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Total Tax Contribution

or why Swiss companies play a key role as taxpayers and tax collectors.

This study discusses how much tax is paid and collected by major companies in Switzerland. And what this means for the financing of the Swiss state.

economiesuisse

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For reasons of better readability in the following text the male and female gender forms are not used. All personal designations apply to both sexes.

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Contents.

1 Foreword.

Dear reader,

Taxes are a never ending topic – and mindboggling in their diversity. Therefore the real amount of the tax contribution paid by companies is in fact hardly known.

This study is designed to inform you, as an entrepreneur, media professional or politician, how much tax is really paid by Swiss companies – especially the major companies. For this purpose we at PwC have developed the concept of the Total Tax Contribution (TTC) and performed this study together with economiesuisse. The TTC concept considers all types of taxes and all the functions, which a company exercises as a tax collector for the exchequer. And it considers the subject from a holistic perspective.

This study offers you as an entrepreneur a basis with which to communicate your real tax contribution transparently. It assists you in taking decisions about a suitable choice of location based not only on the corporate income tax rate. For investors, journalists and the public, the survey creates a differentiated understanding of the tax mechanisms in Switzerland. And it provides our politicians with a foundation of facts on which a locationally attractive tax system can be optimised and enhanced.

The international pressure to adapt Swiss corporate tax law has increased with continuing globalisation. The options which open up for Switzerland in the international context are examined from an academic perspective.

We wish you interesting reading and look forward to a lively discussion.

Dr. Markus R. Neuhaus
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economiesuisse

2 *In a nutshell.*

1. Large limited companies are even larger taxpayers – and therefore indispensable pillars of the state.

2. Companies collect a significant amount of the taxes for the exchequer.

3. The tax collection function costs companies twice: cash and risk.

4. Precisely in times of crisis, taxes that are not profit related have a stabilising effect on government finances.

5. Industrial diversity stabilises tax revenues.

6. For companies the task for the future is: transparency.

7. The tax political terrain must continue to be cared for so that the state and the economy can also flourish in future.

3 The TTC concept.

3.1 Fundamentals

The concept of Total Tax Contribution (TTC) constitutes a holistic approach to taxes. It helps your company to measure and present your total tax payments within a given period. This model was developed by PwC with the aim of creating greater transparency and therefore a better understanding of companies' tax contribution to the financing of the state.

The TTC concept provides a clear picture of the effective total tax burden on Swiss companies. The results and findings are of interest for your management and your employees as well as for investors and the general public.

The TTC concept is used around the globe. It makes it possible to compare tax payments and the related key ratios across national boundaries – regardless of the complexity of the tax system in the individual countries. TTC studies have been performed in Australia, Belgium, Great Britain, India, Canada, the Netherlands, South Africa and the USA. In other countries TTC studies are in progress.

The World Bank has also adopted the TTC concept, in order to compare the tax burden of an average SME model company in 185 countries in its annual report "Paying Taxes 2013"[1].

You will find more about the design of this TTC survey in Chapter 8.1.

1 Cp. www.doingbusiness.org → Reports → Paying Taxes 2013; an annual study covering the total tax charge in 185 countries, which PwC publishes in collaboration with the World Bank.

3.2 "Taxes" in the sense of TTC

The TTC concept emphasises actual tax payments. Under TTC those payments qualify as "tax",

- that are payable to the state (confederation, cantons or municipalities), state organisations or to institutions directly under the control of the state, including social security institutions, in Switzerland,
- that are compulsory,
- for which no directly attributable services can be claimed and
- which are imposed for the fulfilment of public services.

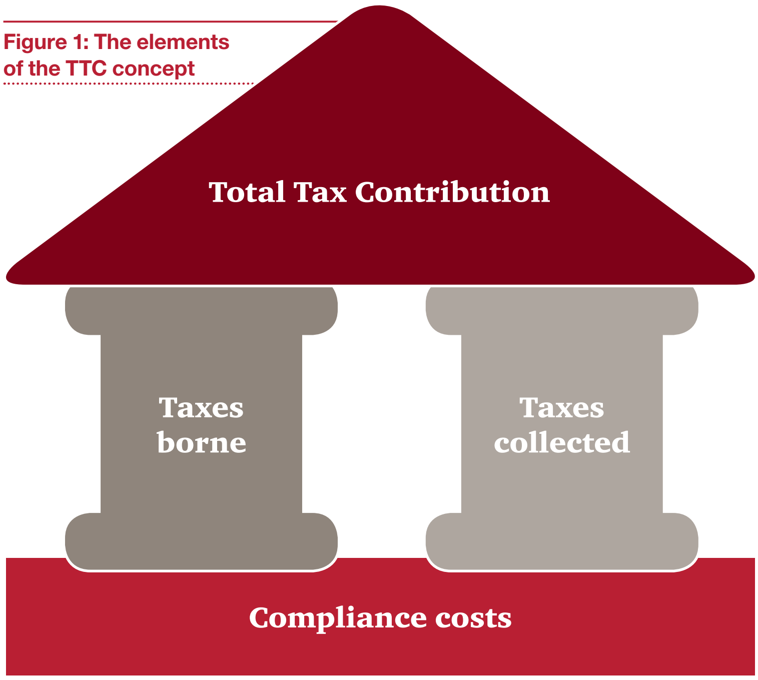
This definition does not correspond with the one used by the Federal Tax Administration's (FTA). Differences therefore may arise: for example, under TTC, contributions for Old Age and Survivors' Insurance (AHV) and unemployment insurance, as compulsory levies, they are counted as taxes, while the FTA regards them as ringfenced taxes.

3.3 The key amounts and what they mean

The TTC concept distinguishes between "Taxes borne" and "Taxes collected".

Taxes borne are payments, which the company bears itself as a taxable person and which impact the after-tax profit. Taxes borne include:

Figure 1: The elements of the TTC concept



- Corporate income tax
- Capital tax
- Non-recoverable Value Added Tax
- Employer social security contributions
- Real estate gains tax
- Issuance duty
- Real estate tax
- Property transfer tax
- etc.

Taxes collected are payments which the company collects from third parties and remits to the state. They are pure transit items that do not constitute financial costs for the company and do not affect its results. However, the company bears the resulting administrative cost and the risk of error. Taxes collected include:

- Employee social security contributions
- Withholding tax
- Value Added Tax
- Tax at source on wages and salaries
- EU interest taxation
- etc.

Some kinds of tax may be both a Tax borne and a Tax collected, for example social security contributions. Furthermore in one company a tax may be a Tax borne and in another a Tax collected, e.g. the stamp duty on insurance premiums.

Compliance costs under the TTC model are all internal and external costs, which are incurred in the company for the administration of taxes – regardless of whether for Taxes borne or Taxes collected. The amount of the Compliance costs indicates how complexly or efficiently a tax system functions (you will learn more about this subject in Chapter 4.6.2).

The Total Tax Contribution (TTC) in absolute figures is the sum of Taxes borne and Taxes collected and therefore describes all the tax payments made by the company in the financial year.

The Total Tax Rate (TTR) measures a company's effective total tax charge. It compares the sum of *all* Taxes borne with the profit before they are deducted. To enable a better understanding, here is a specimen calculation:

Figure 2: All Taxes borne in comparison with Taxes borne before corporate income taxes for an average company (data basis: 2011)

Position	Calculation	in TCHF
Profit before Taxes borne	a	97,743
Other Taxes borne	b	18,708
Profit before corporate income taxes	a–b=c	79,035
Corporate income taxes	d	12,472
After-tax profit	c–d=e	66,563
Taxes borne	b+d=f	31,180
TTR	**f/a**	**31.9%**

3.4 *The five Ps*

The Taxes borne and Taxes collected can also be divided into further subcategories, the so-called five Ps for “Profit”, “Property”, “People”, “Product” and “Planet”:

- **Profit:** Taxes based on the amount of profit.
- **Property:** Taxes levied on ownership of and transfer of title to assets.
- **People:** Taxes in connection with employees.
- **Product:** Taxes paid on the production, sale and use of goods and services and their exchange.
- **Planet:** Taxes associated with environmental pollution.

Classification under the 5 Ps refines the results of the TTC concept and enables an easily comprehensible consideration of the company’s total tax contribution. This study makes clear that not only the category “Profit” – that is corporate income taxes – provides substantial tax substrate, but that important amounts derive from other areas.

The following table shows how Taxes borne and Taxes collected are classified into the five subcategories.

Figure 3: Overview of the most important types of taxes and categories

	Taxes borne	Taxes collected
Profit taxes	Corporate income taxes	Withholding tax
	Withholding tax	EU interest tax
	Real estate capital gains tax	
Property taxes	Capital tax	Stamp duties
	Stamp tax	
	Real estate tax	
	Motor vehicle duty	
	Nautical vehicle duty	
People taxes	Social security contributions (employer)	Wage and salary source tax
		Social security contributions (employee)
Product taxes	Non-recoverable VAT	VAT (net)
	Stamp duty on insurance premiums	Stamp duty on insurance premiums
	Customs duty	Customs duty
	Taxes on gambling	Alcohol and tobacco taxes
	Monopoly charges	Other taxes
	Cantonal stamp duties	
	Other taxes	
Planet taxes	Mineral oil tax	Mineral oil tax
	Heavy vehicle emissions levy	Motor vehicle tax
	CO_2 levy	

4 Results and aha effects.

4.1 Companies as taxpayers

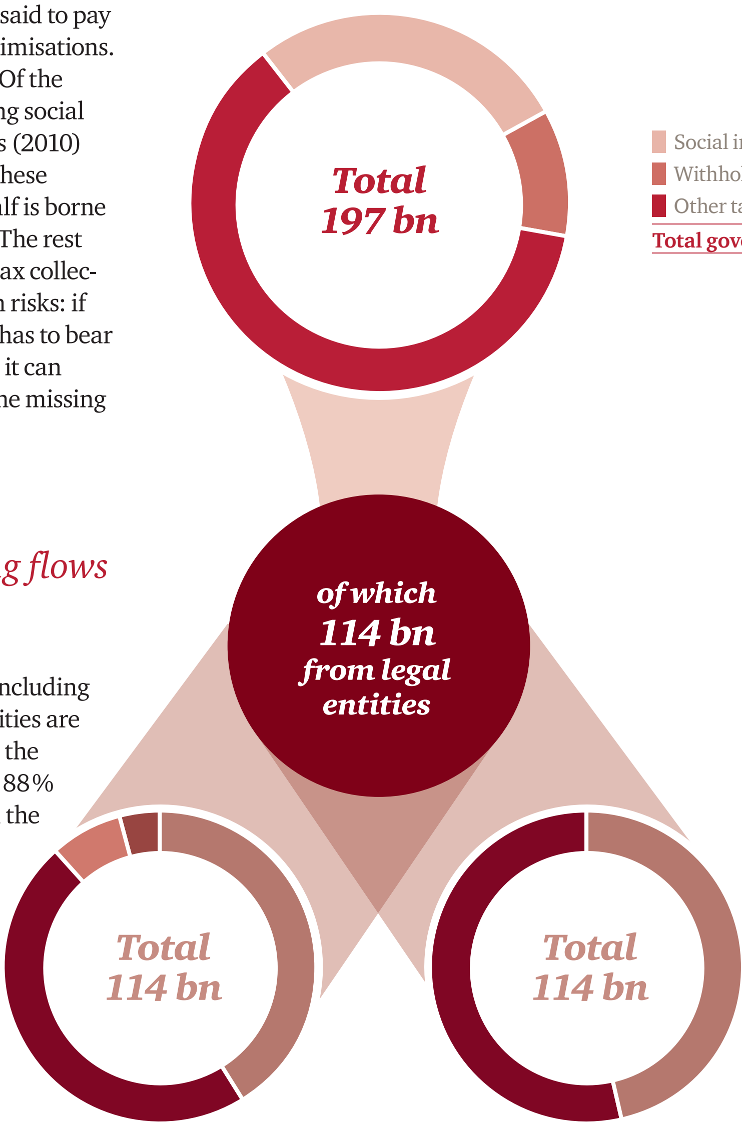
Legal entities in particular are said to pay too little tax because of tax optimisations. But the reality looks different. Of the government revenues, including social security, of about 197 bn francs (2010) more than 55 % flow through these companies. A little less than half is borne by the companies themselves. The rest they collect for the state. This tax collection function is associated with risks: if errors are made, the company has to bear the cost in most cases, because it can seldom subsequently pass on the missing amount to the tax debtor.

More than 55% of government financing flows through companies.

