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Wealthy foreigners and fair taxation

The issue of taxes, fairness and wealthy foreigners will be decided on 30 November. There will be a vote in Switzerland on the future of flat-rate taxation. Emotions are running high in the debate.

JÜRGEN MÜLLER

Until just a few years ago, hardly anyone was bothered by flat-rate taxation, which has been applied to wealthy foreigners in Switzerland for the last 150 years. It first became an issue in 2009 when, at the instigation of the Alternative List (AL), a small left-wing party, the tax was abolished in the canton of Zurich following a popular initiative. The cantons of Basel-Stadt, Basel-Landschaft, Schaffhausen and Appenzell-Ausserrhoden subsequently followed suit. The AL, supported by the Social Democrats and the trade unions, is now attempting to abolish the tax at federal level. The initiative seeking to abolish "the scandalous tax privilege of foreign millionaires", will be put to the vote on 30 November. The Federal Council and the parliamentary majority are opposed to the abolition because they want to retain "an economically important instrument for attracting businesses to Switzerland".

Pressure from the OECD

The opponents of the flat-rate tax are angered that wealthy taxpayers are taxed not on their income and wealth, but on their standard of living and housing costs, which is why it is also officially known as lump-sum taxation. Only foreigners who live in Switzerland but do not work there are entitled to this. According to the most recent figures available from the end of 2012, there are 5,634 flat-rate taxpayers nationwide generating total tax revenues of 695 million Swiss francs. That corresponds to just over one percent of total revenues from taxes on income and wealth in Switzerland.

The pressure on the flat-rate tax is not just coming from the left. The Organisation for Economic Cooperation and Development (OECD) is also calling upon Switzerland to abolish this type of tax. The advocates of flat-rate taxation no longer appear entirely happy either. In 2012, the Federal Assembly approved a tightening of the criteria and increase in the assessment base.

But they do not intend to go any further: the Zug cantonal councillor and president of the cantonal finance directors, Peter Hegglin, warns against "throwing the baby out with the bath water" because lump-sum taxation is "significant economically and in terms of regional policy". Mountain and tourist regions would be particularly badly affected by the abolition. It is not just the fiscal implications that are significant for the communes in these regions. "More important than the tax revenues is the impact on employment, which is dependent on lump-sum taxation in these areas," remarks Hegglin. This tax creates thousands, if not tens of thousands, of jobs in regions outside of the major centres owing to investment and consumption by the wealthy.

"Sophisticated form of tax evasion"

SP National Councillor Susanne Leutenegger Oberholzer, on the other hand, believes that "flat-rate taxation blatantly violates the principle of equality before the law because the constitutional principle of taxation according to economic capacity is flouted". A legitimate tax assessment could never be based on living costs

but only on income and wealth, otherwise the system would be left wide open to abuse, she argues. Ingvar Kamprad, the founder of Ikea, "paid the canton of Vaud a ridiculously low 200,000 Swiss francs a year in tax on assets of over 30 billion until he moved away", observed Leutenegger Oberholzer in the National Council. What is more, "180 super rich subject to flat-rate taxation in Gstaad pay only four million francs in tax". Flat-rate taxation was "nothing other than an especially sophisticated means of tax evasion".

The consequences of abolishing flat-rate taxation are unclear. As the distribution of flat-rate taxpayers across Switzerland varies greatly, the Federal Council estimates that the impact of abolition would be "low overall" but "might be very significant for individual cantons and communes". Around half of the 200 or so former flat-rate taxpayers in the canton of Zurich moved abroad or to another canton after the 2009 vote. One well-known example is the Russian oligarch and multi-billionaire Victor Vekselberg, who left the canton of Zurich for the canton of Zug, where he now also pays flat-rate tax.

Roger Keller, spokesperson for the canton of Zurich's finance department, points out an interesting phenomenon to "Swiss Review": of the former flat-rate taxpayers who remained in the canton, 55 paid more and 47 paid less tax than under the flat-rate system.

JÜRGEN MÜLLER IS AN EDITOR WITH THE "SWISS REVIEW"