administration and KPMG Switzerland. Figures to be verified. ↩

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