

The end of tax competition as Zug knew it

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

For seventy years, low taxes were the foundation of Zug's business model. The canton attracted holding companies, domiciliary companies, commodity traders and crypto foundations with tax rates well below those of other Swiss cantons and of most other countries. The special cantonal regimes for holding and mixed companies, which Part B described, allowed international groups to book profits in Zug at effective rates that could fall into single digits. When the federal tax reform of 2020 abolished these regimes, the canton responded by reducing its general rate of profit tax, so that the combined effective rate for companies in the city of Zug fell to about 11.8 per cent, one of the lowest in Switzerland.¹

The global minimum tax has changed the terms of competition again. The rules agreed by the Organisation for Economic Co-operation and Development and the G20 require large multinational groups with consolidated revenues of at least 750 million euros to pay an effective tax of at least 15 per cent in every jurisdiction in which they operate. Switzerland implemented the rules through an amendment to the Federal Constitution, approved by the voters in June 2023, and a federal ordinance. Since 1 January 2024, a Swiss supplementary tax has brought the effective rate of large groups in Switzerland to 15 per cent.² The additional revenue flows largely to the cantons, with a quarter going to the Confederation.

For Zug, the minimum tax means that large groups can no longer obtain an effective rate below 15 per cent in the canton. The canton's tax advantage over other locations has narrowed for these groups, which now pay the same minimum rate in Zug as in Ireland, Singapore or the Netherlands, as far as those countries apply the rules. The advantage has not disappeared entirely, since many other countries have higher rates and since smaller companies below the threshold continue to benefit from the canton's low ordinary rate. But the era in which the tax rate alone could decide the location of a multinational group's headquarters has ended.

1 Notes

1. Reichlin Hess, "Corporate Tax Rates and Tax Rates for Individuals for 2024 in the Cantons Zug, Lucerne, Zurich and Schwyz (Update 2024)", 24 May 2024, reichlinhess.ch: combined effective profit tax rate (federal, cantonal, municipal) for the city of Zug 11.8 per cent in 2024. ↩
2. Federal Department of Finance, "Umsetzung der OECD-Mindeststeuer in der Schweiz", efd.admin.ch: constitutional amendment approved on 18 June 2023 with 78.5 per cent Yes; national supplementary tax (QDMTT) from 1 January 2024, international supplementary tax (IIR) from 1 January 2025, UTPR not introduced for the time being; revenue allocated 75 per cent to the cantons and 25 per cent to the Confederation. ↩

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