Tax policy deep in the mire

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Three proposals were put to the vote on 12 February.
The rejection of Corporate Tax Reform III puts Switzerland in an awkward position.
Simplified naturalisation and the Motorways and Agglomerations Fund were approved.

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Three proposals were put to the vote, but really it was only the Corporate Tax Reform III that was contentious, and for that reason, all the more so. Those on the left dubbed the bill a "tax swindle" that would leave the cantons and communes facing tax shortfalls running into the billions, result in public service cutbacks and bleed the middle classes dry. Conservative supporters, on the other hand, warned of damage costing billions in the event of rejection. Large companies could leave Switzerland if tax privileges were abolished without offering any alternative measures. The proposal would only cause tax shortfalls in the short term but would produce higher revenues over the long haul, they said. If Switzerland continued to offer attractive tax rates, companies would continue to invest and new companies would also relocate to Switzerland.

The tax reform was required because some privileges for large companies are no longer internationally acceptable. New tax allowances were to be introduced by way of recompense for such companies. However, the Swiss Social Democratic Party (SP) believed that Parliament had unnecessarily included additional forms of tax relief in the Federal Council's original bill, which is why it called the referendum.

The former Finance Minister Eveline Widmer-Schlumpf, effectively the architect of Corporate Tax Reform III, pictured at a meeting of BDP delegates, voiced criticism of the tax bill three weeks before the referendum. Photo: Keystone

Powerful dynamic during the referendum campaign

The left emerged victorious from the bitter struggle. The bill was defeated by a surprisingly clear margin, with 59.1% opposed. This was surprising because only the SP, the Greens and the trade unions had originally opposed Corporate Tax Reform III. It had received the backing of all the other political parties, the Federal Council, practically all the cantons and the major business federations. However, a dynamic that played into the hands of the left emerged during the course of the referendum campaign: large cities also joined the no camp.

A possibly decisive thunderbolt came around three weeks before the referendum from an unexpected source. Former Federal Councillor Eveline Widmer-Schlumpf, the architect of Corporate Tax Reform III to a certain extent as the former Finance Minister, revealed her dissatisfaction with the bill in an interview. The tax package had been overloaded by Parliament, making it imbalanced, declared the Swiss Conservative Democratic Party (BDP) politician, who is highly regarded by the Swiss public. A few other conservative figures also put their heads above the parapet and criticised the bill.

Mistrust of the proposal was evident amongst the grass roots of all the parties, but the left was the clear victor in the referendum battle. SP Party President Christian Levrat remarked that the result was a "clear signal from the people" of their dissatisfaction with the "lust for power and arrogance of the conservatives". They were no longer willing to compromise after the election victory of the SVP and FDP in 2015.

Maurer's second major setback

The conservatives lost what was probably the most significant referendum of the current legislative period. It was also a painful personal defeat for Finance Minister Ueli Maurer. The SVP Federal Councillor had previously experienced a crash landing as the Defence Minister after the referendum on purchasing the Gripen fighter jet and now suffered a major setback for the second time over a key bill with Corporate Tax Reform III. Switzerland also faces a problem as it now requires more time to bring its corporate tax laws into line with international requirements.

The spectre of new OECD and EU blacklists is already appearing on the horizon – if Switzerland were placed on such a list, it would face the threat of huge economic turmoil. Hans-Ulrich Bigler, FDP National Councillor and Director of the Swiss Trade Association (SGV), spoke of dangerous legal uncertainty for companies on the evening of the referendum. Heinz Karrer, CEO of Economiesuisse, even feared an exodus of companies and Federal Councillor Maurer said that the result was "not a good sign for Switzerland as a business location. Switzerland will become less attractive."

However, there is one point on which all political players agree. Action now needs to be taken quickly if Switzerland is to avoid massive international pressure. Above all, Federal Councillor Maurer of all people now has to step up to the mark. He has to formulate a bill under enormous time pressure that is acceptable to all political parties, the cantons, the business community, the EU and the OECD, not to mention the Swiss people. The Federal Council's original bill can be used as a basis.

The new corporate tax reform must make the tax burden on companies competitive but at the same time also ensure solid reciprocal funding. The left-wing parties firmly believe that taxation of dividends has to increase and that a capital gains tax must be introduced. To what extent these demands will be acceptable to the business community and the conservative parties remains to be seen. The only certainty is a renewal of fierce debate which cannot be allowed to get out of hand time-wise.

Surprise result on simplified naturalisation

The second surprise on referendum Sunday was the overwhelming support for the bill on simplified naturalisation, where 60.4 % voted in favour. This will now benefit third-generation foreigners, in other words the generation whose grandparents emigrated to Switzerland. These foreign nationals are effectively Swiss without holding a Swiss passport. However, they still have to meet a whole raft of criteria even after acceptance of the bill. The fact that the proposal has now been approved after three similar attempts in 1983, 1994 and 2004 was far from a matter of course in times of fears over immigration. The outcome illustrates that the Swiss people can judge immigration policy issues in a very discerning way. The campaign run by SVP circles, which was not based on facts and which used a Burka poster to stir up animosity against foreigners who have lived in Switzerland for decades, proved ineffective.

The third proposal, on the Motorways and Agglomerations Fund, also surmounted the referendum hurdle comfortably with 62 % in favour. The operation, maintenance and construction of motorways and transport projects in agglomerations will now be financed by one fund. The opposition made up of left-wing parties and environmental associations had little hope of succeeding. They contended that there would be a surge in construction in view of the fact that there would be a billion Swiss francs more available for roads under the new fund while the federal coffers would lack resources. The arguments of those in favour that the road transport network had long since reached its limits and bottlenecks had to be eliminated were met with approval. The Swiss electorate voted in favour of the Railway Infrastructure Fund three years ago. The approval of the Motorways and Agglomerations Fund can be seen as a firm commitment by the Swiss people to a good transport infrastructure for roads as well.

Referendum results of 12 February 2017

Corporate Tax Reform III

Simplified naturalisation

Motorways and Agglomerations Fund