

A complex tax reform

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Corporate tax reform, a new roads fund and simplified naturalisation for third-generation foreigners – the Swiss people will decide on 12 February.

A complex tax reform

JÜRIG MÜLLER

“Corporate tax reform” sounds neutral and rather dry. It is nevertheless an extremely explosive political issue and brings back bad memories. The referendum on Corporate Tax Reform II in 2008 is seen as “a low point in Swiss democracy”, according to “Der Bund” newspaper. The Federal Council publicly estimated tax shortfalls of around CHF 80 million a year prior to the vote. The government was way out as the actual figure was several times higher. The Federal Supreme Court even had to examine the case and indicated a “gross violation of voting freedom” and “misinformation by suppressing facts”. Some judges even referred to voters being “systematically misled”.

The Corporate Tax Reform III (CTR III), which is now being put to the people, is probably one of the most complex tax reforms in Swiss history. While the content is different, the level of tax shortfalls is now being contested even more fiercely than nine years ago in the referendum campaign owing to the experience with the 2008 proposal. The Swiss Social Democratic Party, other left-wing parties and the trade unions called the referendum against the proposal.

Abolishing tax privileges

All political camps were initially more or less in agreement over this. Privileges criticised internationally as tax dumping were to be abolished. Put simply, profits made by companies abroad were taxed at a lower rate than those generated in Switzerland. The reform aims to get rid of these different tax rates applied by the can-

tons. However, the abolition of the cantonal tax status without replacement would result in a loss of competitiveness for Switzerland. This system would be compensated for by other, internationally accepted measures. Royalties would benefit from tax breaks and expenditure on research and development would be taken into account through an increased allowance. The cantons could also reduce profit tax.

However, Parliament has added several elements to the Federal Council’s proposal, or overloaded it, in the SP’s view. The interest-adjusted profit tax is “an unprecedented scam”, according to SP National Councillor and economics expert Susanne Leutenegger Oberholzer. This would allow notional interest to be booked to so-called excessive equity in the profit and loss statement. The CTR III would lead to “tax reductions based on a scattergun approach” and has nothing to do with the abolition of the special status companies, wrote Leutenegger Oberholzer.

Referendum – playing with fire

François Nordmann, leader of the SP parliamentary group, fought vehemently against the bill in the National Council. It was argued that it would have a devastating effect on public services, increase their cost and result in higher taxes for natural persons. The Greens National Councillor Louis Schelbert also declared it was a “redistribution bill that would cost the public billions”. However, spokespersons for the conservative parliamentary groups presented different lines of argument. Martin

Bäumle, President of the Green Liberals, said that the Corporate Tax Reform III could lead to tax shortfalls but that the deficit without reform would be about ten times higher. The SVP, CVP and FDP talked of a compromise. CVP spokesperson Markus Ritter said that thousands of companies and tens of thousands of jobs were at stake. “Those seeking to defeat the bill through the referendum are playing with fire and it could easily get out of control,” he remarked.

Financial consequences unclear

The proposal’s financial consequences are largely unclear. Nordmann, the leader of the SP parliamentary group, indicated that tax revenues of at least three billion Swiss francs would be lost if CTR III were adopted. The federal treasury alone would lose 1.3 billion Swiss francs. The remaining tax losses would be incurred by the cantons and communes, according to SP estimates. These figures are difficult to calculate as it is still unclear how significantly profit tax rates would fall at cantonal level.

Conservative politicians and the economy have a different take on the situation. They warn of the risk of companies relocating abroad if the bill is rejected. They say the status quo will cease to apply in any event, even if the bill is rejected, as the existing privileges would not be maintained owing to international criticism. The loss of tax revenues could be even higher if companies move away. Economiesuisse, the Swiss Business Federation, maintains: “The companies directly affected alone currently contribute over 5 billion



Anyone seeking to defeat the Corporate Tax Reform through a referendum is "playing with fire", according to Markus Ritter of the CVP. Photo: Keystone

Swiss francs a year to federal government, the cantons and the communes. The tax reform will secure this tax base over the long term. The short-sighted referendum called by the left

jeopardises locational advantages and puts many jobs at risk. The companies subject to special taxation today employ around 150,000 people in Switzerland."

After the railway fund now the roads fund

On 9 February 2014, the Swiss people approved the proposal to fund and expand the railway infrastructure (FERI) with 62 % voting in favour. This means the operation, maintenance and expansion of the railways can be funded uniformly from a new railway infrastructure fund. It is now the turn of the roads on 12 February. A fund solution is also being sought for motorised transport. The Motorways and Agglomerations Fund is intended to secure the long-term funding of the motorways and the federal contributions to transport projects in urban agglomerations.

Swiss roads are often congested and reports of traffic jams are heard ever more frequently on the radio. Some 85 to 90 % of all tailbacks occur on motorways in urban regions. Private motor vehicles have increased over five-fold in Switzerland since

1960, the infrastructure is being pushed to the limit and operating and maintenance costs are soaring. As with the railway infrastructure fund, all existing and new revenues would be fed directly into the Motorways and Agglomerations Fund in future on a ring-fenced basis. In contrast to the current infrastructure fund, the Motorways and Agglomerations Fund would be permanent and therefore enshrined in the Federal Constitution. Thus the Swiss people will also have to vote on it.

The current funding is only sufficient for the increasingly costly maintenance but not for the completion of the motorway network or the elimination of bottlenecks. A funding shortfall of over one billion Swiss francs a year is predicted. The new fund would finance operation, maintenance and the completion of the

motorway network as well as transport projects in urban agglomerations. The mineral oil surtax would be raised from 30 to 34 cents. The Motorways and Agglomerations Fund would enable the investment required to be better planned and financially secured.

Simplified naturalisation

The path to naturalisation is to be made easier for young, third-generation immigrants. While the issue addressed by a parliamentary initiative put forward by the Vaud SP National Councillor Ada Marra was adopted by Parliament, the National Council and Council of States decided on rigorous requirements. There should be no automatic naturalisation in future either. The grandchildren of immigrants should only be granted citizenship after applying. An application would have to be made before the age of 25 and by 35 during a transitional period. Parliament fears that foreigners could avoid compulsory military service through later naturalisation.

At least one grandparent must have been born in Switzerland or have the right of residence, and one parent must have been born in Switzerland, have lived there for 10 years and attended school there for five years. The applicants themselves must in turn have been born in Switzerland and have completed at least five years of mandatory schooling there. The proposal must now be definitively adopted by the Swiss people and cantons because as well as the Swiss Citizenship Act the Federal Constitution will have to be amended.

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