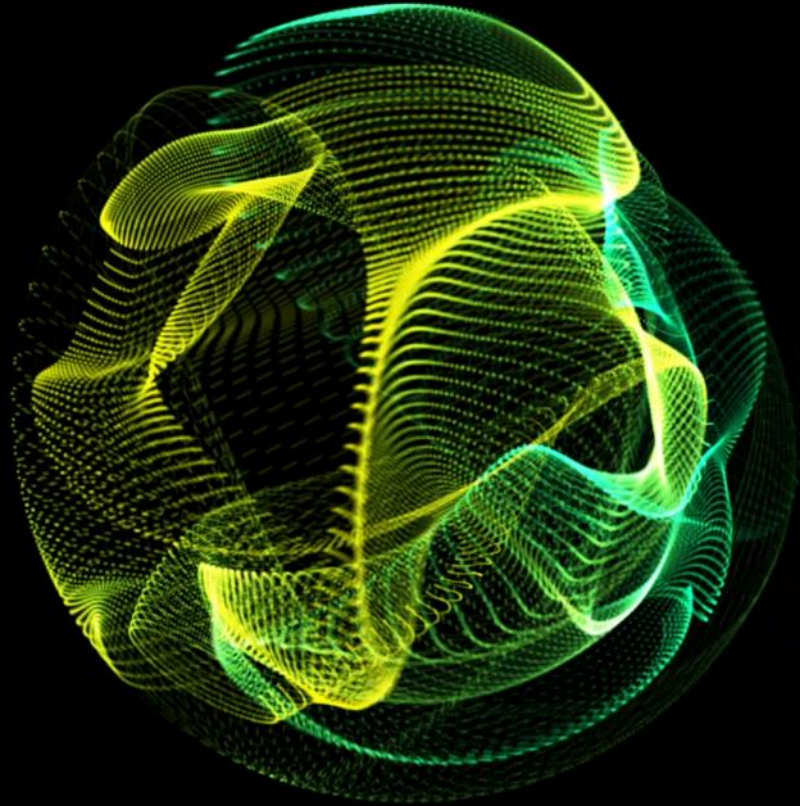


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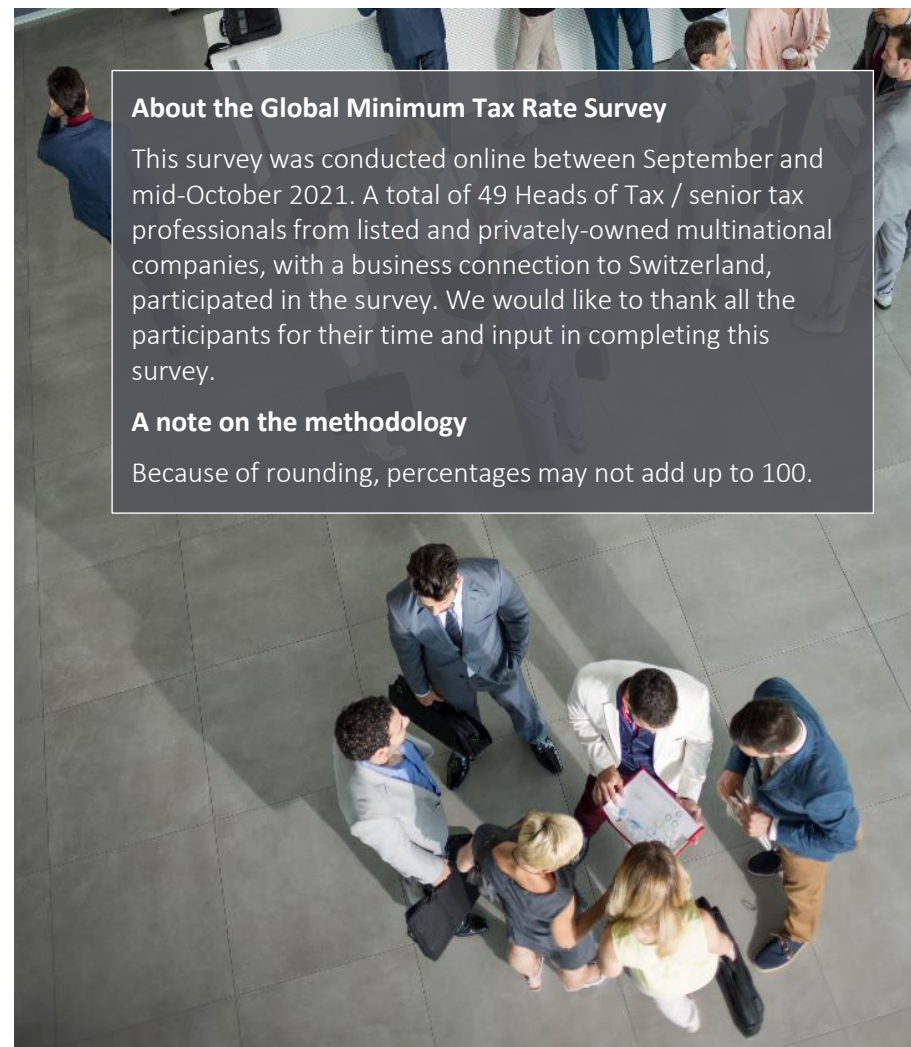
Global Minimum Tax Rate Survey

