alliance sud
Swiss Alliance of Development Organisations
Swissaid · Catholic Lenten Fund · Bread for all
Helvetas · Caritas · Interchurch Aid

Tax proposal 17: Forward to the past

How multinational corporations are able to shift their profits to Switzerland in order to avoid taxes even with the current corporate tax reform.

Tax Transparency Project

Bern, 11th September 2018

1. Introduction

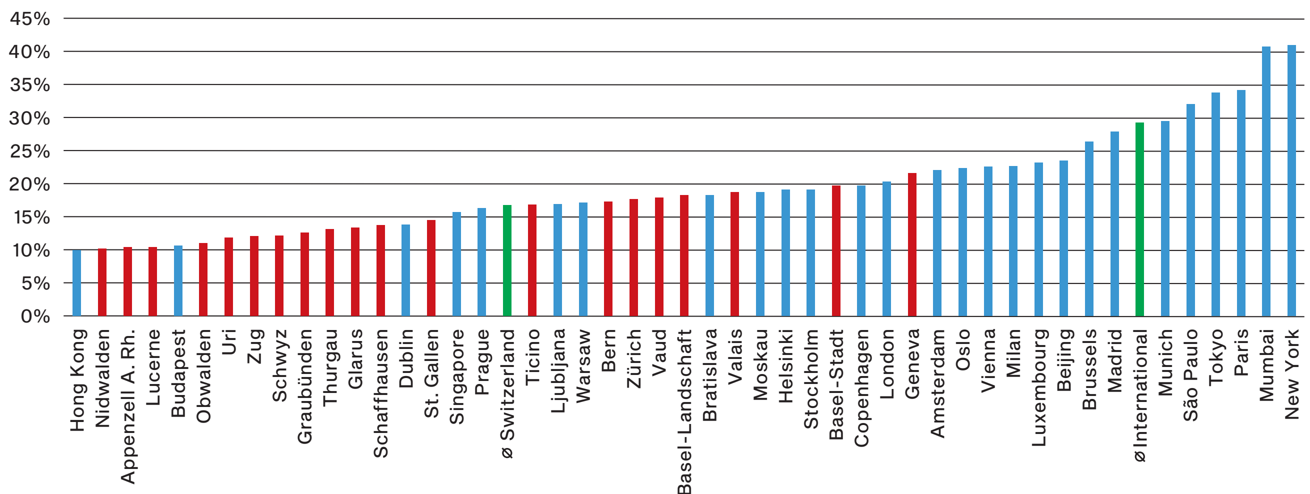
This Alliance Sud study sheds light on the operation of two corporate tax avoidance mechanisms that have been preserved under Tax Proposal 17 (TP17). They both relate to the "Swiss finance branch" and the participation tax deduction. These largely unknown "instruments" are highly problematic from a development policy standpoint.

To comply with the Base Erosion and Profit-Shifting (BEPS) rules issued by the OECD, Switzerland must eliminate all the special tax regimes for special status companies by the end of 2018 at the latest. Yet the "instruments" envisaged under TP17 are such that the countries from which profits are being shifted to Switzerland will continue to lack the funds they need to build schools, hospitals or transport infrastructure. The world's poorest will have to suffer from tax revenue losses being made possible by Switzerland.

The Basel-based independent Swiss economic research institute BAK Economics AG (BAK) publishes an annual ranking of regions with the world's lowest corporate taxes. No other country offers multinational corporations so many locations with such low effective corporate tax rates as Switzerland.[1]

1 "Effective tax rates" are the actual tax amounts from the "taxable income" (i.e. the actually taxable profit shares) of companies.

Effective average tax burden for 2017 in cantonal capitals, compared to other countries
(as % of profit)



Source: SGB presentation, ZEW/BAK Basel data

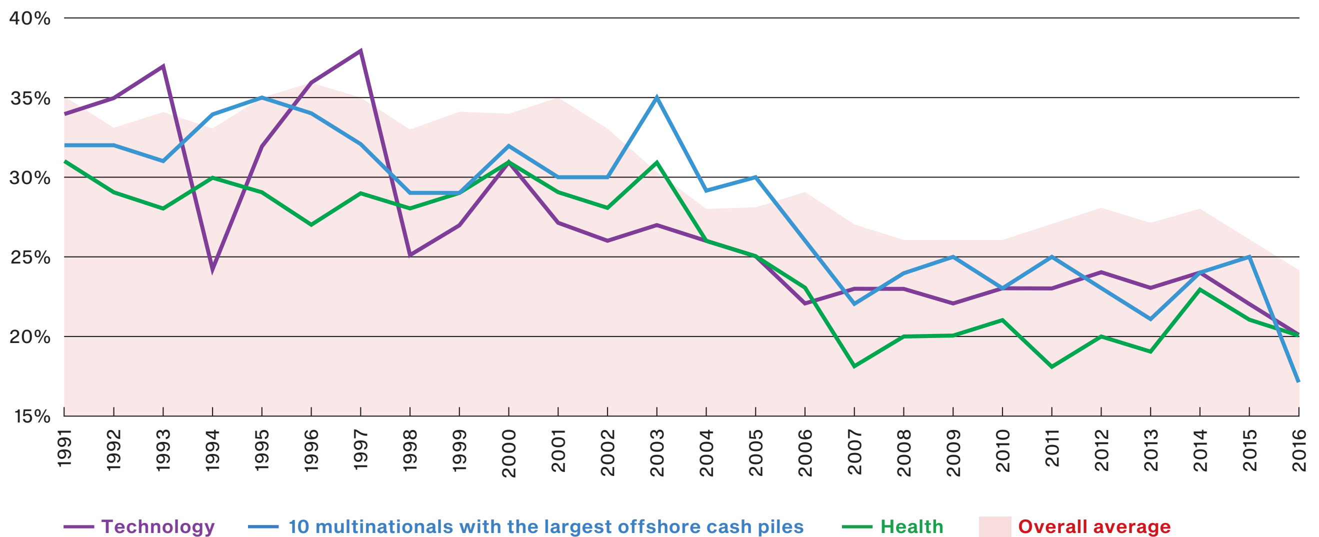
Every single day in our country, the Swiss corporate tax dumping strategy is being instrumental in eroding other countries' levels of tax revenues. This benefits corporations and their shareholders first and foremost. The price is being paid by people in the countries of the South. According to International Monetary Fund (IMF) calculations, developing countries are losing some US$200 billion annually in potential tax receipts owing to tax avoidance by multinational corporations.[2] This is about six times the gross domestic product of the East African country of Kenya and its roughly 50 million inhabitants.