It is surprising that the taxes (including social security) of the legal entities are distributed very one-sidedly to the various authorities. More than 88 % concern the confederation and the state social insurances. Only about 12% concerns the cantons and municipalities.

Figure 4: Composition of government revenues 2010

Tax revenues in CHF



Social insurances:	54 bn
Withholding tax:	21 bn
Other taxes:	122 bn
Total government revenues:	**197 bn**

Confederation:	47 bn
Social insurances:	54 bn
Sub-total Central state:	**101 bn**
Cantons:	8.5 bn
Municipalities:	4.5 bn
Total:	**114 bn**

Taxes borne:	53 bn
Taxes collected:	61 bn
Total:	**114 bn**

4.2 What the TTC study participants contribute

57 major companies took part in the current TTC study. Out of the approximately 295,000 (status 2009) limited companies in Switzerland, they represent 123 companies, that is less than 0.1% (for details of the study design see Chapter 8.1). At first glance this does not appear to be many. But about 7.7% of the entire tax payments of approximately 197 bn francs and about 13.5% of the contributions by legal entities of around 114 bn francs are paid by the companies of the study participants (data basis: 2011).

A few bear exceptionally high sums.

In absolute figures the total tax contribution (including social security contributions) of the study participants amounts to 15.2 bn francs. 4.5 bn francs of the total tax contributions are classified as Taxes borne; 7.2 bn francs of the total tax contribution as Taxes collected. That means that in 2011, for every tax franc paid and charged against income, a company also passed on a further 1.60 francs from third parties to the tax authorities. In addition the study participants occasioned 3.5 bn francs in income taxes by wage and salary payments to their employees.

The TTC study participants bear about 4% of the Taxes borne by legal entities in Switzerland. Furthermore, they collect for the state no less than 6.3% of the total taxes of limited companies. In total 10.3% of the tax payments of legal entities to the Swiss state are delivered from participants in our study. Through their wage and salary payments they occasion another 3.5% bn francs of taxes.

The 57 study participants therefore make an important contribution to the government revenues of the confederation, cantons and municipalities. Their average TTC 2011 amounts to 95 m francs per company (Fig. 6). This is more than 250 times the contribution of an average Swiss limited company. The five largest study participants contribute on average 1.287 bn francs, or more than 3,300 times more than the contribution of an average Swiss company.

Figure 5: Contribution of the study participants to tax revenues

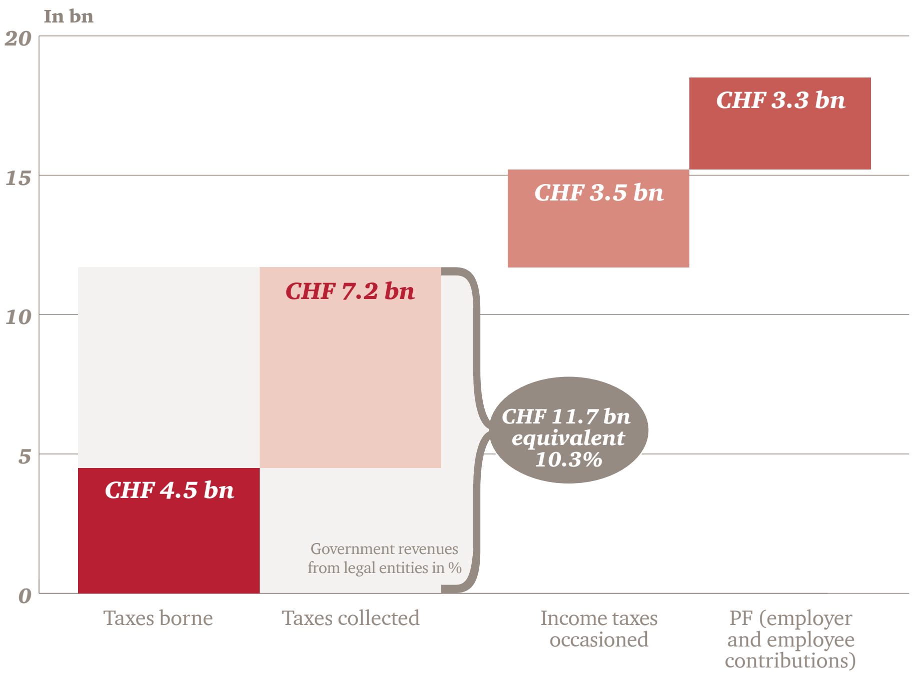


Figure 6: TTC per study participant

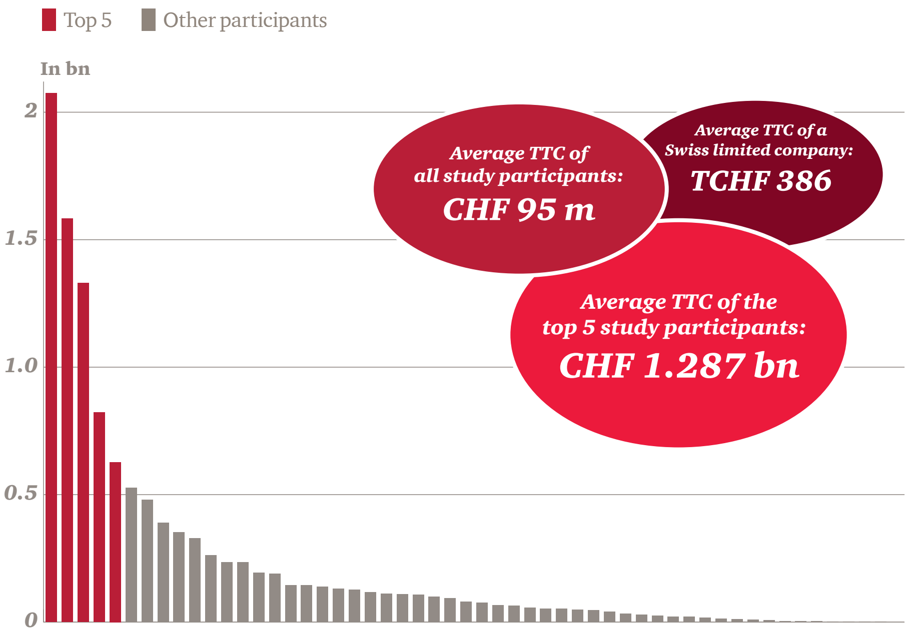
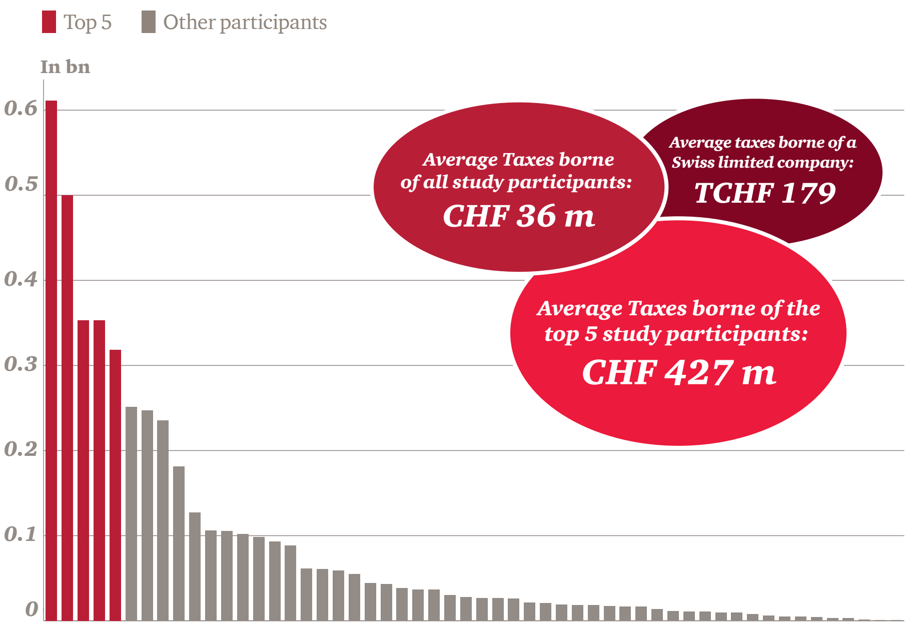


Figure 7: Taxes borne per study participant



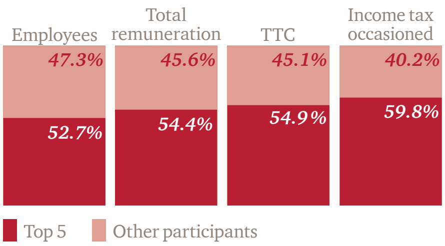
In 2011 the Swiss companies each bore on average 179,000 francs in taxes – our study participants 36 m francs (on average per company). This is equal to more than 200 times the average contribution of a Swiss company. The five largest study participants even contributed on average 427 m francs of the total Taxes borne.

Major companies are indispensable employers – and ensure that income tax flows.

From an analysis of the contributions we conclude: the larger the company, the larger its contribution to corporate income taxes – and its contribution to the other taxes is over-proportional. This can also be illustrated by the example of Direct Federal Tax: of the approximately 8 bn francs (2011) Direct Federal Tax paid by legal entities the TTC participants alone paid 1 bn francs, or 12.5%.

Among the approximately 295,000 (status 2009) limited companies in Switzerland there are many small enterprises and dormant firms. About 154,000 limited companies pay no corporate income taxes, either because they make losses (or have loss carry forwards) or are dormant. The remaining 141,000 (profitable) limited companies pay on average 54,000 francs Direct Federal Tax, while the study participants on average each pay 8 m francs – that is 148 times more than the average company.

Figure 8: Importance of the study participants as employers.



The major companies therefore carry the main burden of the Direct Federal Tax of legal entities. This situation is perfectly comparable with that of individuals: here too a small group of rich taxpayers account for the main share of Direct Federal Tax.

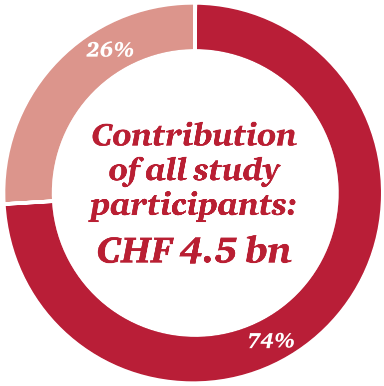
The majors contribute over-proportionally in all areas to the exchequer.

Among the TTC study participants the five largest companies stand out. These top 5 employ just over 99,000 people, equivalent to 52.7% of the employees of all the study participants. In addition they pay their employees wages and salaries of 12.1 bn francs or 54.4% of all wages and salaries paid by the participants of this study. These wages and salaries occasion more than 2 bn francs in income taxes from employees, equivalent to 59.8% compared with all the study participants.

These analyses show: the study participants and equally major Swiss companies bear an over-proportional share of taxes or collect a large part of them for the state – both corporate income taxes and other taxes and social security contributions. The five largest study participants are characterised by their progressive share.

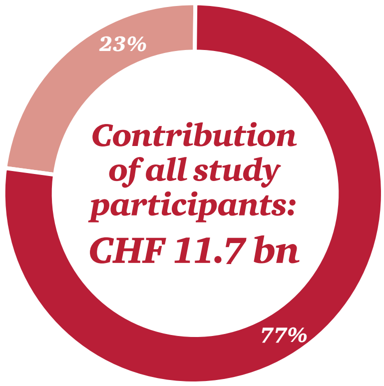
Figure 9: Contribution of stock exchange listed companies

Taxes borne



Contribution of stock exchange listed companies:	3.35 bn
Contribution of non-listed companies:	1.15 bn
Total study participants:	**4.50 bn**

Taxes collected



Contribution of stock exchange listed companies:	9.0 bn
Contribution of non-listed companies:	2.7 bn
Total study participants:	**11.7 bn**

The 31 Swiss stock exchange listed companies among the study participants also make clear the importance of the large companies. Of the total 4.5 bn francs Taxes borne of the 57 study participants, these companies bear about 3.35 bn francs, or about 74% of the total. Of the total 11.7 bn francs Taxes borne and Taxes collected by the study participants, about 9 bn francs or 77% come from the stock exchange listed companies.

4.3 Not just corporate income taxes

4.3.1 Analysis of the Taxes borne

The tax liability is mostly defined by the corporate income tax. The fact is: in addition to corporate income taxes other taxes represent a share of almost 60% of the total tax revenue from legal entities. The employee related taxes and levies are the second largest category at about 38%.