The impact on Switzerland as a business location now
and in the future



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1. Summary and key findings



Factors that influence business location decisions

The most important factors that influence business location decisions are political stability, the regulatory framework, talent aspects and the cost of doing business, with the overall tax environment being slightly less important. Switzerland performs quite well in relation to many economic factors, however, the biggest room for improvement relates to the high costs of doing business and to a lesser degree, timely and appropriate access to talent. Notwithstanding this, 50% of respondents indicated that the increased remote work possibilities would likely have an impact on their company's future decisions relating to the choice of new business locations.

How Switzerland ranks as a business location of choice

The tax experts in our survey ranked Switzerland as the most favourable business location internationally. This top ranking is partly a consequence of Switzerland's successful tax reform in 2020 – a few years before this, the situation may well have been different.

The role of the tax function in making decisions about international business locations

The tax function in companies plays an important role in the decision-making process about business locations and has about the same amount of influence as business segment leaders. The final decision is taken by the Board and the C-level suite.

Is the introduction of a global minimum tax rate seen as a threat or opportunity for Switzerland

Three-quarters of respondents see the introduction of a global minimum tax rate as a threat to Switzerland's overall competitiveness as a business location. Switzerland was always seen as a business location which had high operating costs but where the benefits of tax savings outweighed those higher costs. It may therefore be assumed that a tax increase without lower operating costs may negatively impact decisions when it comes to future investments into Switzerland. On the other hand, the tax reform may also create an opportunity to onshore business functions to Switzerland from current low-tax havens.

How might the additional tax revenue be best allocated by the Swiss government

According to the respondents, the most effective ways of reinvesting additional tax revenues would include abolishing Swiss withholding taxes, reducing social security costs and increasing R&D subsidies.

2. Global and local developments in relation to the Swiss tax environment

The purpose of this survey is to assess the impact and the related perceptions of the intention by the OECD and the G20 to introduce a global minimum tax rate of 15%, which aims to level the playing field in relation to taxation globally.

The OECD issued a statement on 8th October, 2021 on the ground-breaking tax deal with 137 countries and jurisdictions agreeing to the two pillar approach with the aim to address critical tax challenges arising from the digitalisation of the economy. Each of the two pillars addresses a separate concern:

1

Pillar One, targets the largest multinational groups, focusing initially on those with at least €20 billion of consolidated revenue and net profits in excess of 10% (i.e. profits before tax as a percentage of revenue). Pillar One will require these companies to pay tax where their customers and users are located and should therefore require large multinationals to pay at least some tax in the markets they interact with. A formulaic approach will be used to allocate profits between jurisdictions.

2

Pillar Two, the key component of which is commonly referred to as the 'global minimum tax' or GloBE rules, introduces a minimum effective tax rate of 15%, which will be calculated according to specific rules. Groups with an effective tax rate below the minimum, in any particular jurisdiction, would be required to pay a top-up tax to the tax authorities in their head office location. The tax would be applied to groups with annual revenue of at least €750 million, making it far more widely applicable than Pillar One.

The global minimum tax rate attempts to limit tax competition by introducing a globally uniform floor below which the effects of any low tax rate or fiscal policy measure would largely be obviated. Switzerland will be largely affected by this change as the current, applicable, effective income tax rate in most cantons is lower than the proposed minimum tax rate. The calculation of the effective minimum tax rate under the GloBE rules is different from the determination of the tax base under the current Swiss tax system. The effective tax rates under the current Swiss tax system are therefore not directly comparable to the proposed effective minimum tax rate. As an example, even a group operating in the canton of Zurich with an approximate effective tax rate of 20% could be below the proposed effective minimum tax rate under the GloBE rules.

Switzerland has decided to participate in the Inclusive Framework, along with 137 other countries, and generally supports the two pillar solution. It is however, demanding that the interests of robust, small, economies, such as, Switzerland are taken into account in the implementation of both pillars, and that legal certainty is established for affected companies.

In parallel with the ongoing work of the OECD, the Swiss Federal Department of Finance (in close collaboration with other departments and with the involvement of cantons, cities, businesses and academia) will draw up internationally accepted proposals for the Federal Council, by the first quarter of 2022, that aim to offer businesses the best possible guidance and conditions for sustained growth¹.