2 Crivelli/de Mooij/Keen: Base Erosion, Profit Shifting and Developing Countries. IMF Working Paper, Washington 2015. https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Base-Erosion-Profit-Shifting-and-Developing-Countries-42973

2. Profit shifting by multinational corporations

2.1. How the downward spiral in corporate taxes works

Companies are paying lower taxes
Effective corporate tax rates for selected sectors (in %)



Source: Financial Times, S&P Capital IQ

Prevailing international tax law has one central weakness, namely the "arm's length principle". It is based on the fact that multinationals are not taxed as one global unit. Instead, each component unit of the group is taxable in the country in which it is located. Countless financial transactions take place every day between these units comprising one and the same corporation, covering services, tangible goods, intangible goods (such as brand names, patents or licenses), participation rights or loans. As there is no real market for such intra-group trade – taking place within one and the same corporation – other price-setting mechanisms are needed. The arm's length principle was developed for this purpose: it stipulates that companies must charge market-neutral prices for internal goods and services transactions, that is to say, prices in line with those that would be paid in trade between independent companies. The problem is that 60 to 80% of world trade currently takes place within corporations and not between independent third parties. Therefore, in many areas of international trade, there is no functioning market between independent third parties which, under the arm's length principle, would act as a benchmark for the setting of intra-group transfer prices. This situation leaves transnational corporations a relatively free hand in setting their own prices for internally traded goods and services; indeed, this is done such that the bulk of their

worldwide profits is transferred to countries with the most favourable taxes by charging deliberately inflated internal prices. In this way, profits are not taxed where they are generated but where the lowest taxes are levied.

2.2. Accounting profits only

In his study entitled "The Missing Profits of Nations", Californian economist and Picketty scholar Gabriel Zucman shows that the conventional doctrine on the working of tax competition is misleading:

> "It is apparent to many observers that the textbook model of tax competition doesn't capture the behavior of today's largest multinational companies well. These firms don't seem to move much tangible capital to low-tax places – they don't even have much tangible capital to start with. Instead, they avoid taxes by shifting accounting profits." [3]

This means that corporate tax competition is not competition for corporations that set up business in a particular place to produce something tangible, create jobs and generate real added value. For corporate manufacturing facilities, other location-related factors are much more crucial than a particular corporate taxation level. [4] Tax competition therefore does not revolve around regular profit tax rates, as these are significant mostly for manufacturing companies. Low taxes are much more critical to the location of those corporate entities operating within a transnational corporate structure, for example, as finance, consulting, participation, patent or marketing companies. Special tax regimes and deduction possibilities therefore also bear substantial responsibility for the downward spiral of corporate taxes that we have been witnessing for the past 40 years.

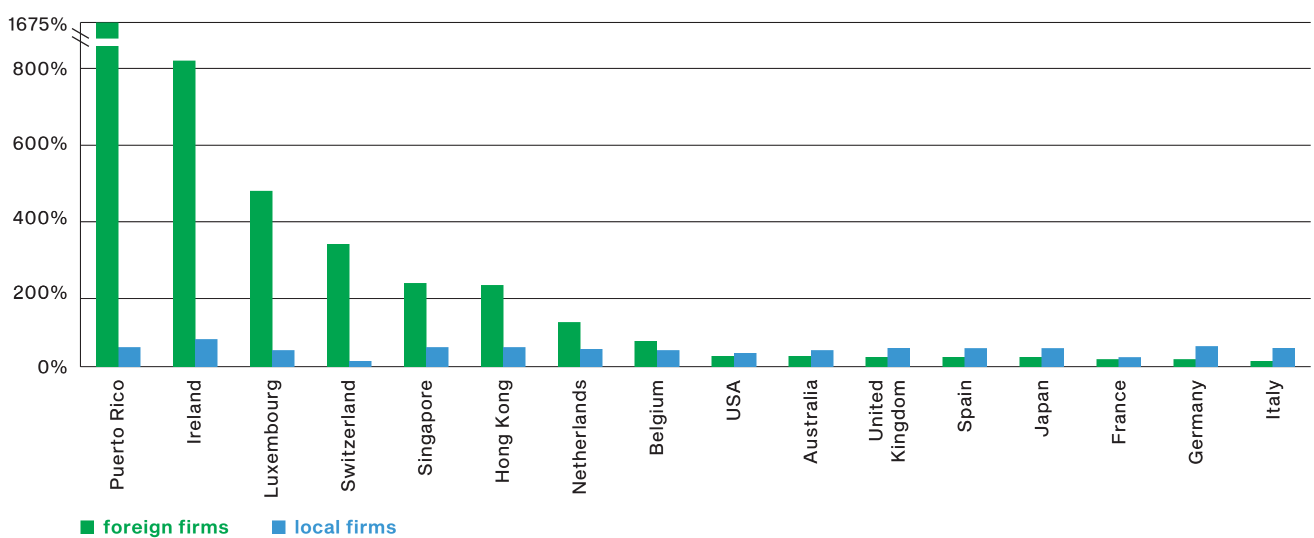
3 Toersloev, Wier, Zucman: The Missing Profits of Nations, Copenhagen/Berkely, 2018, p. 1.