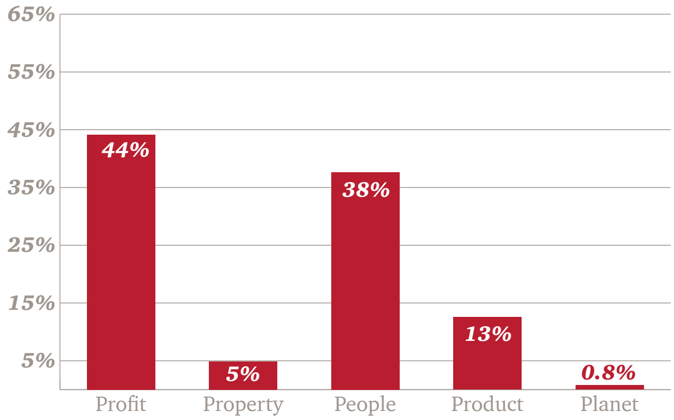
Employee related taxes make a large contribution to total tax payments. This is evidenced by the large share of taxes in the category "People". The main element is the social security contributions (employer contributions).

The category "Planet", environment related taxes, makes up a very small share of the Taxes borne. The most important taxes in this category include the mileage and emissions dependent heavy vehicle levy, the mineral oil tax and the CO_2 levy. For the study participants, however, these types of taxes are hardly relevant.

Almost 60% of the contribution burden of legal entities is represented by non-profit dependent types of tax.

The CO_2 levy is conceived as an incentive tax. That means that it flows back, two thirds to companies and the population. The remainder is used for energy efficient building renovation. The refund to companies is linked to the AHV total.

Figure 10: Taxes borne 2011, allocated according to the 5 Ps



Our study participants were not particularly affected by the CO_2 levy or the mineral oil tax or the mileage and emissions dependent heavy vehicle levy. Environmentally friendly, wage and salary intensive companies frequently receive a higher refund from the CO_2 levy than they pay.

4.3.2 Analysis of the Taxes collected

Consideration of the Taxes collected permits two conclusions:

Firstly, Swiss companies exercise a key tax collection function for Value Added Tax, withholding tax and salary source tax. The category "Product" (in particular Value Added Tax) in Figure 11 shows a negative balance because the input tax paid to suppliers on the export turnover is repaid. This peculiarity derives from the fact that companies with a large share of exports participated in this study. However, this is not an export subvention, because in the destination country companies are subject to local Value Added Tax.

Secondly, the large part of the Taxes collected falls into the category "Profit". The reason for this is withholding tax. This is deducted by the participants from the dividends paid and delivered to the Confederation. In addition the banks also deduct withholding tax from interest and pay it to the Confederation. Domestic taxpayers can reclaim withholding tax in full, but without interest. Foreign recipients can reclaim it on dividends and interest, depending on the legal form, tax domicile of the recipient and the applicable double taxation treaty, in full or at least in part.

The capital contribution principle introduced on 1 January 2011 enables companies to pay back to shareholders free of tax not only, as formerly, the nominal value, but in principle the entire equity contributed by shareholders after 1 January 1997. As a result the former different treatment for tax purposes of nominal share capital and other capital contributions (additional paid in capital) has been abolished. The introduction of this new principle had only few influence on the withholding tax payments by the study participants.

4.3.3 Analysis of the TTR

As explained in Chapter 3, the Total Tax Rate (TTR) describes the ratio of Taxes borne to the profit before Taxes borne. Figure 12 illustrates that for an average Swiss company the TTR has risen slightly and lies clearly above the average corporate income tax rate in Switzerland of about 21 %[2]. Or in other words: companies pay significantly more than just corporate income taxes.

2 Source: economiesuisse, Faktenblatt Unternehmenssteuerreform III.

Figure 11: Taxes collected 2011, allocated according to the 5 Ps

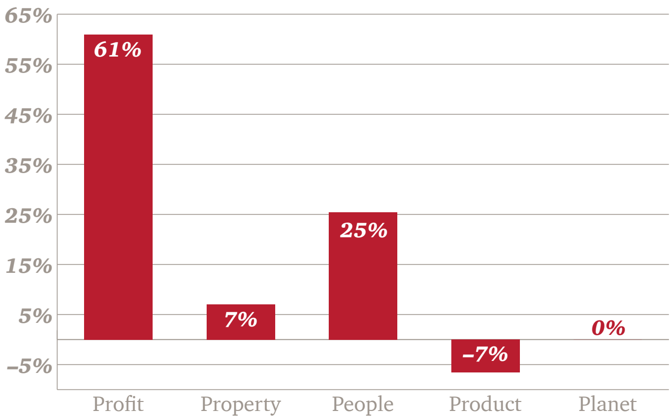


Figure 12: TTR of an average company (median)

	2010	2011
Taxes borne	26,798	31,180
Taxes collected	38,983	33,003
TTR	25.8%	31.9%
Employees	1,355	1,348
Statutory profit	115,182	106,182

Taxes that are not profit related affect companies like "fixed costs". On the other hand corporate income taxes go hand in hand with the economy.

The higher TTR with a reduced statutory profit in Figure 12 can be explained as follows: the effective tax charge on companies is much larger than corporate income tax alone. The latter reacts to the economy with great volatility. The tax categories that are not profit related on the other hand behave like "fixed costs". In times of falling profits they push the companies' TTR higher – and act as a stabiliser for the state (see also Appendix Chapter 8.3).

In an international comparison of TTR, Switzerland lies below the average. Here it must be borne in mind that in Switzerland retirement pensions are treated differently than in many other states. In many states there is only one pension scheme, the state scheme, while in Switzerland, in addition to the AHV, there are also the company pension funds. However, only the compulsory state contributions (AHV, EO, ALV, etc.) flow into the TTR calculations, but not the company pension fund payments. The reported Swiss TTR is therefore tendentially too low.

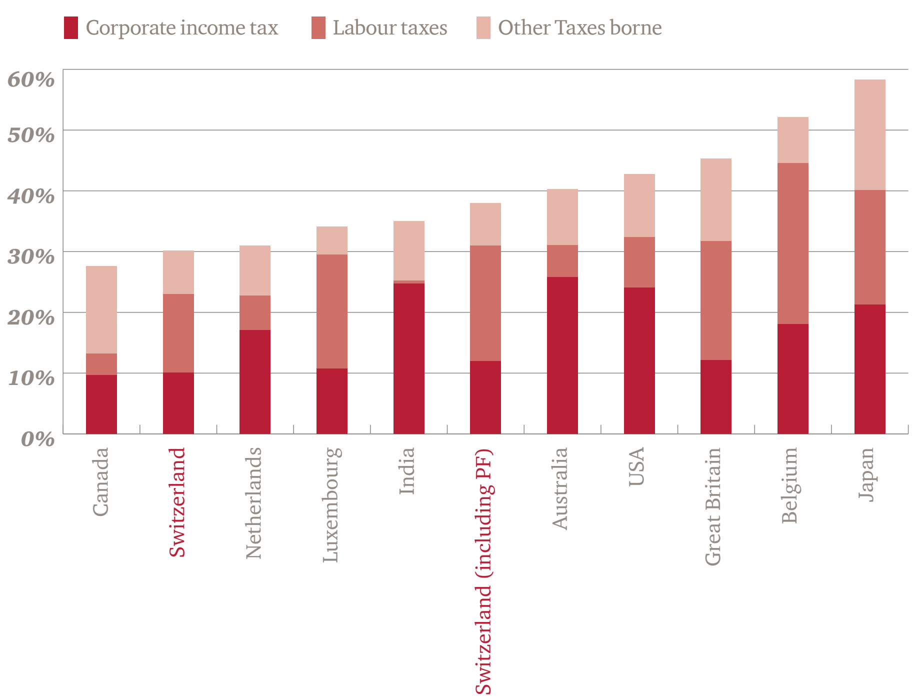
4.4 What's more

In our analysis of the data we have found that our study participants would benefit from "group taxation". Such taxation allows the setting off of losses against profits in the same year among various group companies. As group taxation is not possible in Switzerland, TTC participants with profits and losses in different group companies in the same group have on average paid in Switzerland a total of 97 m francs in corporate income taxes. With group taxation, this tax charge would weigh in at only 6.4 m francs. This shows that Swiss companies are often over-taxed in relation to the consolidated group accounts.

The TTC study also shows that taxes that are not profit related compensate surprisingly well shortfalls in corporate income taxes also after or especially during the crisis years. This opens up room for manoeuvre in revising the Swiss loss set off regime and participation exemption regime.

The non-profit-related tax categories have alleviated out the tax shortfalls in the financial and economic crisis.

Figure 13: TTR international comparison



4.5 *The crisis and its consequences*

The financial and economic crisis has left its traces above all in the study participants' corporate income tax[3]. We find in Taxes borne and collected in the category "Profit" massive collapses in the years 2010/2011 compared with 2007/2008. This effect can be explained mainly by the fact that as a result of the crisis the study participants generated less profit and as a consequence the dividends subject to withholding tax have fallen.

Significantly less affected by the crisis, or not affected at all, were the categories "People", "Product" and "Property". That means: these other – that is not profit related – areas play an important, stabilising role for the state's tax revenues, especially in economically turbulent times. Also in times of crisis, companies are important employers. They stabilise consumption and support the social security institutions.

In the Taxes collected, as a result of the crisis, there is first a massive collapse in tax payments. This is caused mainly by a significant reduction in withholding tax payments. It is however put into context, when one considers that, of the withholding tax delivered by companies at a rate of 35 %, in effect only about 10 % remains in the hands of the Federal Tax Administration. Because, on average, 90 % of the withholding tax is repaid by the exchequer to recipients of interest and dividends entitled to full or partial recovery. Figure 15 below shows the movement on Taxes collected, corrected for repayments.

3 In total 31 study participants took part in both the first TTC survey in 2009 and in this TTC survey 2012. The following data derive exclusively from these companies which have participated in both TTC surveys.

Figure 14: Taxes borne of the participants in both TTC surveys

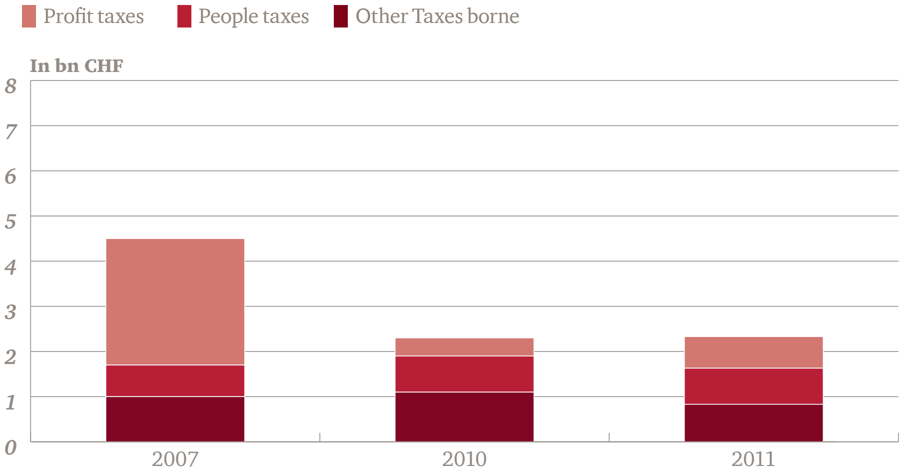
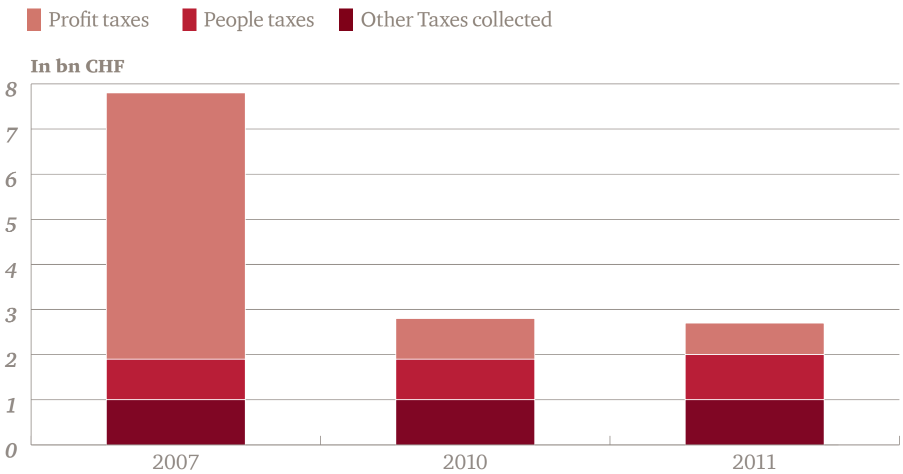
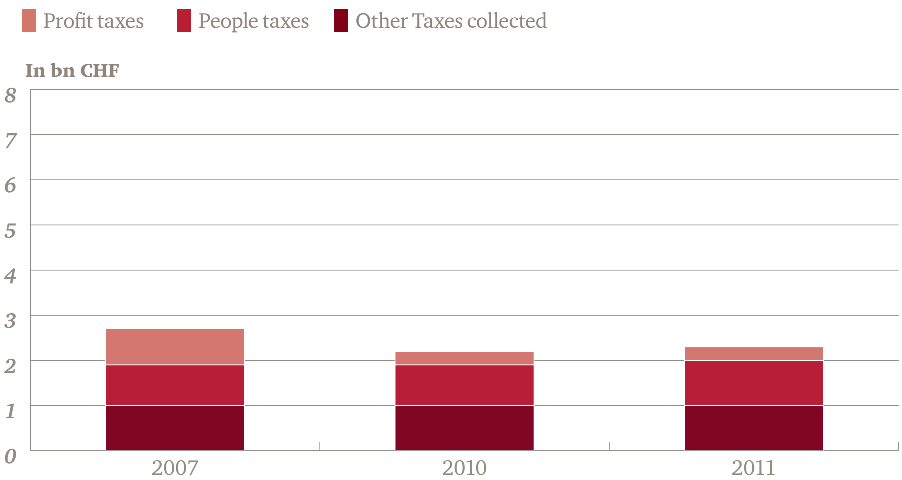