3. Location decisions: key factors and favourable jurisdictions

Switzerland is considered internationally to be an important business location. The most important business locational factors are political stability, the regulatory framework, access to talent, and the cost of doing business, with the tax environment being slightly less important. Switzerland compares well in regard to many of these factors, however, the biggest room for improvement relates to the costs of doing business here.

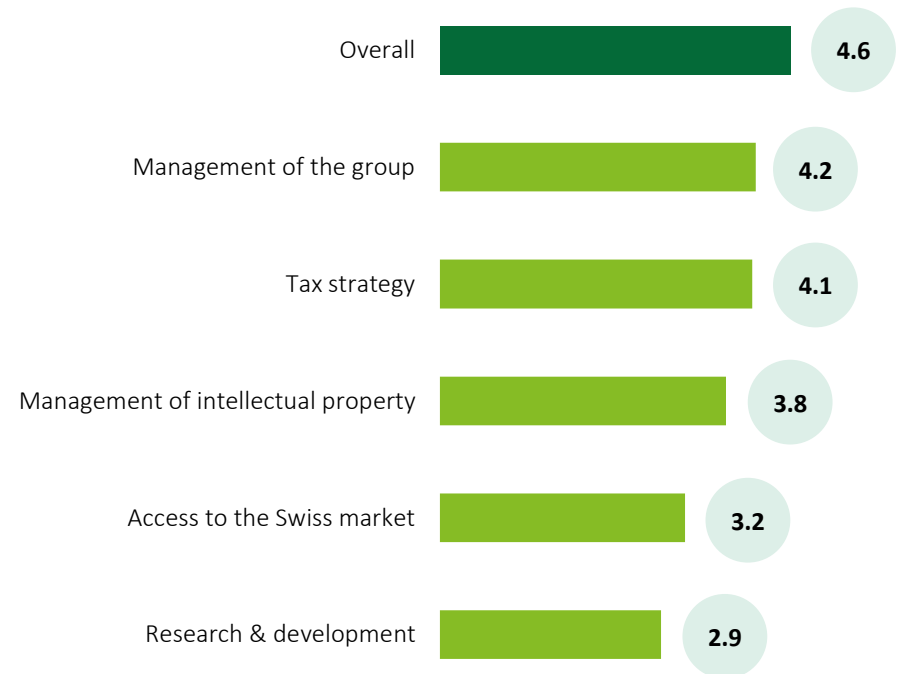
The survey asked senior tax professionals to indicate (via a scoring system) how important Switzerland is as a business location within their global organisations. The overall average score was 4.6, where a score of 5 indicates very high importance.

The results clearly show that within a global context Switzerland is viewed as an important and strategic location by organisations and particularly so for high value-adding activities, such as:

- corporate management of business groups
- management of corporate tax strategies
- oversight and management of intellectual property

However, it was also interesting to see that access to the Swiss market and to research and development capabilities carry less weight.

Chart 1. Is Switzerland an important jurisdiction within your organisation?



Scale: 1 = no importance, 5 = high importance

Factors that are important to global organisations from a business location perspective

Respondents were asked to rate the importance of various factors when selecting an international business location and then to rate the prevalence and the quality of those specific factors in Switzerland.

Not unsurprisingly the most important organisational factors include:

- political stability
- good legal and regulatory systems
- the cost of doing business
- access to talent – be that local or global talent