4 The Global Competitiveness Index 2017/2018 published by the World Economic Forum (WEF) shows a breakdown of the location factors that are important to corporations. In Switzerland these are the excellent healthcare facilities and education system first and foremost. In other words, infrastructure that is itself funded largely from tax receipts.

2.3. Switzerland: High profits with no substance

As Gabriel Zucman has pointed out, by comparison with their exorbitantly high profits, these component units of foreign companies in Switzerland usually report a surprisingly low wage bill for their personnel. This raises suspicion that these appreciable profits were not generated in Switzerland by the corresponding staff complement (non-existent in these cases), but were shifted to Switzerland as accounting profits.

Foreign company profits in Switzerland are disproportionate to wage bills
Pre-tax corporate profits in relation to their wage bills



Source: Toersloev, Wier, Zucman: The Missing Profits of Nations, Copenhagen/Berkely, 2018

2.4. Tax assessment base decisive

> "Low tax rates are good, but advantageous tax assessment bases are even better."
>
> Aargau Services Economic Promotion

The reason for the sometimes extremely low taxes payable by branches of multinational corporations in Switzerland is that corporations are required to pay taxes only on a negligible share of profits.

With the new deduction possibilities under TP17 such as the patent box, interest-adjusted profit tax or deductions for research and development, these very tax assessment bases are being kept low. These planned deductions are now to apply also to profits based on value creation in Switzerland. Hence, the new regime will lead to additional tax losses.[5] The cantons are therefore assuring corporations that under TP17, taxation will remain just about as low as under the old regimes.

Effective tax rates of companies with special tax status

Type of company	Approximate effective tax rate
Holding company	7,8%
Mixed company	8,5 – 10,5%
License box (canton of Nidwalden)	8,8%
Finance company / Finance Branch	1,5%
Principal company	5,0 – 8,0%
Captive insurance company	8,5 – 10,5% on minimum profits

Source: KPMG

Special status companies, namely holding companies, domiciliary, principal and mixed companies as well as "Swiss finance branches" garnered average annual profits of 56 billion francs in the years 2012 to 2014 for corporations with the relevant constructs in Switzerland. These were taxed at an average effective rate of 10%. This is very low compared to other countries. BAK figures show that only Hong Kong has a comparable track record (*see page 2*). What is immediately striking is that the figures calculated by the auditing, tax advice, and corporate or management consulting firm KPMG for business location Switzerland are even lower. The difference between the Confederation's figures and the KPMG calculations can be partly explained by the fact that the Confederation's figures also include mixed companies in chemical and pharmaceutical location Basel. At all events, it is clear that replacing the old special privileges with new ones is no lasting solution for the Swiss fiscal authorities and ultimately leads to further tax revenue losses. A paradigm shift in Swiss corporate tax policy is therefore not only in the interests of countries in the South but also of Switzerland itself.

5 So far, special status companies have contributed 4.3 billion francs to overall federal tax receipts. This 4.3 billion in tax revenues corresponds to 7.6% of overall profits generated by special status companies between 2012 and 2014. In cantons and communes where special status companies are domiciled, they generated tax revenues of 2.09 billion, or 1.73 billion francs, excluding the federal share of 17%. For the years 2012 to 2014 therefore, special status companies paid a total of 6.03 billion francs at all three levels of the State. See https://www.newsd.admin.ch/newsd/message/attachments/51751.pdf

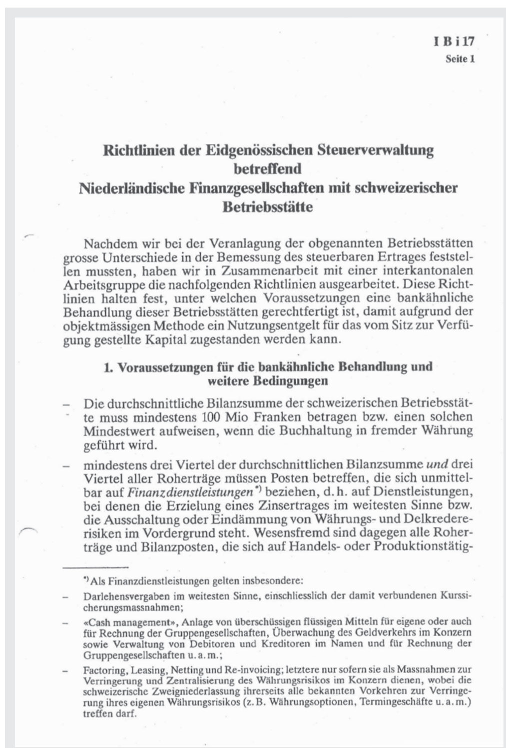
3. No legal basis: Swiss finance branch

1.1.2.3 Swiss finance branch

The Swiss finance branch is yet another peculiarity. Here, the finance company headquartered abroad is paid a user fee for the capital made available to the Swiss branch office. This treatment is based on an unpublicized practice by the FTA and cantonal tax authorities. It amounts to an effective profit tax rate of about 2-3%.