Figure 15: Gross and net Taxes collected by the participants in both TTC surveys

Gross Taxes collected



Net Taxes collected



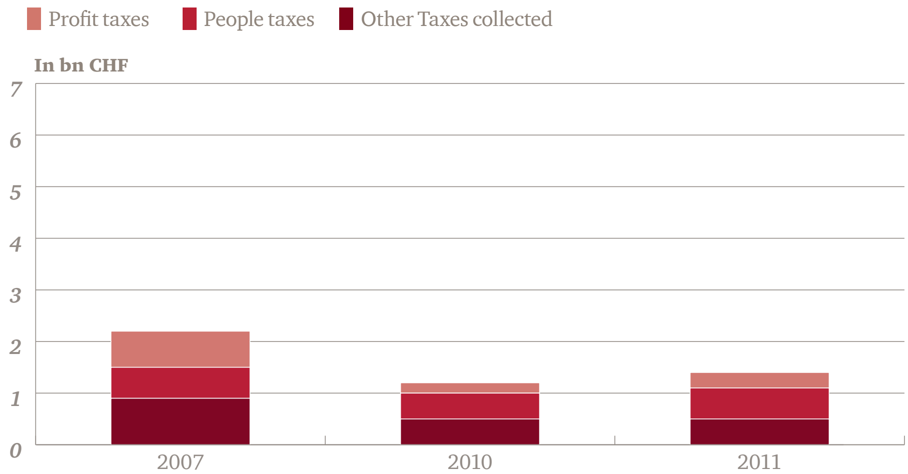
4.5.1 Development in the banks

The banks experienced the most extreme corporate income tax collapse – the financial crisis severely affected the corporate income tax revenues in this area. But: their share in the other non-profit related taxes continues to be significant; this share still provides the state with a substantial tax substrate. The currently low corporate income taxes also do not mean that the banks pay no taxes, an idea that could occasionally be read in the media.

The banks are and remain potent taxpayers.

Figure 16: Taxes borne by the banks

Figure 17: Taxes collected by the banks



4.5.2 Development in the insurance sector

The corporate income tax contribution of the insurance companies has continued to grow, despite the crisis. However, insurance companies have retained more profits earned. The other Taxes borne have continued to grow. The insurance companies have therefore acted as a strengthener in the crisis.

Figure 18: Taxes borne by the insurance companies

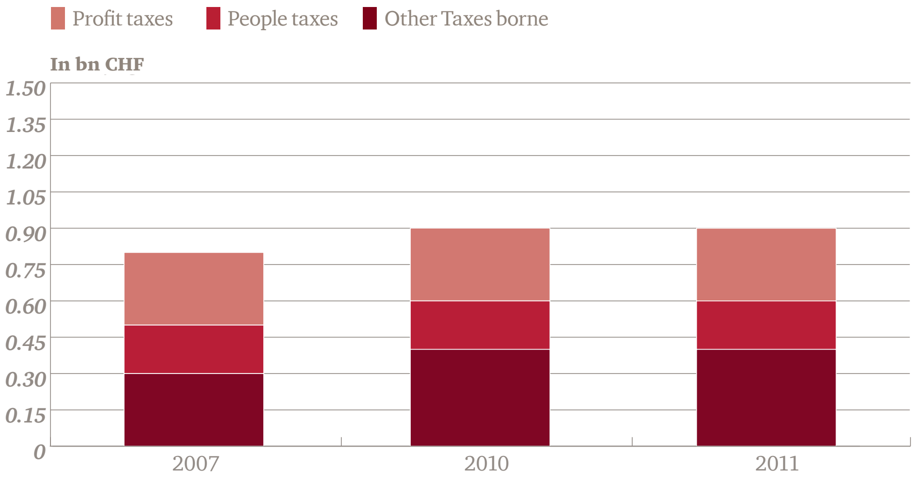
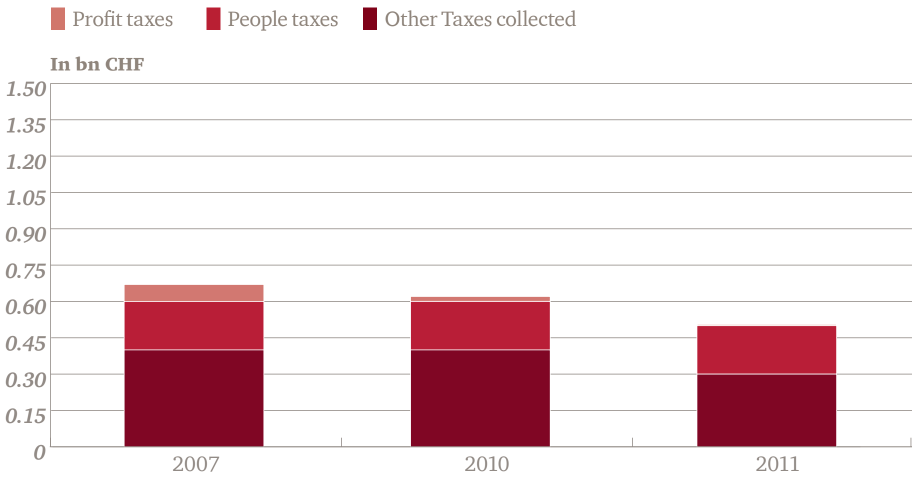


Figure 19: Taxes collected by the insurance companies



4.5.3 Development in the pharmaceuticals industry

Thanks to growing headcounts and significantly higher taxable distributions the tax contribution of the pharmaceuticals companies has risen substantially. With this the pharmaceuticals companies have supported and strengthened government revenues in the crisis. What also stands out is the large export element, which causes a high input tax surplus in the Value Added Tax (the refund of input taxes gives rise to negative other Taxes collected). However, the exports are not tax free, but are taxed in the destination country.

Figure 20: Taxes borne by the pharmaceuticals industry

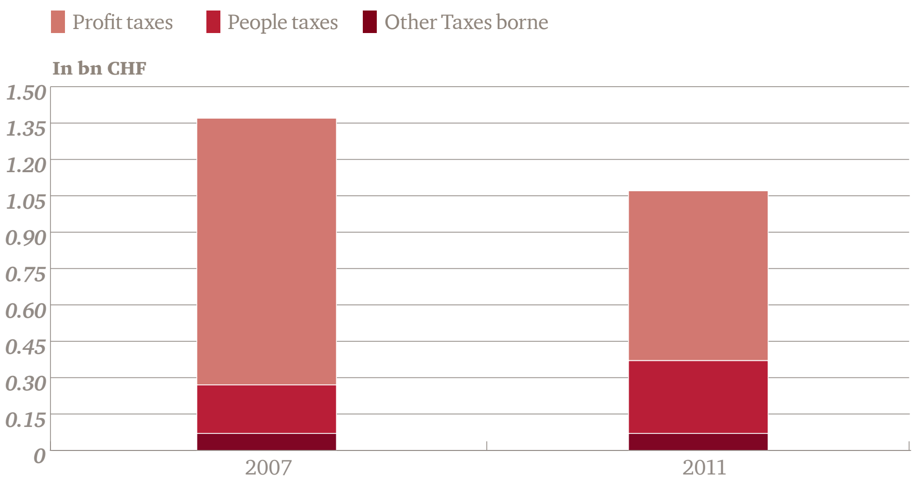
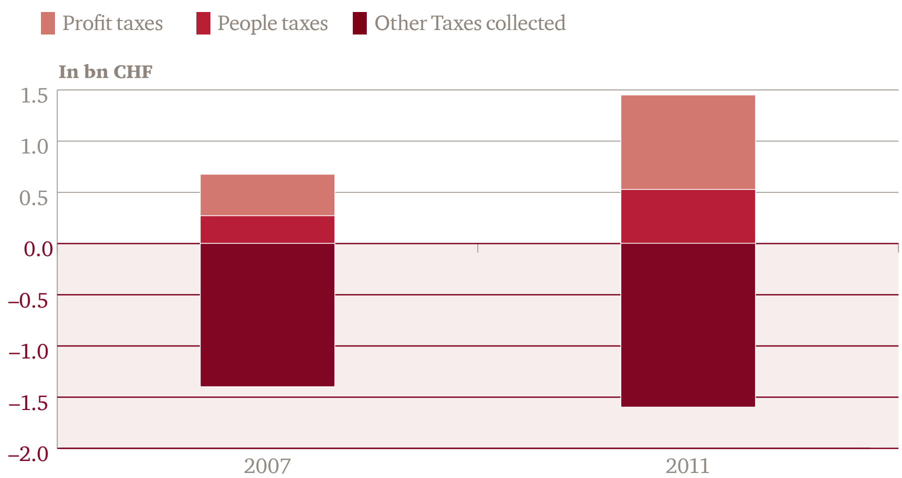


Figure 21: Taxes collected by the pharmaceuticals industry



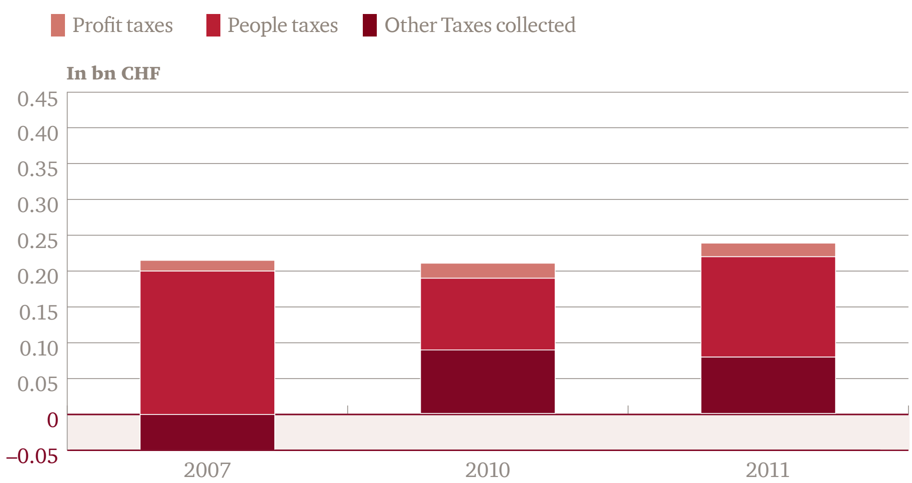
4.5.4 Development in other industries

In the other industries (capital goods, technology/telecommunications/media, services, trade and consumer and energy/utilities/construction) the crisis has left behind clearly recognisable traces: profitability and jobs have fallen continuously, and so has the total tax contribution. As a result the relative tax pressure and the importance of the other taxes rose for the companies.

What also stands out is that the other Taxes collected in 2007 were negative (input tax surplus), but triggered positive tax payments in 2010 and 2011. This reflects a decrease in exports, probably caused by the crisis, the strength of the franc and resulting relocation of production abroad.

Figure 22: Taxes borne by other industries

Figure 23: Taxes collected by other industries



4.5.5 TTC per employee

Swiss companies pay per employee and year up to a full year's salary in taxes. This contribution remained constant throughout the crisis. Only in the banks did we find a collapse. Nonetheless, their contribution is still higher than that of the other industries.