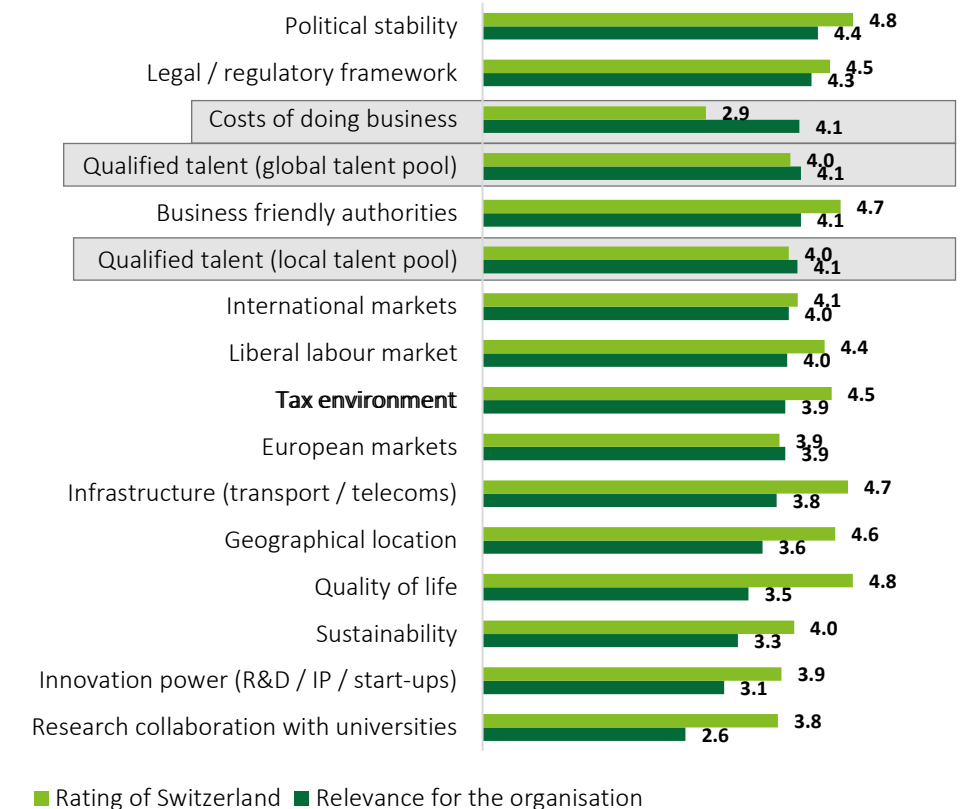
While the quality of the tax environment is important, it ranks 8th, or mid-way amongst all of the other factors.

The performance of Switzerland in relation to these factors

When ranked against these key factors, Switzerland performs well in relation to the majority of them, indicating that the country is a strong business location of choice. In addition to the factors listed above, other areas of strong performance include having business friendly authorities and very well-developed infrastructure systems.

However, there are a number of areas where Switzerland is weaker on, such as, the overall costs of doing business and having timely access to the right talent. The high costs of business is a well-known challenge and could be difficult to address given that higher wages also feeds into the attractiveness of Switzerland from an employee point of view. Nevertheless, where improvements to this factor and strengthening the liquidity of the talent market, are possible, Switzerland should aim to improve these areas.

Chart 2. Business location - importance of specific factors to organisations vs. quality of these factors in Switzerland



Scale: 1 = irrelevant/very bad, 5 = very relevant/very good

■ Relevance for the organisation is higher than the rating for Switzerland / room for improvement

International jurisdictions considered favourable for specific activities

When asked which jurisdiction they would consider the most favourable for specific functions, respondents ranked Switzerland as the most 'sought after' location.

Many respondents work for large multinational organisations with operations in the country, which means that they know the business location well, both in terms of its strengths and weaknesses.

The fact that those who know Switzerland well rank it so highly speaks to the attractiveness of the country and its pro-business environment.

It is also noteworthy that the top ranking was given for high value adding activities, such as, IP, R&D, supply chain management, and treasury & finance and that these activities also happen to be highly differentiated from each other.

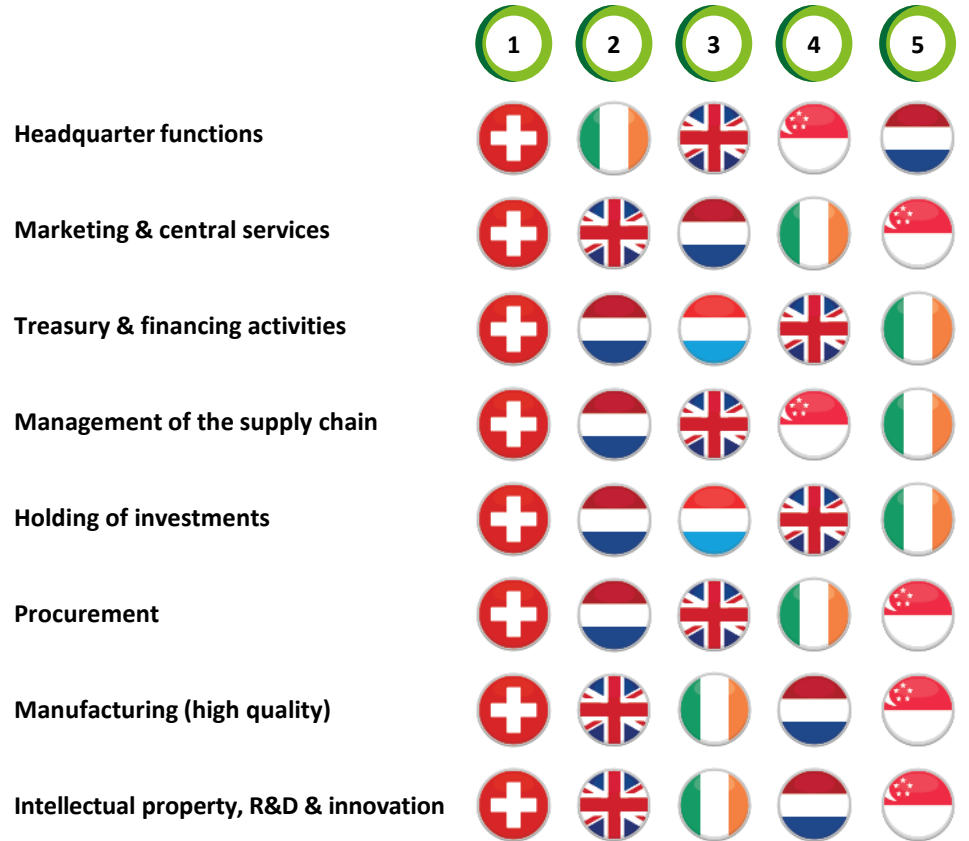
Swiss tax reforms in 2020 have helped Switzerland's attractiveness

