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The unusual deal regarding taxes and old-age and survivors' insurance (OASI)

It is considered the most important and consequential deal of the current legislative period – the corporate tax reform, controversially boosted by a financial injection for the OASI. Voters have the final say on 19 May 2019.

JÜRIG MÜLLER

“Horse trading” was the most commonly used expression of the autumn session 2018. Finance Minister Ueli Maurer (SVP), on the other hand, described the same process as “a small masterpiece of political compromise”. The different perceptions can be explained. What was rejected by some and approved by others was indeed a somewhat unusual parliamentary affair: two distinct policy areas were packed into a single bill, namely a corporate tax reform that is important for Switzerland’s business interests and a financial injection for the old-age and survivors’ insurance (OASI). During the autumn session parliament approved the Federal Act on Tax Reform and AHV Financing (TRAF).

It is necessary to look into the past in order to understand the special mechanics of this legislative package. In 2017, two major reform packages were rejected by popular

votes: the Corporate Tax Reform III bill on 12 February and the Retirement 2020 bill on 24 September. The need for reform is huge in both areas. The tax issue is under enormous time pressure, especially because Switzerland could end up on the European Union’s (EU) blacklist if there is no reform; the EU Member States could take unpleasant countermeasures against Switzerland. In addition, the Organisation for Economic Cooperation and Development (OECD) is also exerting pressure on Switzerland over the same issue.

A well-known problem

The problems did not come out of the blue. They were already identified in 2005. Certain cantonal tax practices are a thorn in the side of the EU, since income from abroad is taxed less heavily than domestic profits. In the eyes of critics, this leads to harmful tax competition. Switzerland undertook to abolish the special tax status for holding companies and other international corporations, since this system made the country attractive for highly mobile companies. They had privileges that domestic companies did not enjoy. The tax reform is designed to ensure that all companies are treated equally with regard to taxation. To offer an alternative to these previously privileged companies, certain new tax deductions were to be made available to them. However, in the opinion of the Swiss Social Democratic Party (SP), parliament was unnecessarily adding further tax benefits to the Federal Council’s original bill, whereupon the SP called a referendum, only to emerge victorious in February 2017.

Complicated control mechanism

Now a new solution had to be found quickly. On the one hand, because the internationally active companies in question are of considerable importance for Switzerland, not least from a tax point of view, since they account for almost 50 percent of the federal tax revenues of legal entities; on the other hand, because of increasing time pressure. The aim of the reform is to prevent a dramatic increase in the tax burden for these companies with special status, since



They fought for the deal regarding taxes and the OASI and must now struggle with a sceptical base: The SP Council of States members Christian Levrat and Paul Rechsteiner.

Image: Keystone

there are fears that this could lead to their departure. The cantons will therefore generally reduce profit taxes. The status companies will pay slightly higher taxes in the future, while the companies that are currently not tax privileged, above all domestic SMEs, will pay less. This leads to large tax shortfalls, which to some extent is the price of equal treatment of all companies. To remain attractive for existing status companies, new tax privileges that are internationally accepted will be introduced. Some important elements are the patent box (lower taxation of income from patents), special deductions for research and development, as well as a deduction for self-financing. In return, the taxation of dividends for major shareholders will slightly increase again. The federal government is also allocating another billion Swiss francs from the direct federal tax to the cantons, thereby giving them more leeway for their own tax cuts. The main features of the current reform are similar to the one rejected last year, although the mechanics have been adapted in such a way that tax shortfalls should decrease slightly.

Social redistribution via OASI

At this point the OASI comes into play. Pensions, like taxes, are among the major ongoing issues in Swiss politics. And the major pension reform of 2017 also failed to find favour with the voters. Now politicians, especially from the SP, CVP and FDP, have come up with the idea of adding new financial resources for the OASI to the tax bill, in the spirit of social redistribution. Approximately two billion Swiss francs worth of tax shortfalls resulting from the tax reform would be compensated by contributions of the same amount to the OASI. This is to be financed by increased OASI contributions from employees and employers as well as by increased federal funding of the OASI fund. Although this is not a pension reform, the proponents say that some time has been gained for a fundamental reform.

Passionate debates

The somewhat unusual legislative package led to passionate debates in parliament and among the public. It seems as though no one is entirely satisfied. It is not a good proposal, said Martin Schmid, the FDP Council of States member from Grisons, but considering the failed Corporate Tax Reform III it is the best solution. The CVP Council of States member Peter Hegglin from the canton of Zug agreed, “because we need a viable solution for a serious problem”. And the SP Council of States member Roberto Zanetti from the canton of Solothurn even described the efforts of the commission that had drafted the bill as “a great moment of parliamentarism”. The words of SVP Council of States member

Peter Föhn from the canton of Schwyz, who warned against combining two failed bills, were less euphoric. A marriage of the weak has never led to success, he said.

The SVP rejected the bill in parliament, but the joint effort of SP, FDP and CVP ultimately triumphed in both chambers. However, the deal was met with scepticism from almost all political camps. Various groups announced a referendum right after the autumn session: the youth parties of the SVP and Green Liberals, but also the Green Party, along with other organisations from the green-red spectrum. The left-wing criticism states that the bill is a copy of the Corporate Tax Reform III in all essential respects and encourages international tax competition. The heads of the Swiss Trade Union Confederation (SGB) and the SP – first and foremost Paul Rechsteiner (Chairman of the SGB) and Christian Levrat (President of the SP) – have played a key role in shaping and negotiating the entire package in parliament. The position taken by the trade unions and the SP shows the extent to which the political left is divided. The SGB declared a free vote, and although the SP base stood behind their president Levrat at an assembly of delegates, the fierce debate and the results of the vote (148 yes and 68 no) illustrate the deep divide within the party.

“Swiss prosperity is at stake”

For once Heinz Karrer, President of Economiesuisse, the Swiss Business Federation, is fighting alongside Levrat. If the bill fails “an important pillar of Swiss prosperity is at stake”, Karrer writes in the “Neue Zürcher Zeitung”. Switzerland must do everything it can to avoid the “catastrophic scenario of a blacklist”. Should the compromise package fail at the ballot box, the current tax rules would have to be abandoned quickly and without any palliative measures, and there would be a sudden and massive increase in taxes for the affected companies, which in turn could lead to large companies leaving Switzerland, he says.

If the referendum is successful, the deal concerning taxes and the OASI would have to be approved by the voters on 19 May 2019. The outcome is still open. The proponents of the bill face a heterogeneous opposition: left-wing opponents of tax cuts, right-wing opponents of OASI financing, as well as legal purists who do not approve of the link between the tax bill and the OASI financing.