4.6 Tax collector for the state

4.6.1 Importance of the Taxes collected

For every franc which the study participants bear themselves, they collected 1.6 francs in Taxes collected in 2011. The banks collected 2 francs and the insurance companies collected almost 2.5 francs per franc of Taxes borne. For the other industries the ratio of Taxes borne to Taxes collected is lower. This ratio is volatile from year to year, because it is affected by the corporate income taxes that fluctuate with the economy.

4.6.2 Compliance costs

Compliance costs comprise firstly those expenditures which are incurred by companies in fulfilling their duty as taxpayers, that is in declaring and paying the Taxes borne. Compliance costs are also incurred for another reason: the Taxes collected – companies collect taxes, which ultimately they do not have to bear themselves, but are borne by others, such as their employees (salary source taxes) or their shareholders (withholding tax).

Therefore the companies perform a key task for the state and relieve it to a significant extent. Considered more closely, the tax collection function of companies is even more important, for they are responsible to the state for determining correctly the Taxes collected and also delivering them in full. In the event of errors and incompleteness the risk of legal and financial responsibility lies with the companies.

Figure 24: Development of TTC per employee

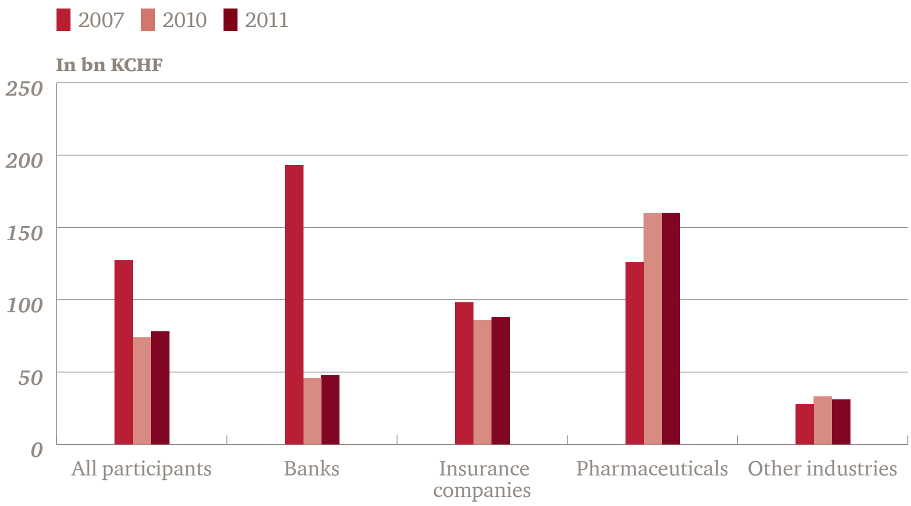
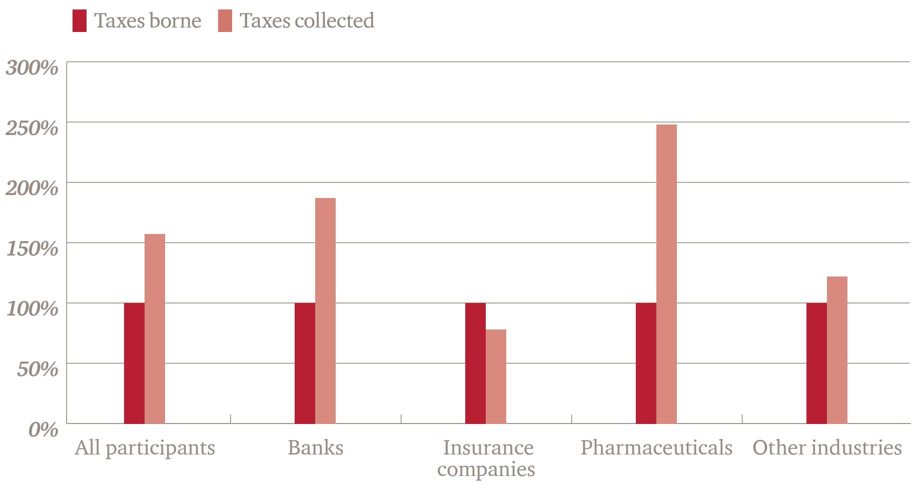


Figure 25: Taxes collected 2011 compared with Taxes borne 2011



Compliance costs TTC study participants about 45 m francs a year. This represents about 0.4% of their total tax contribution or just close to 1% of the Taxes borne. In order to be able to fulfil their Compliance responsibilities correctly, the study participants employ between them about 450 people. That is more than half the number employed by the Federal Tax Administration.

4.6.3 Switzerland compared with the rest of the world

The share of Taxes collected in the total tax contribution is a good indicator of the extent to which companies can be burdened by their tax collection function. Compared internationally, Switzerland cuts a fine figure and reflects a significantly more favourable ratio of Taxes collected to TTC than for example the Netherlands (see Fig. 26).

The multiplicity of kinds of tax under the Taxes collected category permits further conclusions about the burden on companies created by the tax collection function. For example, in respect of the absolute number of kinds of tax, compared internationally Switzerland does less well.

But: PwC's study "Paying Taxes 2013 – The Global Picture"[4] shows that in the time required by companies to fulfil their Compliance responsibilities in the most important areas, such as corporate income taxes, wage and salary taxes and consumption taxes, Switzerland competes with the world leaders. In only six states does a company spend less time on average on Compliance. Nevertheless, it does no harm to think about reducing the kinds of tax and further simplification of the tax system.

Figure 26: Taxes borne and Taxes collected in % of turnover

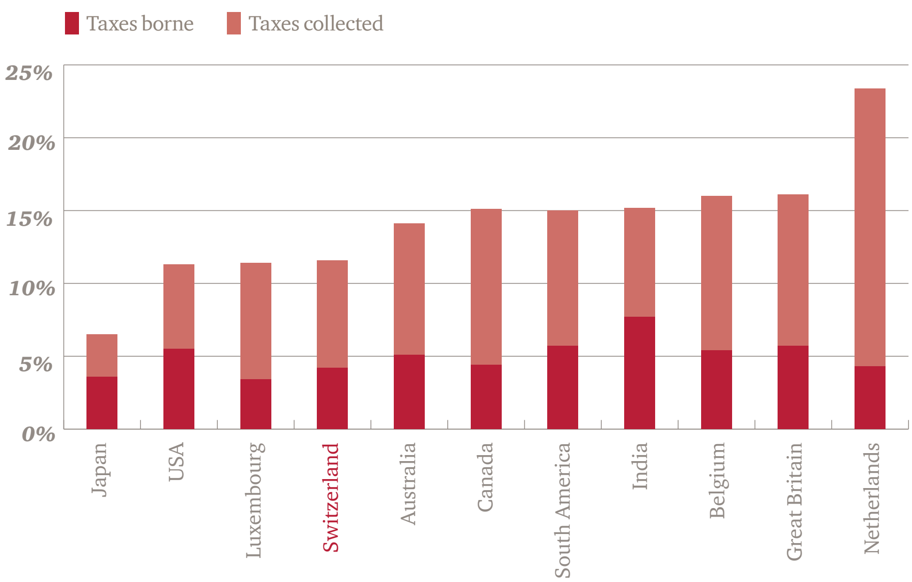
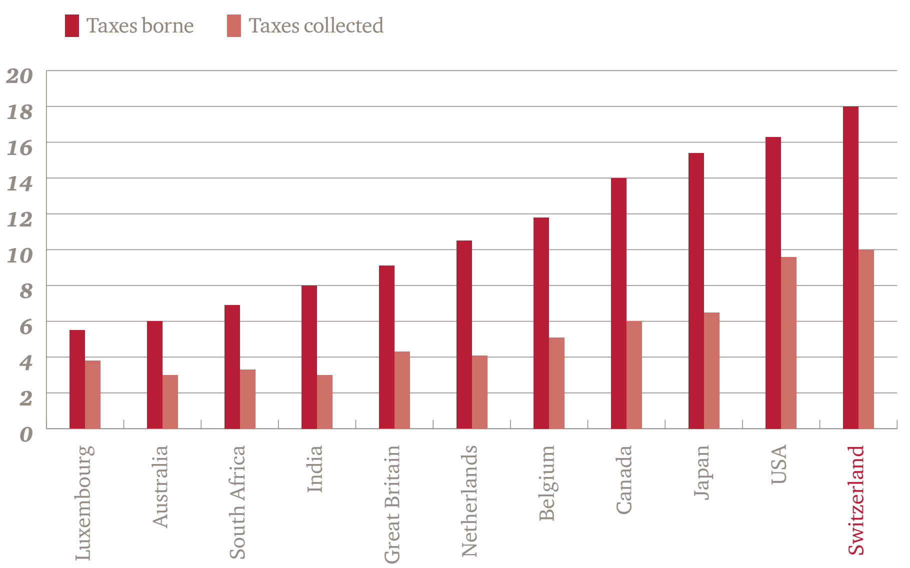


Figure 27: Number of kinds of tax in different countries



4 Cp. "Paying Taxes 2013 – The Global Picture"; available as download on: http://www.pwc.com/payingtaxes

5 Transparency – a key factor.

5.1 A new sensitivity

In recent times, expectations from the disclosure of business figures, particularly of tax figures, have changed considerably among the various stakeholders in Switzerland and abroad. This trend will continue, above all as a consequence of the financial and economic crisis and the tense situation in many state budgets.

In the UK companies reacted a long time ago to society's new tax sensitivity – voluntarily. They have discovered that enhanced transparency in tax reporting can bring them advantages in their daily business and above all a positive change to their public image[5].

5.2 Various initiatives

The initiatives to encourage companies to adopt a more transparent and detailed disclosure of payments (including taxes) to the state are numerous. They include the "Extractive Industries Transparency Initiative (EITI)", the campaign "Publish What You Pay" and in particular the US Dodd-Frank Act. At the end of August 2012 the US SEC issued the provisions implementing the latter, so that the new law can become effective in 2013.

The EU and the OECD have also recognised the signs of the times and are pushing forward similar projects – for example the draft for a corresponding EU Directive. And not least various NGOs have for some time been lobbying the International Accounting Standards Board (IASB) to draft guidelines or rules for a detailed disclosure of financial information (including taxes).

5.3 Tasks and solutions

The payment of taxes is being linked more closely to companies' financial and in the end societal responsibility. Companies, therefore, firstly face the challenge of setting out completely their contribution to state financing. Secondly, with the right communication they must ensure that precisely this transparency that is to be assessed positively is also perceived by the public.

But the transition to successful disclosure is not simple and the reasons for this are manifold: conflicts of interest between tax planning and tax transparency; the difficulty in communicating a complex subject correctly and comprehensively; the scope for misunderstandings or misinterpretations of the data; the conflicting priorities between confidentiality and transparency; resources, time and costs – the list could be expanded at will.

PwC has developed a method which makes it easier for companies to obtain a holistic and complete picture of their tax matters: the Tax Transparency Framework. Using this approach, the total tax contribution and further information about taxes can be disclosed sensibly and also set out, compared and assessed in a meaningful manner[6].

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5 Cp. "Tax Transparency and Country-by-Country Reporting", PwC, 2012; available as a download at: http://www.pwc.com/gx/en/tax/publications/tax-transparency-reporting.jhtml.

6 Cp. "Tax Transparency: Communicating the tax companies pay"; available as a download at: www.pwc.co.uk/tax/publications/tax-transparency.jhtml.

5.4 *Best practice*

Major companies worldwide have recognised the competitive advantages of transparent tax reporting and have addressed the topic of tax transparency actively. The following extract from the Annual Report 2012 of SABMiller illustrates how this can be successfully realised in practice[7].

Tax

The effective rate of tax for the year (before amortisation of intangible assets other than software and exceptional items) was 27.5% compared with a rate of 28.2% in the prior year. This reduction in the rate resulted from a combination of factors including:

- the successful conclusion of our Russian court proceedings;
- reorganisation gains as a result of the Foster's acquisition;
- changes in tax legislation; and
- the resolution of various uncertain tax positions.

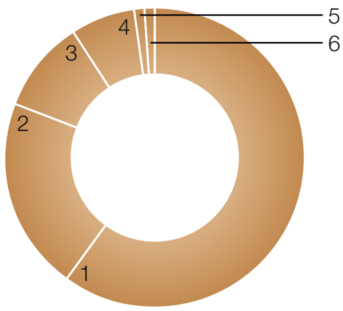
In the medium term we expect the effective tax rate to be between 27% and 29%, reflecting a level which we believe is sustainable given the current tax structure and composition of the group.