If respondents were asked the same question a few years ago, the ranking may have been different. Switzerland's high ranking is partly a consequence of the successful introduction of tax reforms in 2020. In comparison, the UK is now experiencing the implications of Brexit, and both the UK and the Netherlands recently announced tax reforms that will substantially increase taxes for corporations.

Remote working options will impact business location choices

However, it is also important to note that 50% of respondents indicated that remote working options would have an impact on future corporate decisions relating to business location choices. Remote working increases the mobility of organisations and could lead to a consolidation of sites / business locations in the future.

Chart 3. Which jurisdiction would you consider favourable for the following activities?



Ireland
 Luxembourg
 Netherlands
 Singapore
 Switzerland
 UK

4. Who sits in the driver`s seat in relation to business location decisions

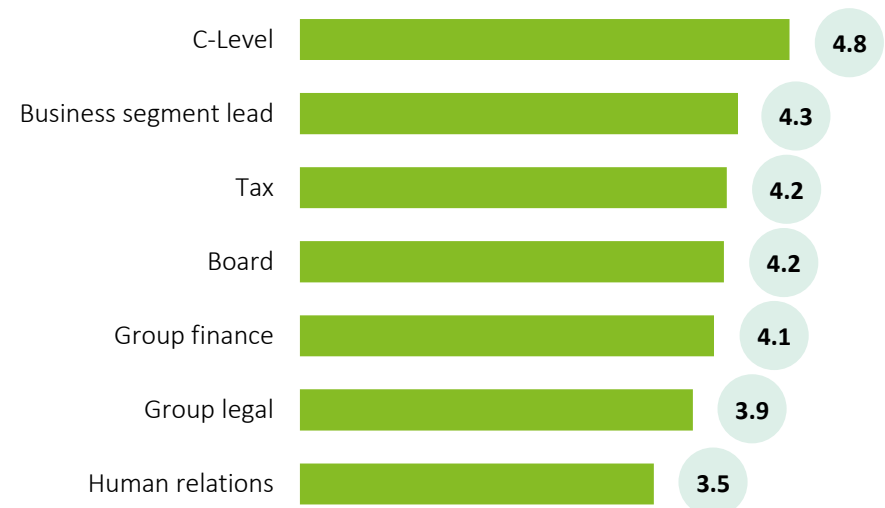
When it comes to making decisions about business expansions and international locations, it is interesting to see that a wide variety of corporate functions, including the tax function, have significant input into the process. While the ultimate decision lies with the Board and the C-level suite, the views and input of various business functions are important in the process.

When it comes to decisions relating to specific business locations or expansions, the survey shows that many key functions and teams have an important input into the process.

While C-level management has the biggest influence, both the Board and various business functions such as Tax, Group Finance, and business unit leaders also have significant input into the decision. The tax function very much 'holds its own' and its contribution is viewed as both important and valued when it comes to business location decisions.

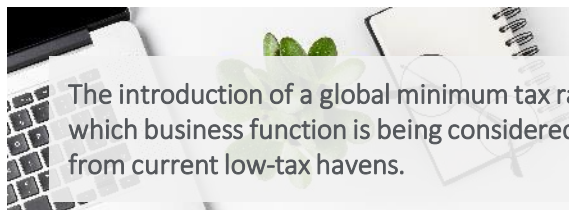
The data shows that, unsurprisingly, when it comes to making the final decision, that this rests primarily between the Board and the C-level suite.

Chart 4. To what level are the following groups / teams involved in the decision-making process about investing in a specific business location or in relation to a business expansion?



Scale: 1 = low involvement, 5 = high involvement

5. Global minimum tax rate: impact on Switzerland as a business location



The introduction of a global minimum tax rate is seen as more of a threat than an opportunity for Switzerland. However, opinions differ, depending on which business function is being considered. In addition, the reform of global taxation may be an opportunity to onshore business functions to Switzerland from current low-tax havens.

