

Referendum of November 28 : value added tax: fourth start

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Value added tax: fourth start

On November 28, voters will decide whether Switzerland should introduce a new Value Added Tax system. They will also be asked whether they want a total ban on the advertisement of tobacco and alcohol products.

It will be the fourth time that voters will be polled on a value added tax (VAT). The tax system has to be re-defined for constitutional reasons anyway, so the timing for a change of system would be right, although in fact the cabinet was by no means keen to relaunch

Peter Haller

the VAT issue so soon after the last debacle in 1991. However, pressure from parliament pushed the issue into the legislative programme again. While the government may not have been too pleased with the timing, it has basically supported a changeover from the present turnover tax to a VAT system for a long time.

The hapless finance minister, Georges-Andre Chevallaz, launched the first attempt in 1977 and it was promptly rejected in a referendum. Undeterred, a second attempt was made in 1979 – with the same result. The negative result of these two popular votes was largely attributed to the fact that in both cases the VAT issue was clouded by other financial issues which had to be decided

at the same time. The same fate could befall the November referendum, because it confronts voters with no less than four financial questions. The first is the simple change from the turnover tax to VAT. Secondly, the government wants popular approval to raise VAT, from 6.2% which is the present rate for the turnover tax – to 6.5%. Thirdly, the government wants to give parliament the right to raise the VAT rate by up to one percent if necessary to safeguard the financial status of the federal old age and invalidity scheme (AHV/AVS). Any parliamentary decision to increase VAT to feed the pension scheme will be subject to a referendum. Fourthly the government wants to change the present customs duties on motor vehicles and fuel into consumption taxes, in line with international agreements. This change is principally legal and technical in nature and brings no increase in expenditure for consumers.

Revitalising Swiss industry

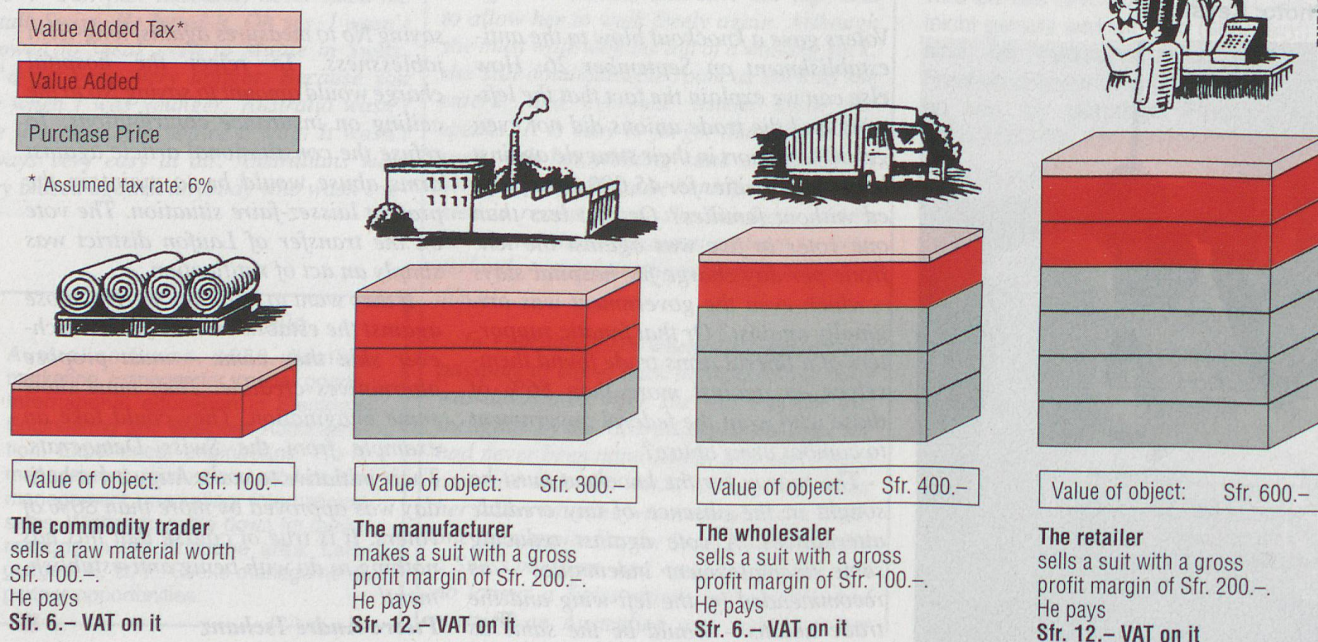
The first and second questions are linked: the precondition for raising the

VAT rate to 6.5% is that the electorate says “yes” to the first question. The cabinet’s main argument in favour of VAT is that it could play a crucial role in revitalising Swiss industry – which is in part in the doldrums thanks to the almost worldwide recession.

The present turnover tax, argues the government, stems from emergency regulations passed during World War II and is no longer up to date. It is levied on consumer goods – apart from food – and it also applies to investment goods such as machinery, buildings, and so on. This multiple taxation at every stage of production is called the “taxe occulte” or shadow tax. It makes Swiss products more expensive and therefore less competitive on world markets. The shadow tax is also regarded as a brake on investment.