The corporate tax charge for the year was US$1,126 million. This differed from the tax paid because the payment of a tax liability can fall outside the financial year, and because of deferred tax accounting treatments. Uncertainty of interpretation and application of tax law in some jurisdictions also contributes to differences between the amounts paid and those charged to the income statement.

In terms of total taxes borne and collected by the group, including excise and indirect taxes, these amounted to US$9,400 million (2011: US$8,400 million) in the year. The various business combinations and disposals of businesses during the year impacted this analysis. The composition and divisional analysis is shown in charts (f) and (g).

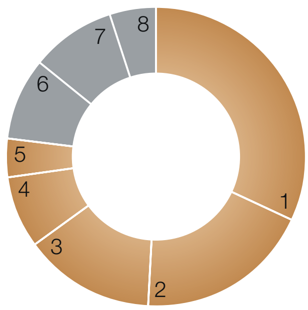
During the year approximately US$2,500 million of taxes have been paid to African tax authorities (including South Africa).

(f) Tax borne and collected by category



1	Excise	60%
2	Other Indirect taxes	21%
3	Taxes on profits	10%
4	Employment taxes	7%
5	Tax withheld at source	1%
6	Taxes on property	1%

(g) Tax borne and collected by region



	Emerging and developing economies	
1	Latin America	32%
2	South Africa	19%
3	Europe	14%
4	Africa	8%
5	Asia Pacific	4%
	Developed economies	
6	USA	9%
7	Europe	9%
8	Asia Pacific	5%

7 Source: SABMiller, Annual Report 2012, Business review, Chief Financial Officer's review, pages 39 and 40

6 The economic policy viewpoint.

6.1 Companies are indispensable tax supports – even in the crisis

This TTC study shows that for the companies surveyed many tax and duty contributions remained stable during the crisis or even increased further. Only corporate income tax, which depends heavily on the development of the economy, collapsed by comparison with the last TTC publication in 2009. This is mainly the result of the significantly lower tax contributions by the financial sector. If one considers all companies in Switzerland, at federal level the revenues from corporate income tax of 8.4 bn francs in 2011 were however higher than in earlier years: in 2007 – that is before the global financial and economic crisis – these revenues amounted to 6.9 bn francs.

Most taxes and duties that companies pay or collect are permanent and guarantee reliable sources of revenue for the state. They include social insurance contributions (employer share), non-recoverable Value Added Taxes, capital taxes, stamp duties or the mileage and emissions based heavy vehicle levy (LSVA). From the companies' perspective, these contributions constitute a large block of fixed costs. The exchequer continues to collect significant revenues through those industries and companies, which at present pay substantially less in corporate income tax than before the crisis. Based on preliminary estimates by the Federal Finance Administration (EFV), the revenues of the Confederation, cantons, municipalities and social insurances in 2011 of about 201 bn francs reached a new peak. More than 55 % derives directly or indirectly from companies. Of particular importance are the largest companies: according to the ESTV about 3 % of the legal entities account for more than 90 % of the corporate income tax revenues. More than 97 % of the Direct Federal Tax revenues are generated from 12 per cent of the companies[8].

6.2 Manage tax and financial policy as location factors

Swiss tax policy is attractive. This is shown by the figures on tax revenues and the fact that Switzerland has mastered the crisis relatively well. Decisions about corporate location always depend on various factors. But particularly in Switzerland, a country with few natural resources and a tiny domestic market, tax policy plays a special role – even more so, because Switzerland possesses a highly developed economy with strong international connections. As a result large domestic and foreign companies operating internationally are very significant to the economy and financial policy.

In contrast to many other states, in the last few years Switzerland's tax policy has proved to be not only attractive, but also successful. The level of government debt is compelling many countries to make drastic tax increases. On the other hand, thanks to the debt ceiling and direct democracy, Swiss financial policy is geared to stability. Both corporate tax reforms at federal level in 1997 and 2008 and numerous changes at cantonal level, combined with Switzerland's other attractive location factors, have contributed to a substantial migration of companies from abroad since the end of the 1990s. This has brought not only economic growth and new jobs, but also new tax base. International companies with high added value and highly qualified staff are especially mobile and react quickly to changes in the tax system. Therefore, an attractive tax environment is a key requirement for bringing such companies to Switzerland – or for keeping them here.

8 Cp. ESTV, Direkte Bundessteuer – Juristische Personen – Kantone – Steuerperiode 2011.

6.3 *Encourage diversity, avoid industrial policy*

In future politics should take into account the wide diversification of the Swiss economy and its different economic needs. Today Switzerland possesses a successful mix of different competitive industries; other industries (such as pharmaceuticals/chemicals, or the watch industry) were able to compensate the difficulties of the financial sector to a large extent during the crisis. Compared with most western industrial states, Switzerland has also been able to stabilise industry's share in value creation during recent years[9]. A balanced relationship between the service sector and industry has also proven to be a further success factor for the Swiss economy. Politics should therefore refrain from an industrial policy, as has been pursued by numerous states for some time: this has taken the form of subventions and other privileges, above all in energy and electricity generation and the car industry.

9 Cp. Avenir Suisse (2012); Industriemacht Schweiz. Die wirtschaftspolitische Grafik: Der Mythos der De-Industrialisierung. Available as a download at: www.avenirsuisse.ch

6.4 *Secure jobs, proceed with reforms*

Criticism of Swiss tax policy from abroad has become louder in the last few years in view of the finance and debt crisis. While the EU criticises the cantonal tax regimes and describes them as illegitimate state aid, at the international level the debate is mainly about transparency and the exchange of tax information. These challenges and the struggle of Swiss companies against the strong franc and debt crisis make it clear: there is a need for measures to strengthen the location. Politics should therefore implement Corporate Tax Reform III as rapidly as possible and with the highest priority in order to defend Switzerland as a business location and prevent the outflow of tax base.

In addition to corporate income tax reductions, Corporate Tax Reform III should create tailor made, internationally accepted and competitive taxation solutions for mobile income for companies operating internationally in particular with Licence and Interest Boxes. The tax location should also be strengthened by further measures, such as abolishing the issuance duty on equity or with improvements in group financing and loss set off.

In brief: Corporate Tax Reform III and the tax dispute with the EU

The corporate tax reform is intended primarily to maintain and enhance the attractiveness of Switzerland as a location for companies with international operations. At the same time the international vulnerability of corporate taxation in Switzerland should be reduced. The present cantonal regimes for holding, management and so-called mixed companies are the focus of the criticism and the dispute over corporate taxes between Switzerland and the EU.

On the domestic political front, for the purpose of drawing up a corporate tax reform in September 2012 the Federal Council established a project organisation led by the Finance Minister, Eveline Widmer-Schlumpf, including representatives of the Confederation and the cantons. This task force has been instructed to submit a report to the Federal Council demonstrating how the following objectives can be achieved:

1. Strengthening of the international acceptance of the Swiss corporate income tax system
2. Ensuring the international attractiveness of Switzerland as a tax location;
3. Ensuring tax revenues.

7 The academic viewpoint.

7.1 Corporate taxation and tax competition: prospects for Switzerland

(by Prof. Dr. Christoph A. Schaltegger, Universität Luzern and Institut für Finanzwissenschaft und Finanzrecht der Universität St. Gallen)

In 1918 Joseph A. Schumpeter wrote: "The public finances are one of the best starting points for an investigation of society, especially though not exclusively of its political life. The full fruitfulness of this approach is seen particularly at those turning points, or better epochs, during which existing forms begin to die off and to change into something new, and which always involve a crisis of the old fiscal methods."

The current debt and confidence crisis fits well into this assessment. Political realities are changing – also in tax policy. The large number of government support and rescue packages has increased the states' financial needs dramatically. The solvency of government debtors can no longer be taken for granted. At the same time the global mobility of capital, goods and services has increased strongly over recent years.

Today many companies produce worldwide. This applies for large companies and in the meantime also for SME. As global players they optimise within the group a wide range of labour costs and investment, tax and other location conditions in various countries. A company's value creation is spread across the globe. The work distribution and specialisation process is becoming more complex: clusters are created, in which similar corporate functions are grouped in the same location and work intensive parts of the production process are sourced out to foreign pre-suppliers or direct investments.

7.1.1 Globalisation and tax policy

The intensification of international capital flows and of the integration of the financial markets has also affected national fiscal systems: while the degree of freedom in tax policy was still relatively large up to the 1970s, with globalisation and international work distribution it has become more restricted. The development of corporate tax rates has been particularly striking. For example in the early 1980s the average corporate tax rate in the OECD was 49%, in 2012 a little over 24%. In comparison, the top income tax rates for individuals have changed less pronouncedly: in the early 1980s the top tax rates in some OECD states were still around 60%, today the average is 41.4%.

The difference between the taxation of companies and of natural persons is at first sight surprising. Does not the implementation of the fiscal ideal of synthetic income tax require that all income tax factors should be treated equally (Homburg, 2010). Even if no country has ever implemented this entirely, the principle often acts as a guideline for fiscal judgments. The general acceptance of synthetic income tax lies in the achievement of horizontal fairness, because every income contributes equally to a person's capacity to pay tax.

Clearly actual tax policy does not follow the theoretical ideal. Literature on efficient taxation concludes that tax policy has to adapt to the supply and demand conditions for the goods and services taxed (Blankart, 2011). In order to minimise efficiency losses in covering a financial requirement, goods and services have to be taxed differently – according to their elasticity. Thus it is clear that in a world with increasing capital mobility different taxation of moveable and immoveable activities can make sense.

7.1.2 *Tax competition: pro and contra*

There is then a conflict between the fairness and the efficiency aspects in tax policy – this will also become clear when assessing tax competition. Critics fear that, without institutional rules, an unrestrained race to the bottom between the regional authorities undermines the base for financing the welfare state. Faced with competitive conditions, regional authorities find themselves compelled to attract and retain mobile taxpayers with favourable tax conditions. Falling domestic tax revenues and a decreasing supply of public services are therefore forecast as a consequence of the tax competition. Many politicians view this scenario with concern, and all the more so because of the demographic development which they expect will in the future increase the financial needs for state pension and healthcare systems.

The counterargument is that interstate competition prevents governments from excessive displays of power – and as it were, curbs an "unhealthy" tax appetite. It is feared that, without the institutional safeguards provided by competition between systems, the state actors would be inclined to establish "tax cartels" to the detriment of citizens (Brennan und Buchanan, 1980).

Figure 28: Tax rates and tax base

Source: Riedl and Rocha-Akis (2008)

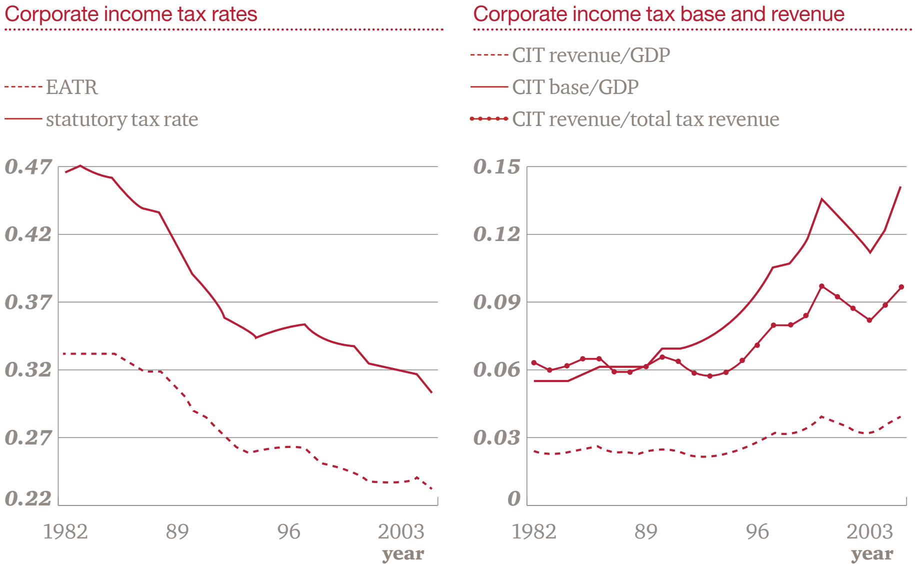
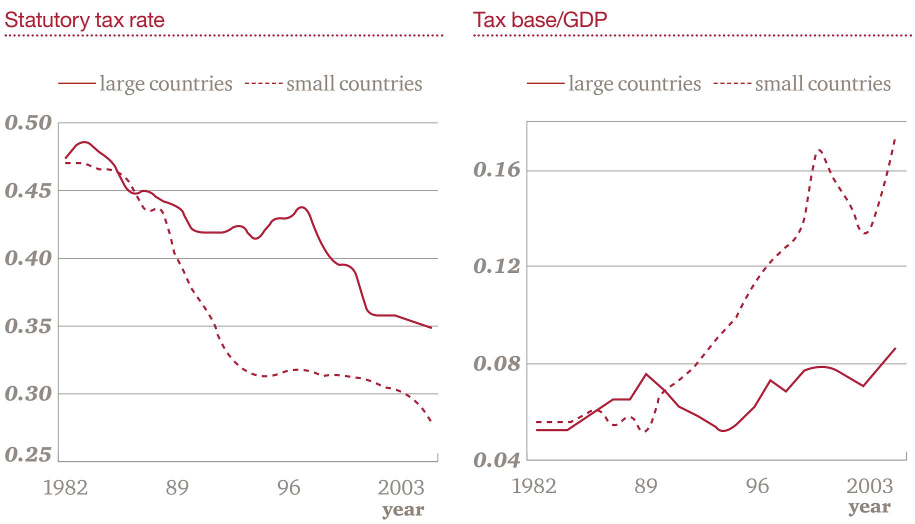


Figure 29: Tax rates and tax base; small countries versus large countries

Source: Riedl and Rocha-Akis (2008)



Tax competition is also quality competition. The former US Supreme Court judge, Louis Brandeis, summarised this succinctly: "There must be power in the States and the Nation to remould through experimentation our economic practices and institutions to meet changing social and economic needs [...]. It is one of the happy incidents of the federal system that a single courageous State may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country." (cited by Oates, 1999.) Tax competition acts like an open arena for social experiments. During them better solutions are retained and imitated, losers are given up. Advantageous political regimes are guided by "trial and error" and less by forward planning. Ultimately, despite every care, in politics one is never certain that one has found the best solution immediately. The discovery potential of competitive processes helps to generate fresh knowledge (Feld und Schnellenbach, 2004).