Source: Explanatory report by the Federal Council on the proposals submitted for expert consultation concerning the federal act on tax measures to strengthen the competitiveness of business location Switzerland (Corporate Tax Reform Act III), September 2014.

A 1991 Federal Tax Administration circular, long kept under lock and key and now available to Alliance Sud, was instrumental in making Switzerland the internationally preferred location for intra-group banks. Initially it applied exclusively to Dutch finance companies but was then extended to all such companies. Under TP17, the legal status of these finance companies is expected to be upgraded.



I B i 17
Seite 1

Richtlinien der Eidgenössischen Steuerverwaltung betreffend Niederländische Finanzgesellschaften mit schweizerischer Betriebsstätte

Nachdem wir bei der Veranlagung der obgenannten Betriebsstätten grosse Unterschiede in der Bemessung des steuerbaren Ertrages feststellen mussten, haben wir in Zusammenarbeit mit einer interkantonalen Arbeitsgruppe die nachfolgenden Richtlinien ausgearbeitet. Diese Richtlinien halten fest, unter welchen Voraussetzungen eine bankähnliche Behandlung dieser Betriebsstätten gerechtfertigt ist, damit aufgrund der objektmässigen Methode ein Nutzungsentgelt für das vom Sitz zur Verfügung gestellte Kapital zugestanden werden kann.

1. Voraussetzungen für die bankähnliche Behandlung und weitere Bedingungen

– Die durchschnittliche Bilanzsumme der schweizerischen Betriebsstätte muss mindestens 100 Mio Franken betragen bzw. einen solchen Mindestwert aufweisen, wenn die Buchhaltung in fremder Währung geführt wird.

– mindestens drei Viertel der durchschnittlichen Bilanzsumme *und* drei Viertel aller Roherträge müssen Posten betreffen, die sich unmittelbar auf *Finanzdienstleistungen* *) beziehen, d. h. auf Dienstleistungen, bei denen die Erzielung eines Zinsertrages im weitesten Sinne bzw. die Ausschaltung oder Eindämmung von Währungs- und Delkredererisiken im Vordergrund steht. Wesensfremd sind dagegen alle Roherträge und Bilanzposten, die sich auf Handels- oder Produktionstätig-

*) Als Finanzdienstleistungen gelten insbesondere:

– Darlehensvergaben im weitesten Sinne, einschliesslich der damit verbundenen Kurssicherungsmassnahmen;

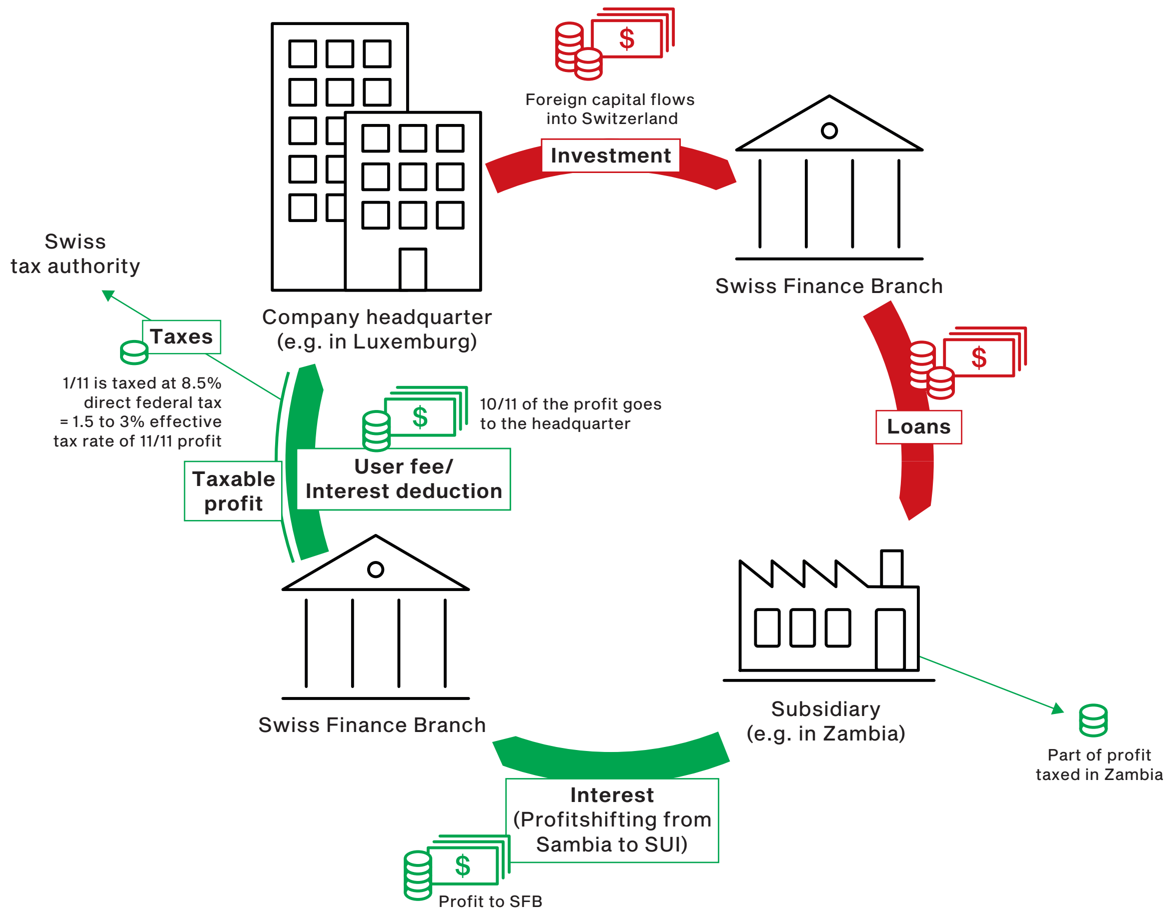
– «Cash management», Anlage von überschüssigen flüssigen Mitteln für eigene oder auch für Rechnung der Gruppengesellschaften, Überwachung des Geldverkehrs im Konzern sowie Verwaltung von Debitoren und Kreditoren im Namen und für Rechnung der Gruppengesellschaften u. a. m.;

