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Brussels and Berne lock horns over taxation

SWITZERLAND EXERTS A MAGNETIC INFLUENCE on rich individuals and powerful companies. According to a survey by the State Secretariat for Economic Affairs (SECO), no fewer than 500 foreign firms a year settle in Switzerland, including household names like Google, Ebay, Kraft Foods and Albany. They are attracted by not only the low corporation taxes levied in Switzerland but also the excellent infrastructure and good supply of qualified personnel. Together these companies pay CHF 3 billion a year in taxes into state coffers. Countless multimillionaires and billionaires also want to come and live in Switzerland and thus benefit from flat-rate taxation.

French singer Johnny Hallyday recently created quite a stir in his native country, where his fiscally-motivated move to Gstaad was seen as a betrayal of his homeland. The ageing rock star is in good company. English pop star James Blunt and many other showbiz personalities also officially live in Switzerland. A Greek shipping magnate is building a chalet in Gstaad for CHF 100 million, while other billionaires invest a stately CHF 20, 30 or 40 million in their luxury alpine accommodation. The boom may be good for the local building industry, but it's bad news for the locals, who can hardly afford flats in Verbier, St. Moritz and Gstaad any more. Restaurant employees, for example, can't possibly pay CHF 2500 a month for a small, two-and-a-half room flat, so they have no choice but to leave the luxury resorts and move into the valleys. And the wealth gap between the well off and those on more modest incomes is growing ever wider.

The unseemly rivalry between the cantons over rich taxpayers doesn't only ruffle the feathers of eurocrats in Brussels; it also annoys many Swiss people. Sixty-six percent of those polled in a representative online survey by Perspektive Schweiz wanted the cantons to be prevented from competing for people earning more than CHF 300,000.

The European Commission is particularly unhappy with the tax breaks used to lure foreign holding and other companies to Switzerland. The EU claims that such fiscal practices distort competition and contravene the free trade agreement signed by Switzerland and the EU in 1972. The European Commission thinks that tax privileges of this kind constitute a breach of the spirit of the bilateral relations between Switzerland and the EU.

Heinz Eckert

Switzerland has reacted to the allegations with unusual vehemence, categorically rejecting negotiations on the issue, and reminding its critics that it is free to set its own fiscal policies. Indeed, Finance Minister Hans-Rudolf Merz argues against making any concessions whatsoever to the EU since this would erode Swiss sovereignty. Merz says there is no room for manoeuvre on the matter and points to the sometimes substantial differences in taxation in the various EU Member States. This has prompted Economiesuisse and all the popular parties in Switzerland to condemn the demands from Brussels as legally untenable, economically and financially damaging, and politically incorrect, while nearly all the media have rallied round the federal councillor, urging him to remain firm and unyielding in the face of pressure from the EU. An editorial in NZZ newspaper bore the headline "EU acts in bad taste". The tax row has therefore created a rare show of solidarity in Switzerland and cost the EU much of the sympathy it enjoyed in many quarters.

So are Switzerland and the EU heading for their first major spat? Only time will tell what moves the two sides will make given their differing interests. After all, the issue is about not only a lot of money, but also the sovereignty of the cantons themselves.

HEINZ ECKERT, EDITOR-IN-CHIEF

Regional news

Irrepressible: Ferdy Kübler

Cover photo: "Swissness" is cool: Among the sea of flags outside the UN offices in Geneva. Photo: Keystone

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