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Swiss-EU taxation agreement with many loopholes

The European Union (EU) has its savings income taxation agreement, and Swiss bankers get to keep their banking secrecy. Clearly, this enables Switzerland to continue aiding and abetting tax evasion by wealthy foreigners for now.

The Swiss-EU agreement on the taxation of savings income is like a block of Emmental cheese: it is full of holes. The initial withholding tax of 15% and then 35% (as of 2011) affects only the savings income of natural persons and only their savings accounts, more recent bonds and certain investment funds. Shares, equity investment funds and investments in derivatives are unaffected by the agreement, as are interest payments accruing to legal entitles.

This was what prompted Joachim Borggräfe, Head of the Tax Law Division of a Frankfurt law office, to caution that «the loopholes in EU savings income taxation policy were leading to increased capital flight.» He considers it ill-suited to the world capital market.

Bankers, trustees and tax consultants are already seeking new investment vehicles so as to circumvent reporting obligations toward tax authorities and avoid withholding taxes. This is clearly at odds with the spirit of the agreement. The Federal Council should therefore act to close these loopholes before the agreement takes effect. Should the anticipated millions in proceeds not materialise, the EU will loose no time in renewing the pressure on Switzerland as well Luxembourg, Belgium, Austria and other countries to institute automatic information sharing after all.

What is particularly unpleasant is that the deal reached in the bilateral negotiations and hence the preservation of banking secrecy was bought with Switzerland's contribution to the EU Cohesion Fund. The billion francs promised by the Federal Council is to come from savings on cooperation with Eastern Europe and possibly even on development cooperation (see page …). This is all the more unacceptable when we consider that interest payments on capital that has been spirited out of developing countries and evaded taxes remains untouched.

Very substantial sums are involved, as shown by the following rough calculation: The Swiss National Bank reports that at the end of 2002 there were trust funds from developing and transition countries to the tune of 84 billion francs in Swiss accounts. For the most part they could not have been properly taxed in their countries of origin. In addition, there are funds flowing into Switzerland from developing countries via Caribbean offshore centres. If we take a total of 100 billion francs and a modest interest rate of 3 per cent, the yield would be 3 billion francs. A 35% withholding tax would garner over a billion francs. In comparison, official Swiss development assistance was 1.75 billion francs for the year 2003.

The Swiss Coalition therefore demands that, just like the EU, developing countries too should be able to benefit from savings income taxation. The agreement must therefore be extended to all countries.

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