Is the introduction of a global minimum tax rate a threat or an opportunity for Switzerland?

- Overall, 78% of respondents view the introduction of the global tax rate as a threat to Switzerland's competitiveness, to a lesser or greater degree.
- 49% feel the threat is moderate while 25% perceive it as more definite.
- Only 9% perceive the introduction as somewhat of an opportunity and a further 14% are neutral on its potential impact.

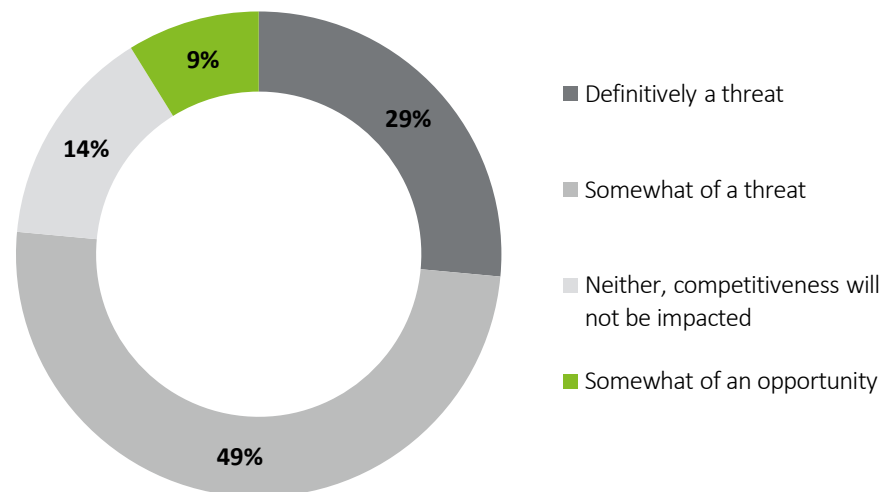
These concerns are in line with the Federal Department of Finance which is demanding that the interests of small economies, like Switzerland, are taken into account by the OECD when finalising the new rules. In addition, the Department is drawing up proposals for the Federal Council to offer businesses the best possible framework and conditions for future, sustained growth.

How Switzerland will compare to other countries

Switzerland's current tax advantage over countries like Germany, France and the US will be reduced slightly, by 2-3 percentage points, posing a threat to Swiss competitiveness. However, even with these changes, the tax advantage or differential enjoyed by Switzerland over these countries will still be around 15%.

Furthermore, countries like Ireland, Hong Kong, Malta, Cyprus and Dubai currently offer lower tax rates than Switzerland. With the introduction of the GlobE rules the relative tax advantage of these countries, compared to Switzerland (and other locations), will diminish or disappear. This might prompt a fresh look at where businesses locate their operations, with some of them potentially onshoring to other countries, including Switzerland.

Chart 5. Is the introduction of a global minimum taxation rate a threat or an opportunity for Switzerland's overall competitiveness as a business location?



Because of rounding, percentages may not add up to 100

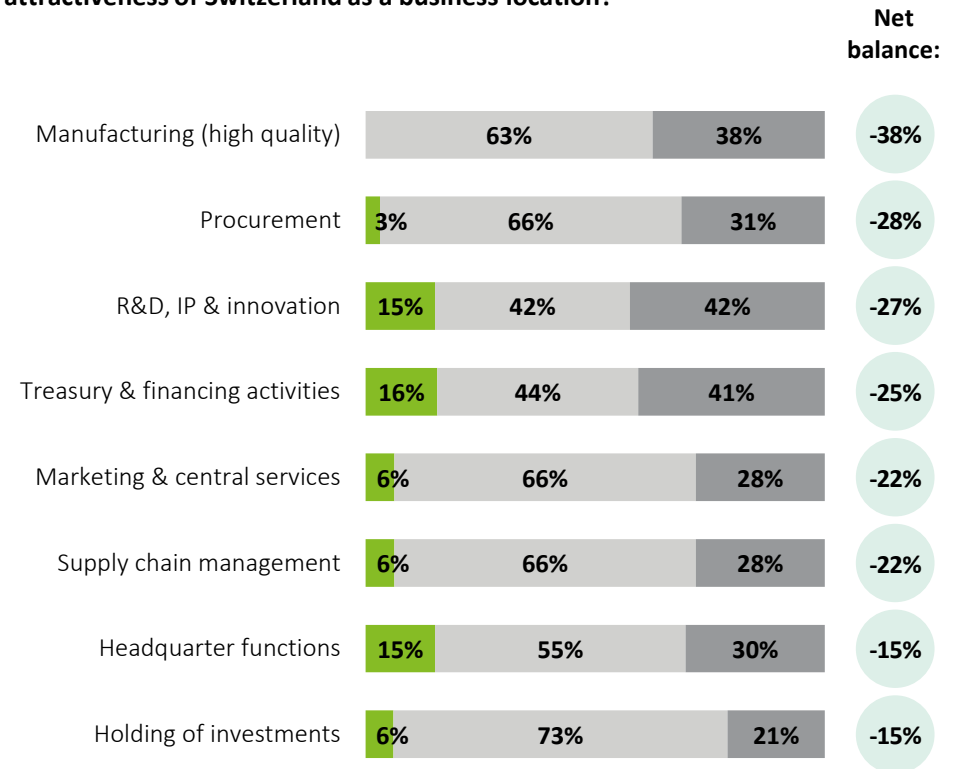
How the introduction of a global minimum tax rate will impact the attractiveness of Switzerland for specific business functions