As well as making Swiss industry more competitive, the introduction of VAT would bring more stability to the federal finances – especially if the higher rate of 6.5% is approved. The cabinet says VAT is a modern and progressive replacement for the turnover tax because it does not distort competitiveness, and above all, it also taxes services – and energy – which nowadays account for a major part of economic activity. The cabinet estimates that the demise of the turnover tax and thus the taxing of

How Value Added Tax (VAT) works



investments would save Swiss industry 2.6 thousand million Swiss francs annually.

VAT is also seen as the remedy for the federal budgets which are sliding ever deeper into the red – only a few years after a long period in surplus. The cabinet says unless drastic action is taken an annual deficit of 6,000 million Swiss francs has to be expected. It is now clear that the present deficit situation is structural and will not respond to more cuts in expenditure. VAT at 6.2% would increase federal revenue by 900 million francs annually, and a rate of 6.5% would bring in an additional 500 million. Some 500 million francs would be earmarked to subsidise sickness insurance scheme premiums.

Some 220,000 enterprises would be liable to VAT – that is 70,000 more than are subject to the turnover tax. As a result, the federal tax administration would have to recruit 180 more staff to cope with the additional workload.

Swiss taxation is low

In its information campaign the government makes play of the fact that Swiss taxation, as a percentage of gross domestic product, is one of the lowest in the world – beaten only by the USA and Japan. This is to sweeten the pill for the voter who ultimately will have to pay more in tax if VAT is introduced. Items not taxed till now such as electricity, phone calls, railway tickets, and restaurant and hairdressers' bills will all go up by at least the approved VAT rate. However, the experience of other European countries shows that many a retailer will probably just add a round ten percent to his prices, competition allowing. The government calculates that the introduction of VAT would lead to 700 francs additional costs for a household with an income of 66,000 francs per annum.

These are, however, minor details in the propaganda battle: according to newspaper polls the average citizen has countless misconceptions about a new system of taxation. Some think VAT would be levied together with the turnover tax, and others are convinced that VAT would greatly increase the amount of tax they pay.

The situation is not improved by the lack of clear fronts between supporters and opponents. The influential "Vorort" – the federation of Swiss industries – which has the most to gain from the abolition of the shadow tax in the turnover system, is for VAT, but not particularly for a rate of 6.5%.

In contrast, the social democratic finance minister Otto Stich muddled the waters for his cabinet colleagues by saying he would rather have no VAT at all than at a rate of 6.2%. In the interim, the cabinet has jointly agreed to plead for the higher rate of 6.5%

Little ground for optimism?

No very clear position is ascertainable within the Gewerbeverband – the small traders' association which only narrowly approves a change in the taxation system. The hairdressers and hotel and restaurant keepers amongst its members understandably are reticent about giving up their former untaxed situation, while other trade sectors have more to gain. The government has little ground for optimism about the outcome of the vote. The skirmishes over the VAT rate and diversionary tactics from opponents have had little more effect than to confuse the average voter, who normally fights shy of any additional taxation –

Federal referendums

November 28, 1993

- Federal decision on the financial system.
- Federal decision on measures to improve the federal financial situation.
- Federal decision on measures to maintain social security.
- Federal decision on special consumer taxes.
- Popular initiative "to reduce the problem of alcohol".
- Popular initiative "to reduce the problem of tobacco".

February 20, 1994

Subjects not yet decided.

along the lines of the Swiss-German bon mot, which says that only the most stupid calves make their own way to the slaughterhouse...

"Twin initiatives"

The VAT debate has very much overshadowed the other topics to be voted on. The government and parliament are recommending rejection of the twin popular initiatives which seek to impose a total ban on the advertising of alcohol and tobacco. The anti-tobacco advertising initiative also calls for one percent of the tobacco tax to be spent on prevention of tobacco-induced illnesses. The government position is that a total ban is too drastic and would have negative effects for the economy, cultural activities, and also sport.

In addition, doubts are manifested as to the benefits for public health if an advertising ban is passed. The government also makes the point that even if the initiatives were accepted, tobacco and alcohol advertising would continue to be present in foreign publications sold here, and on foreign radio and TV stations. A ban would disadvantage not only domestic producers of alcoholic beverages, it would also hit newspapers and magazines who profit considerably from alcohol and cigarette advertisements. The government and parliament maintain that the negative consequences of an advertising ban outweigh the understandable but disputed alleged positive effects towards lower alcohol and tobacco consumption. They also add that total advertising bans do not fit into



Tobacco and alcohol advertising damages public health, or so said the initiators as they handed in their list of signatures. (Photo: Keystone)

the picture of a modern state with emancipated, critical and well-informed citizens.

The Federal Council also points to preventive legislation already in force – for instance the ban on alcohol and tobacco commercials on Swiss TV and radio, the levy on spirits, beer, and tobacco, plus the ten percent of the alcohol tax which is spent on preventive work by the cantons. In 1992, alcohol and tobacco producers spent 110 million francs on advertising in Switzerland.

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