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Voting on May 19:
Crucial for Swiss-based business – and for the Swiss economy

On May 19, 2019, Switzerland will vote on the two proposed laws: (1) Corporate Tax Reform and Financing of the Social Security System; and (2) Reform of the Weapons Law. Both are crucial for a positive outlook for Swiss-based companies and for the Swiss economy. While Swiss Amcham – as the largest association for internationally active companies (70% Swiss companies, 30% foreign companies) - rarely makes direct vote recommendations, in this case we feel responsible to share our assessment of what is at stake.

It is important that businesses join the discussions and inform their employees on the content and the consequences of the proposed laws in order to allow for informed choices. We encourage you to use adequate platforms und channels to involve your colleagues and employees. We have collected some arguments to counter common statements:

1) **"We do not need a corporate tax reform!"**
   Switzerland will go through a corporate tax reform either way. We have the choice between an orderly reform as proposed by the law or a chaotic reform (a.k.a. as "hard reform" in analogy to Brexit)
   - The orderly and well-planned corporate tax reform as proposed by the law has been in planning for close to 15 years. It fulfils the three stated goals: Switzerland needs to remain fiscally competitive, the new tax system needs to be compatible with EU and OECD rules, and the loss of tax revenue needs to be minimized. With the orderly tax reform, planning security and stability will return, and Switzerland will continue to be an attractive location for businesses. With additional federal funding for the cantons and with the proposed fiscal instruments, cantons will be able to finetune their fiscal environment. The reform has been decided by the government and ratified in both houses of the Swiss parliament with support from most parties.
   - The chaotic reform would result from a "No" to the proposed reform. The hope of a renewed process ending in a better proposal is futile. From January 2020, all fiscal benefits for international companies will have to be abolished to avoid blacklisting of Switzerland and double taxation of international companies (Swiss and foreign). The resulting effective tax rates will massively increase and make many cantons in Switzerland overly expensive, leading to relocations of companies to other cantons or other countries. Without federal funding and specific fiscal tools, cantons will struggle to find adequate solutions. Many cantons will suffer, notably the big contributors to the inter-cantonal financial equalization. Biggest losers are expected to be Zurich, Geneva and Berne. In the short term there will be substantial loss in revenue for the high taxing cantons and a further increase in revenue for the low taxing cantons. But given the political instability, it is likely that a series of internationally operating companies will leave. Continued concordance between cantons

and continuation of the established inter-cantonal financial transfer is unlikely. This will also fuel the discussion of a harmonization of the tax rates between cantons, a favourite topic of the left-wing parties.

2) **"This is not so important!"**
Yes, it is. Multinational companies based in Switzerland may only be 4% of the total numbers of companies, but they offer 26% of all jobs (1.3 million jobs), create 36% of the Swiss GDP (approx. CHF 240 billion), pay 50% of the corporate taxes (approx. CHF 6 billion) and invest more than half of all private Research & Development initiatives (CHF 8 billion).

3) **"But all benefits go to rich foreign companies!"**
No, it does not. Already today, some 70% of the privileges benefit Swiss companies. With the passage of the reform, most international companies will face an increase in their tax bill – and they will accept it to secure planning stability and security. These companies appreciate the business location Switzerland and are ready to contribute to an attractive business location. But a massive increase of the tax costs as foreseen by many in the case of rejection would be economically untenable.

Biggest beneficiaries will be the domestic companies, mostly small and medium-size enterprises. These companies will come out as a strengthened "backbone" of the Swiss economy and will be able to further invest in innovation and competitiveness.

4) **"Let the rich pay their taxes"**
Yes, they do! The widespread misconception that this reform concerns not just corporations but also individuals must be corrected. The vote on the Swiss Tax Reform refers exclusively to corporate taxes (i.e. the taxation of legal persons as opposed to natural persons) and will not change the full taxation of the personal income of individuals working for internationally-active persons. If international companies would move to other locations, this would lead to the loss of a substantial amount of well-paid jobs. The loss in revenue in individual taxes and in contribution to Social Security and Pension Funds will also be substantial.

5) **"So many people are against the reform!!"**
Corporate tax reform is a very complex matter, and all parties involved had to make concessions. But the final package is well-balanced and equitable. It has been endorsed by the Federal Council, both houses of the Swiss Parliament and by most national parties (except for the Green Party and the Young Socialists; and abstention by the Swiss People's Party SVP). It has also been endorsed by all cantons, by the Conference of Cantonal Directors, by the Association of Communes and by the Association of Swiss Cities.

6) **"Mixing the financing of the social security system with tax reform is undemocratic"**
Some people might take that position. But combining the two items is the result of a political process to find a typical Swiss compromise. These two topics might look very different at first sight, but they are two sides of the same medal. A stable and healthy economic future and a stable and future-oriented social security system are both crucial for the future success of the Swiss economy and for a promising future for the next generations. Putting these two topics

together makes the proposition more balanced and equitable, with everybody finding some advantages.

7) **"What does this all have to do with the reform of Weapons Law!"**
The reform of the weapons law contains some technical adjustments Switzerland needs to comply with to remain in the Schengen and Dublin agreements. It changes very little to the life of weapons owners, sport shooters and hunters while ensuring continued participation of Switzerland in the most important security arrangements on the European continent. A "No" on May 19 would trigger automatic exclusion of Switzerland 6 months later, except in the unlikely case that all EU countries agree to make an exception for Switzerland.

Main losers would be those 700'000 employees crossing the border everyday to come to work, companies depending on these employees, the airports (not equipped to be non-Schengen airports) and last but not least tourism (Schengen visa!). Infrastructure cost (building new hard borders everywhere) would increase and the physical security for people living in Switzerland would be declining (no access to the Schengen Information System!).

8) **"So what will happen if the two votes are rejected?"**
Life will go on. Companies will adjust to the new system by moving some or all parts to economically reasonable locations – in other cantons or other countries. Cantons will struggle to find rapid solutions to avoid losing fiscal revenue as early as 2020. People will have to adjust to new border procedures and new locations of work. And our competitors (especially The Netherlands and Ireland) will court companies based in Switzerland pointing to the many points of uncertainty in Switzerland and praising their own locations. They will especially point out the great instability in a country where the government twice proposed important business reforms which have twice been ratified by both houses of parliament, only to be rejected twice by the people.

"So what should we vote?"

- For the proposals that are good enough for you, please vote "Yes".
- For the proposals that are not good enough for you, please swallow the bitter pill and vote "Yes" anyway.

Two "Yes" on Sunday, May 19, will give us the opportunity to continue developing our competitiveness, our innovation strength, our financial stability, our welfare, our security and our life style – all for the benefit of our children and their children. There will be many adjustments necessary and many changes will be made in the coming years. But "Yes" will provide a solid and credible foundation for these changes. Or to put it simply, two "Yes" will give Switzerland and the Swiss citizen triple security (i) jobs, (ii) social security and (iii) access to Schengen.

Two "No's" on May 19 will result in a large heap of broken plates. It will take enormous energy and time to readjust to the new reality. Let's not attempt a Brexit-like experiment!

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