

Corporate Tax Reform III and its defeat

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The Federal Council presented its first answer in the form of Corporate Tax Reform III, the third major reform of company taxation after those of 1997 and 2008. The message of June 2015 proposed the abolition of the cantonal regimes and the federal practices, combined with a set of new instruments: a patent box at cantonal level complying with the modified nexus approach, an increased deduction for research and development, a notional interest deduction on surplus equity, transitional rules for the disclosure of hidden reserves, and a reduction of the capital tax. The Confederation was to compensate the cantons for the expected revenue losses by increasing their share of the direct federal tax.¹ Parliament adopted the act on 17 June 2016 after extending some of the instruments beyond the government's proposal.

The Social Democratic Party and the trade unions launched a referendum. They argued that the reform would cost the Confederation, the cantons and the communes several billion francs a year, that the losses would ultimately be borne by individuals through higher taxes or reduced services, and that the instruments, particularly the notional interest deduction, went too far.² On 12 February 2017, voters rejected the reform by about 59 per cent of the votes cast. The rejection was one of the most significant defeats of the Federal Council and the business associations in economic policy in recent decades.³

The vote had a particular resonance in Basel. The cantonal government of Basel-Stadt had supported the reform and had prepared a cantonal implementation that included compensatory measures for residents. The urban cantons nonetheless showed considerable scepticism towards the reform, and the result in Basel-Stadt fell short of the support the government had hoped for.⁴ The lesson that Basel politicians drew was that a tax reform for companies could only succeed if it was accompanied by visible social measures for the population. That lesson informed both the

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federal successor project and the "Basel compromise" that the canton adopted two years later.

The defeat did not change the international situation. The European Union and the OECD still expected the abolition of the regimes, while the companies concerned needed legal certainty. The Federal Council therefore started work on a new project almost immediately. It appointed a steering body with cantonal representatives and presented the outlines of "Tax Proposal 17" in June 2017. The new proposal was narrower in some respects and contained a novel element, a link to the financing of the old-age and survivors' insurance, that was intended to make it acceptable to voters who had rejected the first package.⁵

1 Notes

1. Message of the Federal Council on the Corporate Tax Reform Act III of 5 June 2015, BBl 2015 5069. To be verified. ↩
2. On the referendum campaign against the Corporate Tax Reform Act III, see the explanatory booklet of the Federal Council for the vote of 12 February 2017 and the arguments of the referendum committee. To be verified. ↩
3. Federal Chancellery, results of the popular vote of 12 February 2017 on the Corporate Tax Reform Act III; the act was rejected with roughly 59.1 per cent no votes. Figures to be verified. ↩
4. On the cantonal results of the vote of 12 February 2017, see the official results published by the Federal Statistical Office. The precise share of no votes in Basel-Stadt is to be verified. ↩
5. Federal Department of Finance, press releases of June and September 2017 on the parameters of Tax Proposal 17 (Steuervorlage 17). To be verified. ↩

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