In addition to rating the overall impact of the global minimum tax rate on Switzerland's competitiveness at a macro level, respondents were also asked how it might affect various business functions, locating here. This assessment provided a more nuanced view of where the specific threats and opportunities lie.

1. The majority of respondents believe the attractiveness of Switzerland will remain largely unchanged for a wide variety of business functions. These functions range from high-end manufacturing to the holding of investments.
2. However, the proportion of respondents expecting a negative impact on attractiveness is larger than for those predicting an improvement. The proportions expecting an increase in attractiveness range between 3% and 16%, depending on the business function.
3. Those expecting attractiveness to deteriorate is much higher, ranging from 21% to 42%, again depending on the activity or business function.

The biggest negative net balance (number expecting an increase minus those expecting a decrease) is for high-quality manufacturing and procurement. However, intellectual property management, R&D and treasury and finance are activities that follow closely behind on the negative net balance scale.

Chart 6. Will the introduction of a global minimum tax rate impact the attractiveness of Switzerland as a business location?



Because of rounding, percentages may not add up to 100

- Switzerland will become more attractive
- The attractiveness of Switzerland will remain unchanged
- Switzerland will become less attractive

6. How Switzerland can improve its attractiveness

Switzerland needs to improve its attractiveness in areas other than taxation, such as its bilateral agreements with the EU, as well as, improving access to international talent. In addition, the additional tax income derived from the global minimum tax rate should be used effectively, for example, by abolishing Swiss withholding taxes, reducing social security costs and increasing R&D subsidies.

The forthcoming changes to the Swiss tax environment resulting from the global minimum tax rate, will weaken the overall tax benefit of Switzerland in comparison to other higher tax jurisdictions. Switzerland therefore needs to act to retain and even improve its attractiveness.

As our survey shows, Switzerland is performing well with regard to several of the most relevant business factors, such as, digital and physical infrastructure, business-friendly authorities, political stability and a flexible education system. It is crucial that Switzerland should retain its premium standards in these areas.

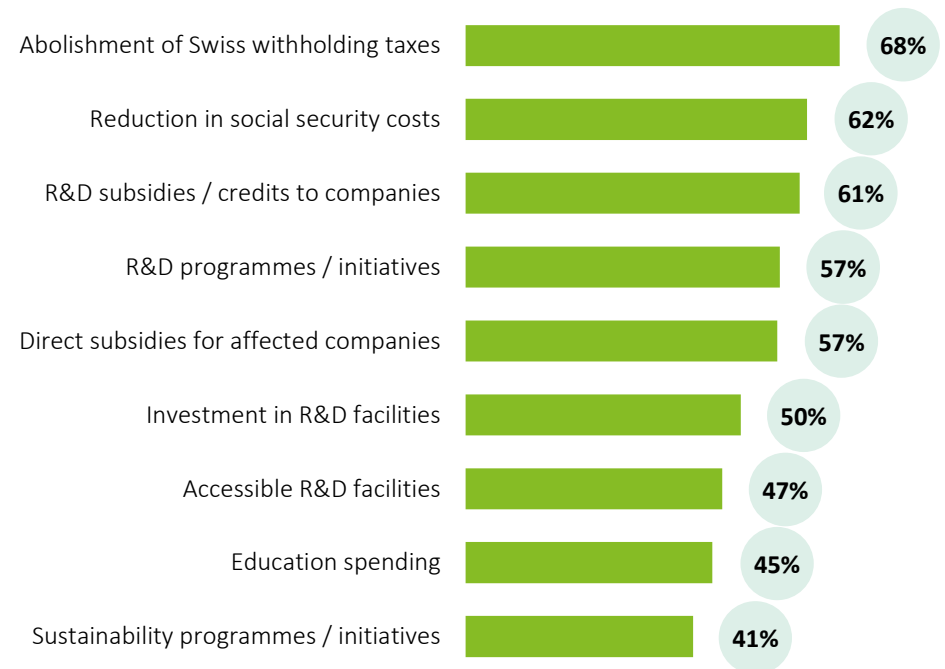
Business factors that need to improve in Switzerland

However, key areas for improvement include:

- improving access to and lowering bureaucratic obstacles when sourcing international top talent. This was recently outlined in the Swiss American Chamber of Commerce & Deloitte study *"Switzerland Needs Global Talent"*².
- ensuring that the mutual recognition agreement with the EU is secured. This is essential for Swiss exports and especially for the med tech sector.
- addressing the costs of doing business.