– Factoring, Leasing, Netting und Re-invoicing; letztere nur sofern sie als Massnahmen zur Verringerung und Zentralisierung des Währungsrisikos im Konzern dienen, wobei die schweizerische Zweigniederlassung ihrerseits alle bekannten Vorkehren zur Verringerung ihres eigenen Währungsrisikos (z. B. Währungsoptionen, Termingeschäfte u. a. m.) treffen darf.

Source: Pestalozzi Rechtsanwälte (ed.): Richtlinien der Eidgenössischen Steuerverwaltung betreffend niederländische Finanzgesellschaften mit schweizerischer Betriebsstätte, [Swiss Federal Tax Administration Guidelines on Dutch financial companies with a Swiss branch office] in: Rechtsbuch der schweizerischen Bundessteuern. [Compendium of Swiss tax laws]. Sammlung der eidgenössischen Steuergesetzgebung, [Collection of Swiss federal tax laws] Vol. 5, January 2010.

Through Swiss finance branches, multinational corporations operate their own banks in Switzerland and benefit from extremely low effective tax rates. They grant loans to their subsidiaries, which sometimes transfer to Switzerland sums representing high interest payments. Profit is shifted to Switzerland in this way. But profits are taxed at only a fraction of the normal tax rate in Switzerland, as intra-group Swiss finance branches can deduct a (notional) user fee from their profits. The taxable profit of a finance branch is often a mere 10% of its net profit, which according to KPMG can cut its effective tax rate down to as little as 1.5%.The Swiss tax authorities have been flexible in the face of changing constructs and have departed from the basic principle of their 1991 guidelines whereby this vehicle would apply only to Swiss finance establishments with a Dutch finance company as parent company. The justification now offered by the Federal Tax Administration (FTA) is that "the principle of equality before the law must be applied in practice to all finance branches of foreign companies." In the roughly three decades, the Swiss finance branch has become a preferred tax optimization vehicle for finance companies with headquarters in various European countries. The FTA is unable to say how many corporate finance companies throughout Switzerland are taxed as such. Nevertheless, Anton Pestalozzi, economist, tax expert and former partner of the leading Zurich-based corporate law firm Pestalozzi Rechtsanwälte AG (up to February 2010: Pestalozzi Lachenal Patry), wrote the following in 2008 in "Schweizer Treuhänder": "In reality it is only finance branch taxation that is internationally competitive." Most other tax disadvantages could be avoided by means of a finance branch, and taxation would be very low because of a notional interest deduction (in other words the user fee), Pestalozzi wrote.

Swiss Finance Branch – the intra-group bank
The loser is the revenue department: in Zambia, in Luxembourg and in Switzerland



Source: Alliance Sud

The notional interest deduction from the Swiss finance branch should now be converted into the interest-adjusted profit tax under TP17 – above all if it were left up to the Canton of Zürich. The interest-adjusted profit tax would allow for an interest deduction from surplus equity capital.[6] This would mean continuing the practice of reducing the tax assessment base through a notional interest deduction.

Profit shifting to a Swiss finance branch is highly attractive to multinational corporations above all to subsidiaries that generate added value in "high tax" jurisdictions. This designates countries which, on the one hand, have a comparatively high profit tax rate and on the other, a high interest rate level. These are features that often typify developing-country economies. Country subsidiaries that chronically generate low profits can also find good arguments for constantly pressuring their employees' wages. Profit shifting corporations can also keep down their local wage bill even when the subsidiary concerned is operating successfully. This in turn is detrimental to private consumption in the countries concerned and by extension, to economic development as well.

6 See Council of States synoptic chart on Tax Proposal 17, p. 32, Art. 25 abis "Deduction for self-financing"

4. The participation deduction as a mechanism for double non-taxation[7]

"Schaffhausen aims to cap total corporate tax liability at 12 percent, which will place it among the top business locations globally."

Tax Guide Canton of Schaffhausen

The function of the participation deduction is basically to avoid double taxation of the same profit in two countries. The participation deduction can be made when a corporation in country A makes a profit, which is taxed there, and then pays a dividend in country B. When a profit abroad is duly taxed, the corresponding company dividend in Switzerland is tax-free.

Yet there are two possible ways of bringing about double non-taxation with the help of a participation deduction. First, the participation deduction can be used for "profit laundering" as part of a three-tier offshore construct. Second, corporations can exploit inconsistent definitions in the respective national laws on dividends to achieve double non-taxation on profits in one country and dividends paid out from those profits in another country. Next we will describe these two methods.

Participation deduction as "profit laundering"

The head office of corporation X is located in Bermuda. Corporation X, however is really an American company. The latter shifts profits to Bermuda, where there is no corporation tax. However the dividends on the profits are not paid out directly to the company in the USA (where they would be taxed), but instead find their way as company dividends into a participation company in a Swiss canton where, by reason of the participation deduction, no taxes are levied on the dividends either. Under the double taxation agreement with the USA, the finance company's earnings (dividends) then go back to the USA.

