

Federalism and the three levels of company taxation

*Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland), Solicitor (Hong Kong),
Solicitor (England & Wales)*

Swiss company taxation rests on three levels. The Confederation levies a direct federal tax on the profit of legal entities at a single proportional rate of 8.5 per cent. Because the tax is deductible from its own base, the effective federal rate on profit before tax is about 7.8 per cent.¹ The cantons and the communes levy their own profit and capital taxes, whose rates they set themselves within the framework of the Federal Act on the Harmonisation of Direct Taxes of Cantons and Communes of 1990. That act harmonises the formal elements of taxation, such as the taxable object, the period and the procedure, but it leaves the tariffs to the cantons.² The result is a system in which twenty-six cantons compete with each other for companies and residents, constrained by a federal frame and, since the reforms discussed below, by international rules.

The constitutional basis of this arrangement is Article 3 of the Federal Constitution, under which the cantons are sovereign in so far as their sovereignty is not limited by the Constitution, together with the financial provisions of Articles 127 to 135. Article 129 instructs the Confederation to lay down principles for the harmonisation of direct taxes, while it expressly reserves tax rates and tax-free amounts to the cantons.³ Swiss tax lawyers often describe this reservation as the heart of cantonal fiscal sovereignty. The ability to set a lower or a higher rate than the neighbouring canton is the instrument by which a canton expresses its own choices about public services, redistribution and economic development. For Basel-Stadt, a city canton with a small territory and very large employers, that instrument has always been exercised with one eye on the pharmaceutical groups.

Communes add a further layer. In most cantons the communal tax is levied as a multiple of the cantonal simple tax, so that the burden of a company varies from one municipality to the next. Basel-Stadt is a special case because the city of Basel has no separate communal administration for most purposes: the canton exercises communal functions for the city, while

Riehen and Bettingen retain their own communal finances.⁴ For the taxation of companies this means that Basel-Stadt can present a single combined rate, which simplifies comparison with other cantons and with foreign locations.

1 Notes

1. Federal Act on the Direct Federal Tax of 14 December 1990 (DBG, SR 642.11), Art. 68. The effective rate results from the deductibility of taxes as business expenses under Art. 59 para. 1 lit. a DBG. To be verified. ↩
2. Federal Act on the Harmonisation of Direct Taxes of Cantons and Communes of 14 December 1990 (StHG, SR 642.14), Art. 1 and Art. 129 of the Federal Constitution, which expressly excludes tax rates, tariffs and tax-free amounts from federal harmonisation. To be verified. ↩
3. Federal Constitution of the Swiss Confederation of 18 April 1999 (SR 101), Arts. 3, 127–135, in particular Art. 129 para. 2. To be verified. ↩
4. On the institutional structure of Basel-Stadt, in which the canton performs the municipal functions of the city of Basel, see the Constitution of the Canton of Basel-Stadt of 23 March 2005 (SG 111.100) and Part C of this book. To be verified. ↩

For general information only. This article does not constitute legal or tax advice, does not replace advice on an individual case and creates no lawyer-client relationship. It reflects the legal position as of September 2026.

Online version: helveticaregister.com/basel-federalism-and-the-three-levels-of-company-taxation