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Q&A on the OECD Inclusive Framework's key parameters for global corporate taxation of 08.10.2021

What is the OECD Inclusive Framework?

- The OECD Inclusive Framework on BEPS is the supreme technical and political authority for addressing the recommendations of the OECD base erosion and profit sharing (BEPS) project. All OECD member states – including Switzerland – and more than 100 other countries are members of the body. The Inclusive Framework currently comprises 140 countries and territories.

How do the parameters presented by the Inclusive Framework on 8 October 2021 differ from those published on 1 July 2021?

Overall, the parameters of July 2021 have been fleshed out. The following points are noteworthy from a Swiss perspective:

- The new taxing rights for market jurisdictions are moderate, and unilateral digital taxes are to be abolished.
- The global minimum tax rate is to be set at 15% (instead of "at least" 15%). Furthermore, the minimum taxation rules are to be introduced in stages.

How did Switzerland act during the Inclusive Framework decision-making?

- Switzerland endorsed the concrete parameters. It is calling for the interests of small, robust economies to be taken into account in their implementation and for legal certainty to be created for the companies affected.
- Other points of importance for Switzerland are still open and are to be fleshed out in the coming months. In this context, Switzerland is committed to rules that foster innovation and prosperity, that are applied uniformly worldwide and that are subject to a dispute settlement mechanism. The aim is to create legal certainty for affected companies. Switzerland – like other countries – is critical of the OECD's timetable. It does not yet sufficiently respect national legislative processes. It will not be possible for Switzerland to introduce the new rules by 2023 as envisaged by the OECD.

Why did Switzerland not veto the Inclusive Framework decision?

- Switzerland endorsed the concrete parameters for the following reasons and is prepared to continue the work at OECD level:
    - A multilateral solution will prevent the emergence of an uncontrolled proliferation of national digital taxes.
    - The large companies in Switzerland that are potentially most affected clearly signalled beforehand that a multilateral solution is preferred for legal certainty reasons.
    - A multilateral solution will allow Switzerland, with appropriate measures, to remain an internationally competitive location for large multinationals.

Does Switzerland have to participate in the OECD/G20 project?

- There is no obligation. However, as a small, open economy, it is probably more beneficial for Switzerland, and also for the companies concerned, if it participates.
- Global minimum taxation is a good example. This is likely to be voluntary for the states. However, if a state does not introduce the minimum taxation and continues to tax at a

rate lower than the minimum rate, other states can tax the difference for the companies concerned.
- Switzerland would thus lose out on tax receipts for the benefit of other states. In addition, taxation abroad would be more costly and administratively more complex for the companies concerned.
- Therefore, Switzerland's focus is on the overall package of competitive framework conditions domestically.

What role does the G20 play in decision-making on new global corporate tax rules?
- The G20 gave the OECD a political mandate to draw up rules for the taxation of companies with global operations. These are being developed in the Inclusive Framework.

When will the new rules come into force?
- The OECD timetable foresees entry into force in 2023. In addition, the minimum taxation rules are to be introduced in stages. The undertaxed payments rule (UTPR) is to be applied from 2024, for example.

What measures can be considered to strengthen Switzerland's competitiveness as a business location if taxes become less important as a location factor?
- The Federal Department of Finance, in close cooperation with other departments and with the involvement of the cantons, cities, the business community and academia, is looking into this issue and is expected to submit proposals to the Federal Council by the first quarter of 2022. This timetable depends on the progress of the work in the OECD.

What are other countries doing to make their locations more attractive?
- Many countries support companies with favourably priced infrastructure, loans or subsidies, contributions for research and development, support for sustainable business management and tax advantages that are internationally compatible.
- Location factors such as security (legal, political), stability, service quality, internationally diversified financial sector, high standard of education and high-quality authorities are important. Switzerland is still very well positioned in these areas.

With the new rules, multinationals will have to pay more taxes. What is wrong with that?
- In the short term, this may result in higher tax receipts. BUT:
- High profit taxes inhibit a company's ability to innovate and lead to less investment.
- For the state, this means weaker growth, as well as fewer jobs and lower tax receipts in the longer term.

A global minimum tax rate is only part of the OECD project. It also concerns new taxing rights for market jurisdictions. Where do things stand in that respect?
- Companies with more than EUR 20 billion in annual turnover and a profit margin of more than 10% are set to be affected by the rule, i.e. approximately 100 of the largest and most profitable companies. However, many details are still being worked out.

What impact would the global minimum tax rate have on tax receipts in Switzerland?
- In the short term, it could result in additional receipts.
- But especially from a dynamic perspective, Switzerland's tax appeal as an important location factor is likely to become less important, companies could move away and the establishment of new companies could decline, causing a loss of tax receipts and jobs.

How many companies in Switzerland are affected?

- It is not yet possible to make any binding statements, but large companies that operate internationally are concerned.
- Pillar 2 is likely to affect a low three-digit number of Swiss groups, plus a low four-digit number of Swiss subsidiaries of foreign groups.
- Pillar 1 will probably affect fewer than ten Swiss companies.

What does the minimum tax rate generally mean for tax competition among the cantons?

- The level of the profit tax rate will become less important as a location factor, especially for large companies.

Does the OECD project have an effect on the domestic fiscal equalization between the cantons?

- If the reform caused large multinationals to move abroad, less money would be redistributed to the financially weak cantons due to the reduction in tax receipts.
- To prevent this from happening, Switzerland would have to ensure in good time that it remains attractive as a location for large multinationals despite the loss of certain tax advantages.
- There would be a time lag of four years before any economic implications would be visible in the fiscal equalization system. For the 2021 fiscal equalization, for example, the tax assessment years 2015, 2016, 2017 are decisive.