What does empirical evidence say about these two points of view? If a ruinous tax reduction race were to take place, this would most likely be evident from the corporate taxes. At first glance Figure 28 seems to confirm the "race to the bottom". The average effective tax rate in the OECD fell from over 34% to a little more than 24% between 1982 and 2005 (calculations according to Devereux and Griffith, 2003). Nevertheless, on the international average the tax ratios continue to be almost at historical highs. In the OECD, average tax revenues increased between 1965 and 2009 by about 12% and the tax ratio by about 7.5%. An explanation for this apparent contradiction can be found in the widening of the tax measurement base (Fig. 28, right hand chart).

Interesting is the distinction between small and large countries (Fig. 29). The pressure of tax competition seems to affect mainly small countries, which because of a small domestic market have to rely more heavily on the international locational attraction of their tax system than countries with large populations, which can draw advantages from a large domestic market (cp. Figure 29, left hand column). Not surprisingly it follows that small economies had to extend their tax base much more widely to finance their welfare state than large countries (Fig. 29, right hand chart).

7.1.3 Effect of competition rules on company taxation

Furthermore, many countries have created special tax calculation rules particularly for highly mobile, multinational firms. Examples can be found in the Federal Council's report "Staatliche Beihilfen an Unternehmen" in response to Postulat 07.3003 of WAK-S dated 7 November 2007. Currently one can mention the so-called "Licence Box" in Canton Nidwalden (Hinny, 2011). The tax charge on net licence income is in this case subject to a separate regime. In this way relevant licence income is subject in Canton Nidwalden to a Swiss-wide charge of 9.7, or 8.8%, after tax. Such special regimes are used by multinational companies for tax arbitrage (Haufler, 2007). This concerns both the relocation of mobile corporate functions in connection with establishing transfer prices and the distribution of tax deductible expenditure for research and development within a multinational group (Grubert, 2003).

How are such special tax rules to be evaluated? Although both the EU's Code of Conduct on Corporate Taxation (European Communities, 1999) and the OECD Initiative against "unfair" tax competition (OECD, 1998) describe preferential tax treatment of mobile production factors in comparison with non-preferential rate competition as harmful, the economic effects are not clear. If, given the much increased mobility of various forms of investment income, one considers the different elasticities, a widening of the corporate income tax charge can make good sense. It was this idea, which ultimately was also the impetus for the transition to dual income tax in the Nordic countries at the beginning of the 1990s, which systematically subjects income from capital to privileged taxation by comparison with income from labour (Zee, 2004).

Furthermore, it is quite possible that from the exchequer's viewpoint prohibition of preferential tax regimes is counterproductive: precisely this could trigger a ruinous tax reduction race. This could be the case, if, as a result of the prohibition of discrimination on the one hand and the attraction of the location on the other, countries had to reduce the standard corporate tax rate to such an extent that as a result of this tax harmonisation total revenues fall. In a highly respected work Keen (2001) comes to the conclusion that a prohibition of discrimination could quite easily intensify the interstate tax competition. That this assumption is not unrealistic, he evidences with the example of Ireland: under the pressure of the EU Code of Conduct Ireland abolished the preferential tax regimes and at the same time reduced the ordinary statutory tax rate from 32 to 12.5%.

7.1.4 Between competition and international recognition

In international tax competition, Switzerland, a small and open economy, is overall well positioned with corporate income tax charges of at least 12.7% or 7.8% depending on the canton or type of company and in principle has favourable prospects for continuing to remain attractive as a tax location. An important reason for this favourable situation is probably the cantonal tax competition, so that Switzerland can optimise its tax policy relatively quickly and flexibly. The tax autonomy of the cantons is a key factor. Further restrictions by extension of formal or even substantive tax harmonisation would be contra-productive. In many cantons tax reforms, some of them courageous, have already been implemented.

The room for manoeuvre is however clearly defined by the international ground rules. This applies in particular to the structuring of the taxation of holding, management or mixed companies. Their importance, with a tax volume of more than 7 bn francs, is paramount for the Swiss economy (updated on the basis of Lammersen, Schwager, Stegarescu und Eichler, 2003). Need for action for a sustainable, internationally acceptable and therefore legally founded structuring of corporate taxation while at the same time preserving the attractiveness of the location is given above all in those cantons, where a wide spread between normal taxation and preferential taxation obtains. Various adjustments are conceivable which do not have to be the same for all cantons and do not necessarily involve uniform taxation of all kinds of income. Nonetheless an internationally attractive level of the standard corporate income tax rate is important because of its signal function. In addition it is also important to abolish the taxation of substance – especially in the area of stamp duties. Ultimately the international ground rules do not prevent Switzerland from remaining attractive as a tax location. This opportunity should also be seized and exploited by means of appropriate degrees of freedom in the tax harmonisation law.

One aspect to which little attention has yet been paid in the discussion is the complexity of the tax system. Complex tax laws increase imposition and payment costs and therefore represent a further burden on the economy – without additional corresponding government revenues. Precisely the more or less failed endeavours in connection with the revision of the Value Added Tax could have fundamentally simplified this fiscally important and administratively costly tax.

7.1.5 Literature

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8 Appendix.

8.1 The TTC study design

8.1.1 Study participants and survey

57 Swiss companies encompassing a total of 123 companies took part in the study. This represents a participation quota of 20%. The study participants employ about 190,000 people. 39 companies are listed on the stock exchange, of which 31 on a Swiss stock exchange.

The survey was carried out from February to June 2012. With the help of a structured written questionnaire the study participants provided us with data about the financial years 2010 and 2011. The analysis was made based on a number of statistical methods. It does not claim to be representative.

Figure 30: Composition of the study participants by stock exchange listing

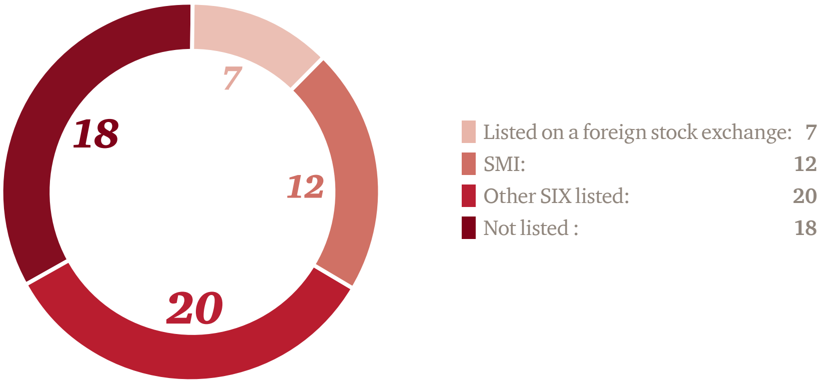
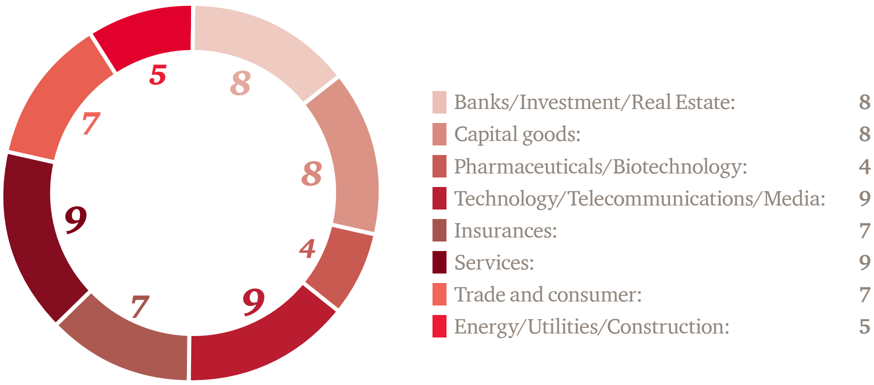


Figure 31: Composition of the study participants by industry



8.1.2 Study data – an overview

Figure: 32: Total amounts of the study data of all participants

2007

	Taxes borne	Taxes collected
Profit	4,313,041	9,326,362
Property	329,662	787,972
People	1,161,485	1,523,606
Production	702,393	–804,584
Planet	43,372	847,234
	6,549,953	11,680,590
Total Tax Contribution		18,230,543
Income taxes occasioned		3,501,499
PF contributions (employer contributions)		1,826,845
Total		**23,558,887**

2010

	Taxes borne	Taxes collected
Profit	1,735,863	5,089,033
Property	577,511	632,159
People	1,654,599	1,990,888
Production	521,096	–522,468
Planet	42,800	0
	4,531,869	7,189,612
Total Tax Contribution		11,721,481
Income taxes occasioned		3,548,847
PF contributions (employer contributions)		2,178,867
Total		**17,449,195**

2011

	Taxes borne	Taxes collected
Profit	2,004,141	5,015,166
Property	221,333	578,787
People	1,706,455	2,091,435
Production	569,450	–541,042
Planet	35,085	0
	4,536,464	7,144,346
Total Tax Contribution		11,680,810
Income taxes occasioned		3,688,425
PF contributions (employer contributions)		2,142,930
Total		**17,512,165**

8.1.3 Helvetic peculiarities

Pension fund contributions are a Swiss peculiarity. They are compulsory for every employee and employer and are paid not to the state, but to private and public law insurance institutions. As they do not go to the state, they do not qualify as taxes in the sense of the TTC concept and in this study they are also not included as such – in contrast to other countries. For certain international comparisons, in some analyses the Swiss pension fund contributions are, however, taken into account. This is then explicitly mentioned.

Accident insurance is also a Swiss peculiarity. It is prescribed by the state, but depending on the industry paid to a state institution or to private insurance companies. In this way they take on a state task. As it is a compulsory state charge, our TTC study includes these contributions.

The imposition of income tax is a further peculiarity. In most European countries it is a Tax collected on the wages and salaries of employees. As a rule it is withheld by employers and delivered to the state for the employee. In Switzerland, however, the income tax is as a rule imposed on the employee. The employee must pay the tax to the tax administration independently of the employer. In the TTC methodology it therefore does not qualify as Tax collected. In certain analyses the income tax effect of employee wages and salaries has, however, been recognised under the caption **"Income taxes occasioned"** and calculated approximately[10]. Only in this way is it possible to illustrate transparently the overall economic impact of companies. This is explicitly mentioned with the analyses concerned.

10 The data for the calculation of the approximate amount are based on the ESTV's statistic "Steuerbelastung in der Schweiz – Natürliche Personen nach Gemeinden 2011".