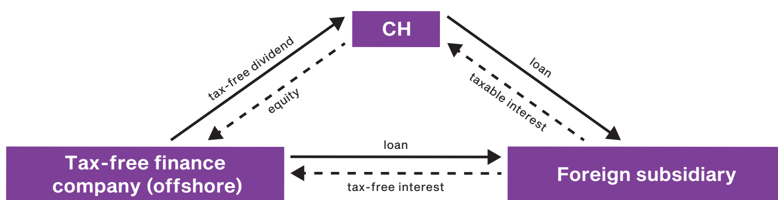
The literature contains numerous examples of this structure.[8]

7 The participation deduction is enshrined in Article 28 (1) of the Tax Harmonization Act (Art. 28 (1) StHG) and in Articles 69 and 70 of the Direct Federal Taxation Act (DFTA). Unlike the remainder of Article 28 StHG, in which the holding privilege is enshrined, it has not been deleted under Tax Proposal 17

8 See Robin Amos, Book Review on Nigel Feetham, Tax Arbitrage: «An example is where a branch of a Swiss (say reinsurance) company is set up in a zero tax jurisdiction such as Bermuda, with all reinsurance business written by the branch. In this scenario, the effective rate of tax can be zero, and yet the company can avail itself of Swiss double tax treaty arrangements with the USA and other countries. Both countries take a different view of taxation and the profits are not taxed in either.»

"Profit laundering"

How profits disappear through dividend payments



Source: Pierre-Olivier Gehriger: Holding- und Finanzgesellschaften als Instrumente der internationalen Steuerplanung, in: Archiv für Schweizerisches Abgabenrecht (ASA), Nr.71, 8/2003.

Contradictions in the international definition of a dividend

Depending on the true purpose of the participation deduction, only proceeds from previously taxed dividends should qualify for this deduction. It thus serves to avoid double taxation and is not suspected of being misused for profit shifting and or tax avoidance. However, to cite Marjaana Helminen, Professor of international and comparative tax law at Helsinki University, the participation deduction does not serve only as a means of avoiding double taxation, but also embodies the risk of double non-taxation. This can occur when a corporation exploits the differences in the definition of a dividend between the individual states in which it is present in order to secure double non-taxation with the help of a participation deduction. Helminen writes:

> "Dividend is a term that has equivalents in different legal systems and languages. (...) An item of income may be taxed as a dividend in the state from which the income is paid, that is, in the source state, and not as a dividend but as some other kind of income in the state where the income is received, or vice versa. This inconsistency may lead to unintended taxation consequences."[9]

Whereas in the country where the profit is generated, a part of that profit is taxed as a dividend to the shareholder – which may be a natural person or a legal entity – in another State, i.e., to which the income flows in the form of a dividend, it may be

9 Marjaana Helminen: The International Tax Law Concept of Dividend, Ah Alphen aan den Rijn 2017, p. 9.

booked as another type of income. These inconsistencies can lead either to over-taxation or under-taxation in the case of transnational corporations:

> "Different terms and inconsistent definitions of the same terms under two or more legal systems may unintentionally lead to both juridical international double taxation and economic international double taxation or to non-taxation." [10]

Helminen further states that it is also possible in this context that a particular concept in a double taxation agreement between two States may mean different things in the domestic legal systems of either State. This creates considerable leeway for conflicts and interpretations, which can be exploited by corporations either for tax avoidance or to shift profits to locations where they will be taxed at a lower rate:

10 Ibid., p. 9.

> "It is also possible that taxpayers purposely avoid tax by taking advantage of the differences in the definitions. Alternatively, taxing authorities may intentionally seek to reach interpretations that bring tax revenues to the state in question." [11]

Therefore, once the Swiss tax authorities wrongly assume that participation income that qualifies for the participation deduction has already been taxed in the other State as company dividends, double non-taxation becomes possible through the participation deduction. This can occur, for example, when the legal scope of the word "dividend" is not the same in two different domestic legal systems.

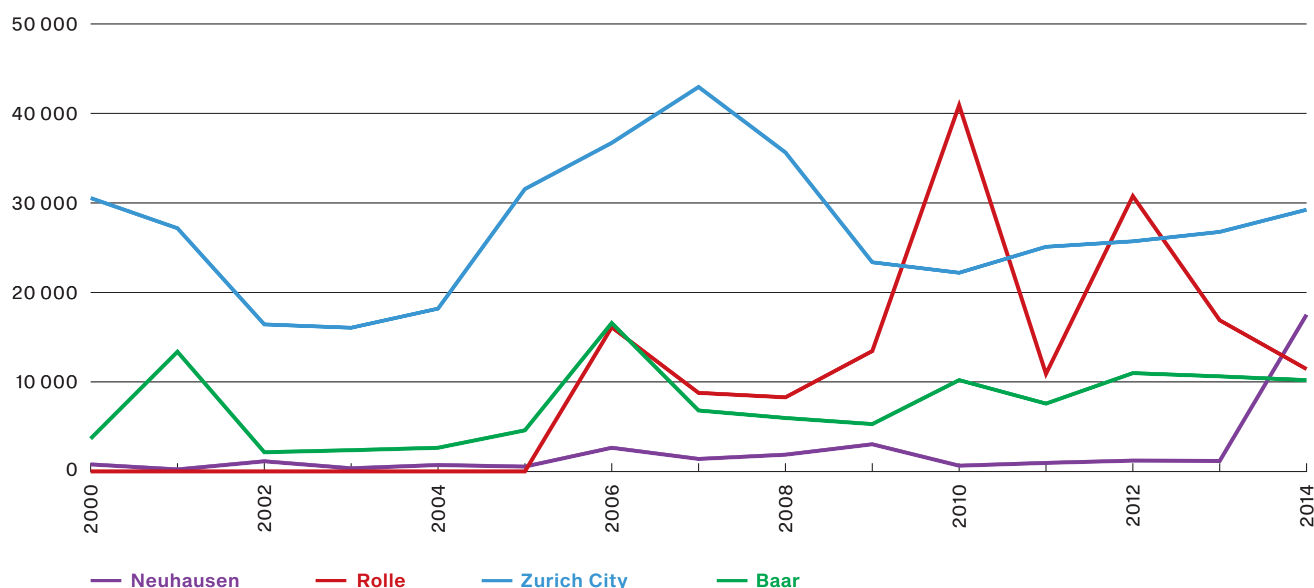
11 Ibid., p. 9.

