

What the regimes meant for Basel pharma

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For Roche and Novartis, the cantonal regimes had a different significance from that which they had for a trading company in Zug. Both groups have their operational headquarters, extensive research facilities and production in Basel and its region. A large part of their Swiss activity was therefore ordinarily taxed in Basel-Stadt or Basel-Landschaft, at rates that were among the highest in Switzerland before 2019. The ordinary statutory rate in Basel-Stadt was progressive, depending on the ratio of profit to capital, and reached a combined effective rate of about 22 per cent including federal tax for highly profitable companies. Figures to be verified.¹

The special regimes were nonetheless relevant to the Basel groups in several ways. First, holding status or the participation deduction protected the dividend flows from foreign subsidiaries to the Swiss parent. Second, certain group companies with international trading or licensing functions could qualify as mixed companies, so that income from the exploitation of intellectual property outside Switzerland was taxed at a reduced cantonal rate. Third, the principal company model offered a framework for organising global supply chains, in which a Swiss entity bore the entrepreneurial risk and earned the corresponding profit. Industry representatives argued repeatedly that the abolition of the regimes without replacement would raise the tax burden on mobile income and could lead to the relocation of functions.²

The relevance of the regimes for Basel also lay in the gap between the canton's high ordinary rate and the lower rates available elsewhere. A company with a high ordinary rate has a stronger incentive to place mobile income in a privileged entity, whether in its own canton or in a neighbouring one with a lower rate. Basel-Stadt therefore faced a structural dilemma. Its ordinary taxpayers paid high rates, while part of the income of its largest employers was taxed under special status or abroad. Any reform that abolished the regimes without lowering ordinary rates would

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expose the canton to the risk that mobile functions would move away. A reform that lowered ordinary rates would cost revenue from the many domestic companies and the industrial parts of the pharma groups that had never enjoyed privileges. This dilemma explains the design of the Basel implementation discussed in the second half of this chapter.

1 Notes

1. On the pre-2019 profit tax tariff of Basel-Stadt, which was progressive according to the yield on capital (Renditeststeuer), see the Tax Act of the Canton of Basel-Stadt of 12 April 2000 (SG 640.100) in the version before the reform, and the comparative tables of the Federal Tax Administration. Figures to be verified. ↩
2. See the submissions of Interpharma, economiesuisse and the Swiss Holding association in the consultation procedures on Corporate Tax Reform III (2014) and on Tax Proposal 17 (2017–2018). To be verified. ↩

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