Figure 33: Comparison Direct Federal Taxes of survey participants and Federal revenues

	2007	2008	2010	2011
Direct Federal Taxes of study participants	1,350	471	258	265
Trend study participants		–65%	–45%	3%
Federal	6,860	8,509	8,088	8,396
Trend Federal		24%	–5%	4%

8.1.4 Development of Direct Federal Tax

The following table shows that the Direct Federal Tax of our study participants has developed quite differently compared with the aggregate tax revenues from Direct Federal Tax. What stands out especially is the contrasting development between 2007 and 2008. This is related mainly to the long time lag in recognising the revenues from Direct Federal Tax. The Confederation's tax revenues based on the tax year 2008 were in fact about 1.2 bn CHF lower than 2007[11]. The reason for this collapse in revenues was clearly the development of the economy, in particular in the finance sector.

11 ESTV, Statistik direkte Bundessteuer, juristische Personen – Kantone Steuerjahr 2009

8.2 Study participants

57 companies took part in the study, including the following:

- AEW Energie AG
- AXA Versicherungen
- Bank Julius Bär & Co. AG
- Barry Callebaut AG
- Basler Versicherungen
- Bobst Group SA
- BSI SA
- Bucher Industries AG
- Cablecom Holdings GmbH
- Clariden Leu
- Credit Suisse Group
- EBM
- Geberit AG
- Groupe E SA
- Helvetia
- HP Management Schweiz
- Landis + Gyr AG
- Maus Frère SA
- Meyer Burger Technology
- Migros Bank AG
- Neue Aargauer Bank AG
- PricewaterhouseCoopers AG
- Richemont
- Roche Holding AG
- Schindler Holding AG
- Schweizerische Mobiliar
- Securitas AG
- Siemens Schweiz AG
- St. Galler Kantonalbank AG
- Stadler Rail AG
- Sulzer AG
- Sunrise Communications AG
- SV (Schweiz) AG
- Swissport International AG
- Swiss Life
- SwissRe
- UBS AG
- Zurich Financial Services

8.3 *The Total Tax Rate*

The Total Tax Rate (TTR) measures a company's effective total tax charge. It compares the sum of all Taxes borne with the profit before they are deducted.

The proportion of non-profit related taxes is in principle high, if profit is low, and falls when profits rise. For this reason, when profit rises, the TTR typically falls (cp. Figure 35).

Figures 34 and 35 and the calculation examples assume a corporate income tax rate of 20% and other Taxes borne of 5,000 francs. In reality the functioning of the TTR described is affected and distorted by a number of factors, for example by loss carry forwards (despite profit, no corporate income taxes).

$$\text{TTR} = \frac{\text{Corporate income taxes + other Taxes borne}}{\text{Stat. profit + corporate income taxes + other Taxes borne}}$$

Example 1

On after tax profits of 10,000 francs corporate income taxes are 2,000 and the other Taxes borne 5,000 francs.

$$\frac{\text{CHF } 2{,}000 + \text{CHF } 5{,}000}{\text{CHF } 10{,}000 + \text{CHF } 2{,}000 + \text{CHF } 5{,}000} = 41.1\,\%$$

Example 2

On after-tax profits of 40,000 francs corporate income taxes are 8,000 and the other Taxes borne 5,000 francs.

$$\frac{\text{CHF } 8{,}000 + \text{CHF } 5{,}000}{\text{CHF } 40{,}000 + \text{CHF } 8{,}000 + \text{CHF } 5{,}000} = 24.5\,\%$$

Example 3

On after tax profits of 80,000 francs corporate income taxes are 16,000 and the other Taxes borne 5,000 francs.

$$\frac{\text{CHF } 16{,}000 + \text{CHF } 5{,}000}{\text{CHF } 80{,}000 + \text{CHF } 16{,}000 + \text{CHF } 5{,}000} = 20.8\,\%$$

Figure 34: Development of pre-tax profits compared with income and other taxes

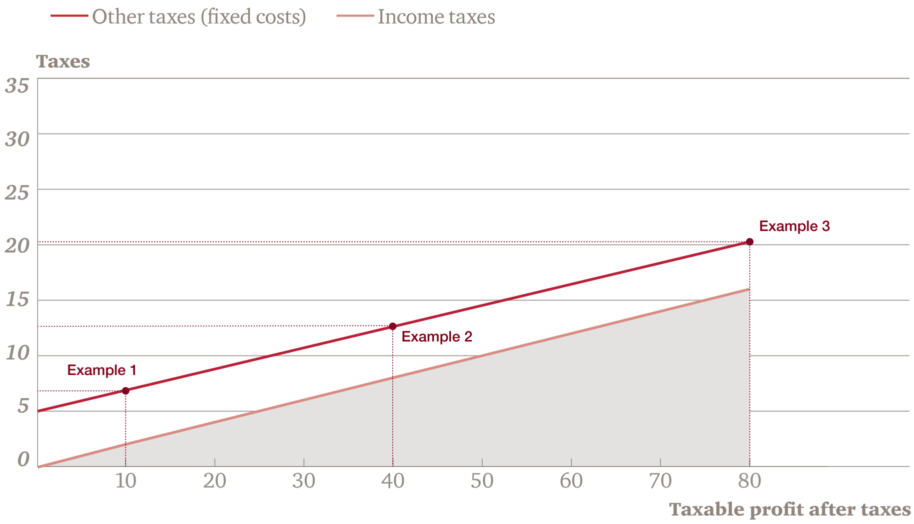
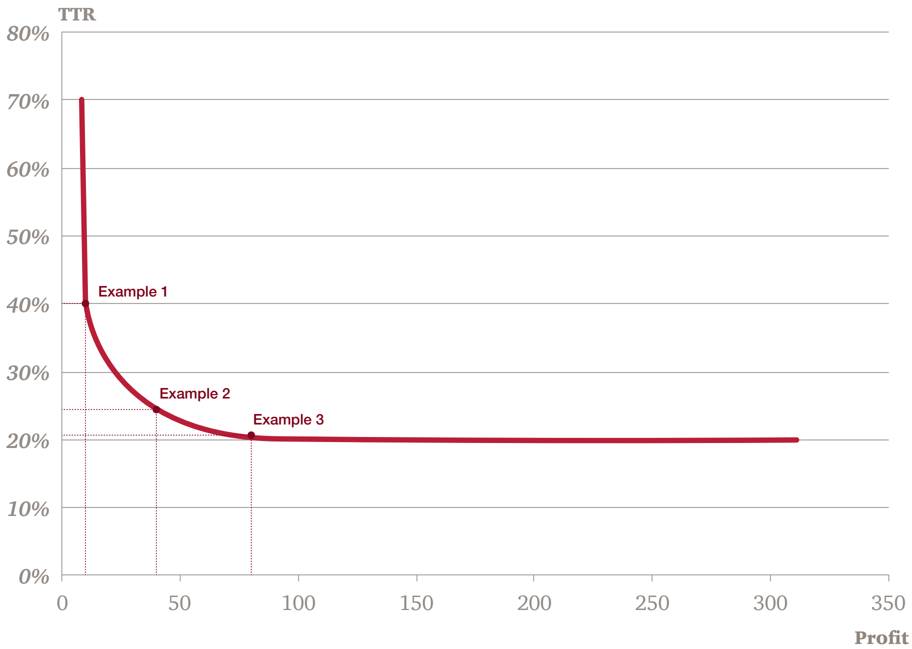


Figure 35: The normal TTR curve



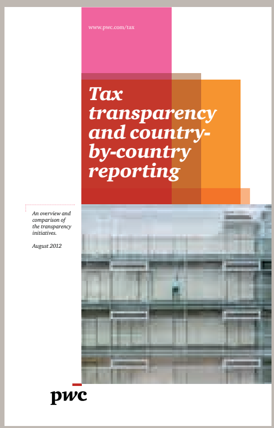
8.4 A short glossary

To enable uniform understanding of the expressions used, we here define the most important.

Income tax occasioned	Income taxes, which companies occasion by wage and salary payments to their employees.
Compliance costs	Internal and external costs incurred by the company for performing the duty of declaring, reporting and paying the taxes.
Country by Country Reporting	Breakdown of the tax expense in the accounts by country.
Dodd-Frank Act	US federal law that, as a reaction to the financial markets crisis in 2007, comprehensively changes financial market law in the USA.
Extractive Industries Transparency Initiative (EITI)	Initiative to strengthen good governance by making transparent payment streams, which pass from raw material extractors as duties to the state.
International Accounting Standards Board (IASB)	Independent accounting board that develops and revises the International Financial Reporting Standards (IFRS).
LSVA	Heavy Vehicle Emissions Levy
Publish What You Pay	Initiative with the objective of compelling oil companies listed on the stock exchange to disclose in detail all information about taxes, revenues, charges and other payments to governments.
Taxes borne	Tax payments, which the company itself bears as taxpayer and are recorded in the income statement as an expense.
Taxes collected	Tax payments that the company levies from third parties for the state and delivers to the state.
Tax Reporting	Gathering and reporting of tax figures with a view to disclosure in the financial statements.
Total Tax Contribution (TTC)	Absolute; total of Taxes borne + Taxes collected; all tax payments made by the company in the financial year to the state. In % of turnover; compares the total of all taxes (Taxes borne and Taxes collected) with the company's turnover (revenue).
Total Tax Rate (TTR)	Compares the total of all Taxes borne with the profit before they are deducted.
WAK-S	Council of the States' Committee for Economic Affairs and Taxation.

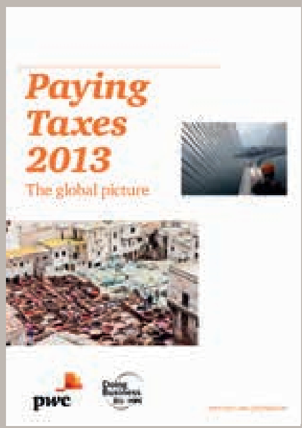
8.5 *Worth reading*

Stay on the ball – with our publications.



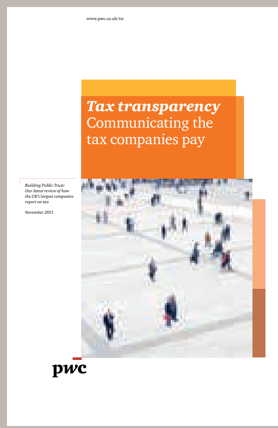
Tax transparency and country-by-country reporting

Throughout the world legislators and NGOs are demanding transparent disclosure of taxes. The 62 page brochure provides an overview of new transparency rules, some of which are already in force, but the majority of which are only projects. In the second part the authors compare in a table the substantive key aspects of the individual initiatives. They pay particular attention to multinational companies.



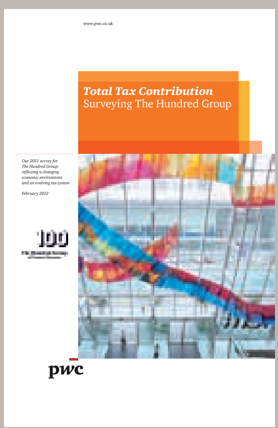
Paying Taxes 2013 – The global picture

The study, which PwC has prepared jointly with the World Bank and the International Financial Corporation (IFC), examines the general conditions for corporate taxation in 185 economies. The methodology takes into consideration the direct costs of taxes and of tax compliance. The study also shows how the individual tax systems have developed in the years 2004 to 2011.



Tax transparency – Communicating the tax companies pay

PwC has again analysed the tax reporting by FTSE companies in Great Britain. The analysis shows that companies now deal more openly and comprehensibly with the topic of taxes. The publication includes best practice examples for transparent disclosure and for communication with stakeholders, including tax authorities.



Total Tax Contribution – Surveying The Hundred Group

For the seventh time PwC UK has carried out its annual examination on the subject of "Total Tax Contribution". The Hundred Group represents the largest part of the FTSE 100 companies and a few large private companies. The ready willingness of the financial directors to take part in the survey reflects the political and social relevance attached to the companies' fair contribution to government financing.

Wer finanziert den Staat in der Schweiz?

This study by economiesuisse examines the revenue structure of the Swiss state. It is based on all available statistical data covering taxes and social insurance contributions and classifies the financing sources by authority and type of taxes and social insurance contributions. Economiesuisse embodies the results in an overall finance political context. The objective is to throw light on the redistribution discussion by adding facts.

Bewährte Schuldenbremse auch für Sozialversicherungen gewünscht – Schlussbericht zum «Finanzmonitor 2012»

The study performed on behalf of economiesuisse is based on a random survey of voters throughout Switzerland. The survey on the debt ceiling is a project in the context of the *Finanzmonitor,* which the research institute, gfs.bern, performs on relevant financial policy issues. The result: a majority of the people surveyed considers that an extension of the debt ceiling to social policy makes sense.

www.pwc.ch/ttc

8.6 At your service

For further information, suggestions or questions we are at your service.

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