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NEWSLETTER

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Switzerland's Tax Gifts Abroad

Dear Ladies and Gentlemen,

Switzerland is facing an adverse environment internationally: Due to its business-friendly tax regime, the country is facing heavy criticism from both the USA and the EU. The OECD had originally put Switzerland on a black list, but in the meantime has suspended the entry. A few countries are exploiting this situation and are threatening a re-entry onto this black list.

Compared to other EU countries, Switzerland has a cumulative difference in tax burden of around 10-20 percent on direct taxes (particularly income tax and tax on earnings) and indirect taxes (particularly value added tax), depending on income. The nations surrounding Switzerland, with higher taxes, have been unable to prove that their populations are better off.

The EU has tax havens, for example in Monaco or the Channel Islands, and many countries have special taxation regimes. EU subsidies are exorbitant: There is little difference in governmental intervention in business between EU countries and Switzerland.

Between the USA and Switzerland there is no difference in tax burden when it comes to direct taxes (particularly income tax and tax on earnings). However, high incomes are subject to a significantly lower tax rate than in Europe, thus contradicting the principles of fair taxation in Europe. There is also no difference in tax burden where indirect taxes are concerned, though it is difficult to make a comparison, as the USA has nothing that could be used to compare with value added tax in Europe.

One particular tax haven offered by the USA is Delaware. This state has tax schemes that would make us blush with embarrassment. Regulations covering money laundering are considerably less severe than in Europe and in Switzerland. Again, governmental intervention in commerce is on a comparable level in the USA and Switzerland. The charges levelled by the USA against Switzerland are simply measures aimed at achieving a better positioning of the US economy.

As a reminder: To a large extent, payments made by the Swiss banks within the 1990s framework of long-dormant accounts to the relevant people and families still have not reached their destination.

France / Basel-City

Switzerland and France have signed a mutual taxation agreement that also covers the taxation of the cross-border commuters. It states that the right of taxation is bound to the place of work and follows OECD regulations.

The recently renegotiated double taxation agreement with France has been signed by Federal Councillor Widmer-Schlumpf but has yet to be passed by parliament. As a complete anomaly within this double taxation legislation, any inheritance of landed estate within Switzerland would be subject to French inheritance tax.

The implementation of taxation of cross-border commuters differs from canton to canton: Geneva collects ordinary tax at source from the cross-border commuters, based on ordinary income rate, and remunerates France with 3.5% of the taxable income. Basel-City foregoes taxation, and does not raise any tax at source, but receives a delayed payment of 4.5% of the taxable income. Geneva on the one hand can thus raise taxes of around 20-30% and cede 3.5%, France on the other hand can raise taxes in Basel City between 20% and 70%, whilst ceding just 4.5%.

Basel-City can be seen to fulfil a unique central function in this regard. In relation to the other cantons, the canton of Basel-City is losing out on the tax base to the surrounding boroughs and cantons, since taxation remains with the canton of residence. With a readjustment of the taxation of cross-border commuters Basel-City could, on the basis of the existing double taxation agreement, massively increase tax revenue. On top of that, for high-earners from France, taxation in Switzerland is far more attractive than taxation according to French regulations.

It is not just Basel-City that could profit from a readjustment of the taxation of cross-border commuters; the same applies to the cantons of Basel-Land, Jura, Bern, Neuchâtel, Valais and Vaud regarding workers commuting from France. Similarly, with a large number of workers travelling from Italy, the cantons of Ticino, Valais and Grisons, who are currently sending 40% of their tax revenue to Italy, could increase tax revenue considerably if, for example, the rate were renegotiated,. The same applies for Austria.

Substantial loss of potential income taxation

Deviation from the principles of the OECD tax agreement stating that the right of taxation is bound to the place of work leads to substantial losses of tax base, due to the high number of cross-border commuters. The loss can be reckoned at approximately 0.5% of Gross Domestic Product, somewhere in the region of 3 billion Swiss Francs.

Catalogue of positive payments made by Switzerland

Switzerland has made, and continues to make, considerable payments to the EU Cohesion Fund (several billion francs) and is, for example, financing the rail link from Chiasso to Milan. It would certainly make sense if, during negotiations with other countries, a catalogue of substantial foreign payments made by Switzerland could be brought to the table. As long as Switzerland is better off than other nations, the government will be facing further claims. Just as with the inheritance tax agreement with France, we should not back down immediately. We have good reasons.

Best regards,
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