A drawback of Switzerland, as a business location, are the high costs of doing business here. This is one of the reasons why corporate groups only establish the most value-adding functions in the country and principally those that benefit from the tax rate arbitrage. All measures that would make operating in Switzerland less costly, compared to other business locations, should be considered.

Chart 7. If the Swiss federal and / or cantonal authorities choose to reinvest additional tax revenues which investment measures would be most effective?



The data displays the share of those ranked as "relevant" and "very relevant"

Options the Swiss government may have to redistribute the increased revenue from the global minimum tax rate

The introduction of a global minimum tax rate should result in increased tax-related income for the Swiss government, which then leads to the question of how this additional revenue might be best allocated. Chart 7 communicates where the respondents believe this money would be best invested, with the abolition of Swiss withholding taxes, a reduction in social security costs and increased R&D subsidies coming in strongly as the top three preferences.

1. Abolition of Swiss withholding taxes

The most effective measure, according to the survey respondents, would be to abolish Swiss withholding taxes (WHT). Switzerland currently has amongst the highest international WHT rates on dividend distributions at a rate of 35%.

A double taxation treaty, means that for countries in the EU, the WHT tax rate on dividend distributions is effectively reduced to 0%. However, this is not the case for direct investments from the US or Canada which experience a residual withholding tax burden of 5%. As a consequence, the vast majority of US investments into Switzerland are channelled through an EU holding entity, increasing costs and complexity.

Abolishing WHT would make direct investments more attractive, and the market for financing activities would become more competitive. This would also directly help to counteract one of the most negatively affected functions, as identified by the respondents in Chart 6.



2. Reduction in social security costs

A reduction in social security costs would lower overall employment costs in Switzerland and thereby help address the commonly perceived cost disadvantage of businesses locating here. While in principle there are several options, implementation in practice may be difficult and may have unwelcome side effects.

Considering both practicality and permissibility under OECD guidelines, a possible approach might be to implement reductions in the first pillar of the pension system – the AHV (Alters- und Hinterlassenenversicherung). While this is already subsidised by indirect taxation, namely by VAT, direct taxation contributions could also provide additional funding for the Swiss pension system, which is under pressure from demographic ageing. Political acceptance might be achieved as the subsidy would not only benefit (multinational) corporations, but would also help secure the pensions of Swiss employees³.

However, a reduction in labour costs through a reduction in social security contributions might not outweigh the disadvantage of a higher income tax burden on corporations. This can therefore be only one of many measures that need to be considered by the government. There is also the more fundamental question about whether the Swiss pension system should be made more dependent on tax subsidies instead of pursuing structural reforms to make it financially sustainable on its own in the long-term.



3. R&D tax incentives and subsidies / credits

Additional support for research and development is the third most sought after measure. Support includes R&D subsidies and credits as well as increased spending on R&D programmes and initiatives. Investment in R&D would help to counteract the potential negative impact on Switzerland as a location of choice for R&D, intellectual property and innovation as is illustrated in chart no. 6.

Tax incentives for R&D

Currently, tax incentives are linked to patent boxes or R&D undertaken in Switzerland and the availability of non-tax incentives by the government is limited. With the introduction of the GloBE rules, these tax benefits may no longer provide a benefit and having R&D functions in Switzerland will therefore be less attractive.

Going forward it is crucial that the funding of research in Switzerland should remain attractive in comparison to other jurisdictions. If businesses commit themselves to undertaking research activities solely or primarily in Switzerland, a respective compensation should be granted by the cantons. It would be important that all taxable companies in Switzerland should be able to profit from such cantonal compensation, and not just those which are subject to the GloBE rules.

R&D subsidies

Without a doubt any future R&D subsidies must be fully compatible with OECD guidelines. However, since R&D subsidies are common within the EU and globally, and also accepted by the OECD, Switzerland has a range of possible options. The following points should also be considered if meaningful R&D subsidies are implemented:

- Definition of the concrete purpose/goal of the adapted research funding
- Determination of an effective new mechanism
- Adaptation or extension of cantonal R&D deductions
- Necessary adaptation of the federal tax harmonisation law



7. Endnotes

1. EFD(2021), Switzerland calls for legal certainty in the implementation of the key parameters in international corporate taxation
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