Profit tax revenue in connection with the participation deduction in individual communes

The profits reported by multinational corporations domiciled in individual Swiss communes has increased dramatically over the past 15 years. The taxation of these profits however has not kept pace with this trend. Profits are rising exponentially, while the tax receipts from those profits are increasing only to a limited extent. Two examples of this phenomenon are Rolle (VD) and Neuhausen (SH). Net profits of corporations domiciled in Neuhausen for 2014 were 17.8 billion francs, as against a figure of

just about 785 million in the year 2000. In 2014, companies in Neuhausen paid 44 million francs in communal taxes, which corresponds to an effective tax rate of 0.2%.[12] From Neuhausen, the Swiss Confederation received a mere 7 million francs in direct federal taxes from legal entities located there, or all of 0.031%.[13] The picture is similar in Rolle (VD): reported corporate profits rose from just under 10 million in the year 2000 to 41 billion in 2010, only to fluctuate considerably in the ensuing years, and fall back to 11.2 million in 2014. Meanwhile, in Rolle, corporate tax receipts in direct federal taxes increased from just 462,796 francs to 80 million francs. The effective direct federal tax rate still stood at 4.63% in 2000, but decreased until 2006 and has fluctuated between 0.03 and 0.71% since then. A comparison of profit trends in Rolle and the City of Zürich shows that from practically nowhere, Rolle has catapulted itself into the profit realm of Zürich-based corporations and this with almost no substantial growth, and from one year to the next. At the same time, the percentage tax take on these profits declined in Rolle from a level that was still above that of Zurich in the year 2000, to almost zero in the space of 10 years. These developments constitute very strong evidence that there are corporations located in the Vaud region profiting hugely from the participation deduction for tax optimization purposes

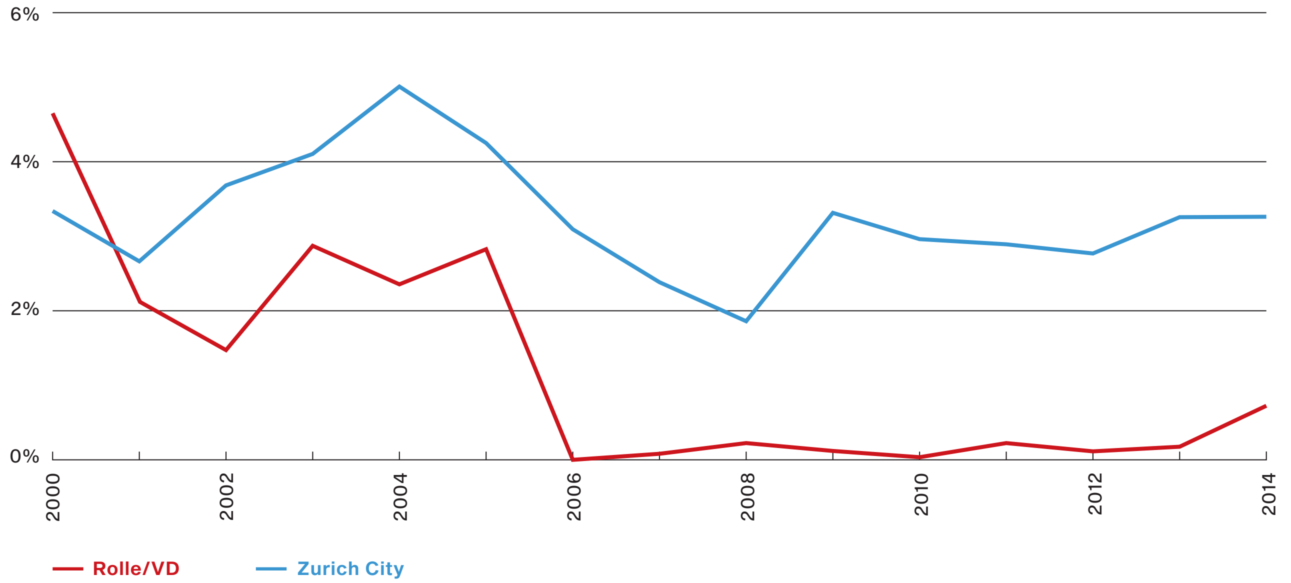
Corporate profits in selected Swiss communes (in mn francs)
Neuhausen (SH), Rolle (VD), Zurich (ZH), Baar (ZG)



Source: Alliance Sud, based on Swiss Federal Tax Administration (FTA) data

12 Gemeindesteuerstatisitk 2014 zur direkten Bundessteuer der ESTV [FTA 2014 Communal tax statistics on direct federal taxes].

