

The risk of dependence

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The concentration of the canton's economy on a small number of life sciences groups creates a risk of dependence that the political authorities of Basel-Stadt openly acknowledge. A large share of the canton's revenue from corporate income tax comes from a few companies. The incomes of their employees and the dividends paid to their shareholders resident in the canton add further revenue. If one of these companies were to move its headquarters, suffer a severe decline in profits or shift its profit-generating activities abroad, the cantonal budget would be directly affected.¹ The canton has responded with a policy that combines competitive taxation, investment in infrastructure and research and close dialogue with the companies.

The tax side of this policy is the subject of Chapter III. Basel-Stadt designed its implementation of the Federal Act on Tax Reform and AHV Financing, which abolished the cantonal tax privileges from 2020, with particular attention to the needs of its pharmaceutical industry. It made use of the patent box introduced by the federal reform and lowered its statutory tax rate, while it chose not to introduce the optional additional deduction for research and development. In the referendum of February 2019, the cantonal electorate approved this package with a clear majority, an expression of the consensus in Basel that the competitiveness of the industry is a public interest.² The OECD minimum tax for large multinational groups, implemented in Switzerland from 2024, has since introduced a new dimension, which Chapter III also examines.

Dependence is a risk, yet it also gives the companies a voice in cantonal politics that few other actors possess. The canton depends on the industry for revenue, while the industry relies on the canton for its tax regime, its research institutions and its urban development. This mutual dependence explains the stability of the relationship despite the periodic controversies about restructurings, environmental legacies and drug prices. For the

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financial centre, the industry is at the same time a client, an issuer, an employer of wealthy managers and a source of the canton's ability to finance its own institutions, among them the cantonal bank and the university. Part K returns to the question of how geopolitical tensions and trade policy might affect this relationship in the coming decade.

1 Notes

1. On the concentration of corporate tax revenue in Basel-Stadt on a small number of companies, see the budget reports and financial plans of the Basel-Stadt Finance Department and the cantonal government's reports on the tax reform. Figures to be verified. ↩
2. On the cantonal implementation of STAF (TRAF) in Basel-Stadt, including the reduction of the effective corporate tax rate to about 13 per cent, the patent box and the R&D super-deduction, and on the cantonal vote of 10 February 2019, see the official publications of the Basel-Stadt government and Chapter III. Figures and date to be verified. ↩

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