Embargo
Friday 21st October 2005

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Press Release

Dynamics of International Taxation and Need for Action in Switzerland

At a symposium organised by economiesuisse on the topic: "Dynamics of international tax competition - opportunity or threat?", major changes in the international tax environment were analysed in the presence of high level representatives from home and abroad. It was generally recognised that the enthusiasm for reform had clearly increased in the OECD. Countries taking an innovative approach to tax reform have reaped economic rewards and challenged other countries' classic taxation models. Switzerland is also being forced to respond to the dynamic developments in international tax competition which further underline the country's need for sweeping tax reform.

Fast Pace of International Reform

International tax competition has intensified with the onset of globalisation. For small countries, in particular, an attractive tax framework is one of the keys to attracting investment. Some countries such as the new East-European members of the EU, but also Ireland, Austria and the Scandinavian countries have used the scope available to them to simplify their tax systems, making them friendlier to investment and innovation. In doing so, they have achieved clear improvements in some areas of tax competitiveness. Generally, there has been a marked increase in the world's enthusiasm for reform. Measures which were inconceivable only a few years ago are being discussed seriously and even applied. Success stories include the Scandinavian dual system with separate taxation of income from capital and labour, and the flat tax approach, which is increasingly prevalent in Eastern Europe.

National Tax Systems in Competition

The speakers at the symposium were in general agreement that despite obvious efforts towards tax harmonisation, both international and national tax competition had clearly intensified. The chairman of the economiesuisse Executive Board, *Rudolf Ramsauer*, underlined how necessary it is for Switzerland not to miss out on the dynamic international developments in tax reform. Switzerland, he said, must not delude itself with its mythical status of a "low tax country", because once compulsory contributions and mushrooming public spending are considered, this description no longer stands up to scrutiny. He went on to say that Switzerland runs the risk of missing the opportunity to use the scope available to it to remould tax policy and boost competitiveness. *Peter A. Wuffli*, CEO of UBS, called for the business sector to make a clear and focussed statement regarding the objectives and priorities of domestic tax policy. He believed political leadership is also required in order to successfully improve and simplify the current policy. He suggested that any change be subject to four tests that assess how economically sound they might be. According to Mr Wuffli, the questions that have to be asked are whether the changes would provide any added value economically, and improve the international competitiveness of the Swiss economy. He would also ask whether they would help to improve the mobility of people and capital within Switzerland and if they facilitate corporate restructuring – or at least not hinder it in any way. *Làszlò Kovàcs,* the EU Commissioner for Taxation and Customs, outlined the EU's tax agenda. He distinguished between “fair” and “harmful” tax competition, however there is a large “grey area” in between. Tax competition is not black or white and the Commission is faced with very different national perspectives on taxation among EU-members. That is why EU policymakers have to deal very pragmatically with harmonization and cooperation, he said. He mentioned also the idea of the Commission to create a common consolidated corporate taxation base in the EU. *Ivan Miklos*, Vice Prime-Minister and Finance Minister of the Republic of Slovakia, gave an impressive account of how a radical simplification of the tax system using the flat tax approach brought about a marked improvement in the climate of innovation and growth. This reform entailed a thorough-going elimination of most forms of double taxation on income (e.g. dividends). In a presentation entitled "Tax Weather and Tax Climate", Federal Councillor *Hans-Rudolf Merz* stressed the advantages of tax competition and described Switzerland's agenda for tax reform: alongside the necessary upcoming reforms (corporate tax reform, taxation of spouses and ideal VAT), radical reforms, such as flat rate tax, dual income tax, individual taxation and income-dependent tax credits, were being objectively examined to assess their suitability for Switzerland.

Implications for Switzerland

Various aspects of the discussion were addressed in greater depth in workshops. Presentations by *Wolfgang Nolz* (Head of Taxation, Austria), *Thomas Held* (Director, Avenir Suisse), *Peter Baumgartner* (Director, Industrie-Holding) and Prof. *Sven-Olof Lodin* (Sweden) allowed fuelled and detailed discussions on the following topics: the limits of tax harmonisation, the tax systems' capacity for reform, the trend towards lower corporate taxation and the ideal design of a tax system.

The lively closing session saw a Swiss panel debate. *Gerold Bührer* (FDP), *Jean-Noël Rey* (SP), *Urs Schwaller* (CVP), *Peter Spuhler* (SVP) and *Köbi Frei* (Cantonal Minister, Appenzell Ausserrhoden) discussed what the political parties and the cantons should be doing to bolster Switzerland's tax competitiveness and to what extent tax competition can be positive for Switzerland. Other points debated were: how urgent is the need for action? and what specific tax reforms would improve Switzerland's position? Finally, Prof. *Christian Keuschnigg* (University of St. Gall) reviewed the highlights of the symposium and stressed once again the need for bold tax reforms.

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