13 Annual Report of the Commune of Neuhausen, 2014, p. 64.



Direct federal tax only. Profits without taking the participation deduction into consideration.
Source: Alliance Sud, based on Swiss Federal Tax Administration (FTA) data

5. Conclusion

Switzerland should no longer cling to a tax system that deprives other countries of tax revenues. Instead, it should set about restructuring its corporate tax policy such that it contributes to the realization of the UN Sustainable Development Goals of the 2030 Agenda. The worldwide implementation of these goals costs 5000-7000 billion US dollars per year.[14] Switzerland can make a highly effective contribution to socially and environmentally sustainable world development by immediately scrapping and not replacing the old special tax regime and introducing new measures to permanently end profit shifting to Switzerland from other countries, at the same time halting tax competition within Switzerland. Should Switzerland really want to end the global downward spiral in corporation taxes, it would have a few economic policy levers at its disposal – as a leading global financial and trading hub. The sooner it activates them, the less will be the harm to everyone.

Advocates of tax proposal 17 wield two principal arguments to counter criticism from development circles and the call for the old special tax privileges to be eliminated and not replaced. First, unilaterally scrapping profit shifting vehicles would not benefit developing countries at all, as the profits shifted from corporations would then simply be transferred to other locations abroad. That would change nothing about the problem itself, which is profit shifting. Second, TP17 supporters argue that eliminating and not replacing special tax privileges would do great harm to Switzerland itself. Without them, Switzerland would either have to make drastic cuts to normal tax rates (which would only further stoke inter-cantonal tax competition), or accept an exodus of mobile corporations abroad and the consequent erosion of the tax revenue and loss of jobs.

Neither argument can withstand an in-depth analysis of Switzerland's corporate taxation policy. The first underestimates the leadership role played by Swiss cantons as corporate locations in international tax competition. Switzerland is not a follower in this now decades-old downward spiral, but one of the locomotives pulling global corporate tax levels into the abyss. Should Switzerland start slowing down in this respect, it would have a positive impact on the entire international corporate taxation system. Besides, if low corporate tax countries like Switzerland, the Netherlands, Luxembourg, Ireland and the USA forever keep passing the buck amongst themselves, corporate taxes will at some point disappear from the world altogether. A race to the bottom that actually hits the ground would have catastrophic repercussions. It would make it impossible to combat the worsening social inequalities in the world, destroy much public infrastructure around the globe and thereby ultimately undermine all efforts to preserve and further build up democratic structures in nation-states, which are already under massive pressure in many places.

14 Unctad World Investment Report 2014, cit. in: Platform Agenda 2030: How sustainable is Switzerland?, 2018, p. 13. https://plattformagenda2030.ch/wp-content/uploads/2018/07/Platform-Agenda-2030_E_report-web-1.pdf

Empirically, the second argument wielded by supporters is simply untenable – for several reasons:

- Special tax privileges are relevant for the location of highly mobile activities and corporate entities in which there are very few jobs. This is also true of finance branches and participation companies that are drawn to business location Switzerland because of possible double non-taxation based on the participation deduction. For labour and research-intensive activities, however, Switzerland has appreciably more to offer than just low tax rates; outstanding infrastructure, a high standard of education, peace and social security, political stability as well as a stable currency. Corporate activities that create jobs and genuine added value would therefore not simply disappear from Switzerland.

- Inter-cantonal tax competition would indeed also intensify if no vehicle were introduced to replace the existing special tax regime. Accordingly, several cantons have announced their intention to lower their corporation tax rates independently of the planned introduction of any such replacement vehicle. However, this may well have to do with the fact that under TP17 the Confederation plans to continue subsidizing such tax cuts by raising the share of direct federal taxes going to the cantons.

It is also far from proven that the resulting contraction of tax revenues in the event that the old special tax regime is eliminated and not replaced would be any greater than with the replacement measures suggested in TP17. Upon closer examination, the Federal Council's dynamic analysis of the fiscal implications of TP17 throws up the most diverse scenarios all of which, according to the authors of the study, are similarly (un)likely.

So far, both the Federal Council and a parliamentary majority have been keen to preserve a Swiss business model that attracts capital generated by people in other parts of the world. They are therefore striving to retain the most comprehensive possible offer of special tax regimes, which is doubly detrimental: first to Switzerland, as it aims to preserve economic prosperity that involves stealing from potential tax revenues of other societies instead of promoting its own domestic innovation and value creation. Genuine innovation does not need tax breaks but top-notch, financially independent research institutions, highly trained human resources and good public infrastructure that can meet the demands of a 21st-century high-performance society. All this will not be possible without solid federal, cantonal and communal tax revenues. The lower the corporation tax rate sinks on a world scale, the more uncertain will the funding of public institutions become in Switzerland as well. For if everyone else is constantly becoming cheaper, the low tax area must also become even cheaper, and the day will come when this difference vis-a-vis other countries can only be financed through massive sacrifices in one's own social spending. The business model embraced by Switzerland so far is also inimical in that it is undermining socially and environmentally

sustainable development in the world by extracting funds from the global South were they are urgently needed to alleviate poverty and build good education and health systems as well as infrastructure. The sooner Switzerland decouples itself from this runaway tax train, the better for everyone.

Impressum

Publisher:
Alliance Sud
Swiss Alliance of Development Organisations
Swissaid | Catholic Lenten Fund | Bread for all | Helvetas | Caritas | Swiss Church Aid
Monbijoustrasse 31, P.O. Box, CH-3001 Berne
Phone +41 31 390 93 30
E-Mail: mail@alliancesud.ch
Website: www.alliancesud.ch
Social Media: facebook.com/alliancesud,
twitter.com/AllianceSud

With the collaboration of:
Oxfam Deutschland e.V.
Am Köllnischen Park 1
10179 Berlin
Germany

Project lead:
Dominik Gross

Editors:
Mark Herkenrath, Daniel Hitzig, Laurent Matile, Kathrin Spichiger

Graphic Design:
Bodara GmbH, Zürich