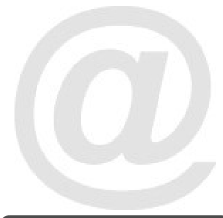

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Swiss Seek New Tax Allure as Vote Tarnishes Pro-Business Image

Politics

Bloomberg

(Bloomberg) -- Switzerland needs to burnish its appeal to multinationals by presenting a simplified plan to lower corporate tax rates after voters rejected proposals they feared would squeeze public services and shift the fiscal burden onto individuals.

Voters rejected the reform package by 59 percent to 41 percent on Sunday following more than a decade of pressure on Switzerland from the European Union to scrap tax breaks for multinationals.

The Swiss government, which warned rejecting tax reform would drive foreign companies away, has yet to present a Plan B. Lawmakers need to plug that gap by discarding the fiscal concessions that alienated voters and focus on the core objective of aligning tax rates for local companies and multinationals at a competitive level, said Thierry Boitelle, a lawyer at Bonnard Lawson in Geneva.

“We need to act really quickly to avoid more damage to the Swiss pro-business image,” said Boitelle. “They need to remind themselves that these companies didn’t come to Geneva and Vaud for the quality of life. They came for the tax benefits.”

Cantons such as Geneva, Vaud and Basel have proposed cutting their headline tax rates after Switzerland bowed to EU pressure to adopt international standards and scrap preferential fiscal regimes that attracted thousands of multinationals. Geneva plans to lower its corporate tax rate to 13.49 percent from 24.2 percent, but is relying on federal funds to plug part of its 440 million-franc ($440 million) revenue gap.

Tax Competition

Provisions such as the notional interest deduction, which were inserted late into the tax-reform package and attracted strong opposition because of its potential impact on cantonal revenues, will probably be discarded.

“I’d expect the various measures to be watered down, possibly the notional interest rate reduction will be scrapped,” said Andreas Staubli, managing partner at PricewaterhouseCoopers AG in Zurich.

Another provision, the patent box, which allows tax discounts for drug-makers and other companies deriving income from patents, will also come under scrutiny, said Boitelle. Lawmakers should aim to formulate a new reform proposal by the spring to end uncertainty for businesses, he said.

“All factions of the Swiss political spectrum realize we need to move quickly,” he said.

OECD Crackdown

Switzerland has committed to replace the existing tax breaks by the end of 2018 as the Organization for Economic Cooperation and Development cracks down on such loopholes. While the country is under no immediate threat from being blacklisted, there is “a little bit of pressure” to dismantle its existing regime in two years’ time, Pascal Saint-Amans, director of the OECD’s Centre for Tax Policy and Administration, told newspaper Le Temps.

For the moment, the Swiss commodity trading industry, which accounts for 3.8 percent of the economy and

about 35,000 jobs, remains sanguine.

“We still expect a compromise text to be adopted by 2019 as companies need legal and fiscal security,” said Stephane Graber, secretary general of the Swiss Trading and Shipping Association, which represents about 190 commodity traders, shippers and financiers in Geneva, Zug and Lugano.

The rejection of the reform comes as increased tax competition looms following the U.K.’s Brexit vote and pledges by Donald Trump to lower corporate rates in the U.S.

“Even with the best tax reform you have, perhaps U.S. companies won’t have reason to stay or come to Switzerland,” said Denis Berdoz, a partner at Baker & McKenzie in Geneva, who specializes in tax and corporate law. “And we still must expect a reduction in the corporate rate in the U.K.”

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