

Let's get the Swiss legacy problem with the USA out of the way!

In June, the Swiss Parliament will have to decide on the Swiss-US treaty on the request of information from the IRS. This treaty was negotiated in August last year between the governments of Switzerland and the USA to find a solution for the entangled problem of finding the balance between the rightful US chase of tax delinquents and the equally rightful Swiss banking laws, especially the banking Secrecy laws, in accordance with the current Swiss-US double taxation treaty (DBA). In January 2010, the Swiss Federal Administrative Court (FAC) has ruled that this treaty was not fully covered by current Swiss laws. On advice by the highest judge of FAC, the Swiss government has decided to submit the treaty to the Swiss Parliament for ratification. If this treaty is rejected, Switzerland's economy runs a high risk to face serious and damaging consequences.

This treaty is a binding contract under international law. If Switzerland was to break such a binding treaty, our credibility would be severely damaged as it would be seen as a proof of Switzerland protecting tax criminals. Especially in light of the US mid-term elections in November, Switzerland must not expose itself as a target for the struggle of the Democrats in their mission to fight tax offenders – let us not forget: this is the most important success story of the Obama Administration and is therefore pursued with utmost priority. Hence it is highly likely that a rejection of the treaty would lead to a headline – let's say in the New York Times: "Swiss reject Treaty in order to protect Tax Criminals". Apart from the damage of reputation and the massively increased likelihood of a revival of Tax Haven Initiatives, a ratification of the new DBA with the USA would get difficult.

All this would lead Swiss Companies – large and small - to reconsider their strategies as far as their activities in the US are concerned (the USA are a key market for internationally active Swiss companies, accounting to 25-50% turnover). US companies based in Switzerland, generating 5% of the GDP and providing 120,000 jobs, would get under pressure and would need to revise their establishment in Switzerland. Furthermore, in case of a rejection, the Swiss financial sector would be under intense pressure and UBS would be "back to square one", all of which would affect a large number of jobs.

And last but certainly not least: All these looming risks will have serious implications on the Swiss relationship with Germany, Italy, France and the UK as well as with OECD and the G-20.

Therefore, the Swiss Parliament will need to swallow what is certainly a bitter pill for all involved and will have to authorize this treaty in order to protect the Swiss interests. Once this major legacy issue will be out of the way, causes and culprits for this quandary can be searched for and a solid strategy can be discussed and implemented not only for the Swiss-US relationship but also for the welfare of the Swiss Financial place and subsequently the Swiss economy as a whole.