Schweizerische Eidgenossenschaft
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Swiss Confederation

The President of the Swiss Confederation

CH-3003 Bern
FDF

Berne, 13 December 2019

Tax challenges arising from the Digitalisation of the Economy

Dear Mr. Secretary-General,

I commend the considerable efforts undertaken by the Secretariat of the OECD in the past months to develop a consensus solution regarding the project still known as the taxation of the digital economy.

At this crucial point in time, I would like to assure you of the ongoing support by Switzerland in the common effort to achieve a well-functioning global system for the taxation of enterprises to assure sustainable growth.

Switzerland favours multilateral over unilateral approaches to the challenges at hand. A further erosion of the existing global system of the taxation of internationally active companies could result in a multitude of unilateral and confusing measures. Such an outcome would seriously hamper the innovative drive and sustainable growth.

As digital technologies have an impact on value chains and as highly digitalised businesses are able to operate remotely and across borders, the tax rules need to be reexamined to reflect this changing reality.

The key to achieving an enduring political consensus is to find well-crafted rules that will ensure tax certainty and administrability, thereby serving the common interest of all countries, large and small: Stability in the international tax landscape will allow companies to make investment with confidence and supports economic dynamism and innovation.

In this regard, as the architecture of a *Unified Approach* in Pillar 1 is being explored, Switzerland is convinced, based on longstanding experience, that the existing transfer pricing rules should remain at the heart of the global tax framework. Any new rules allocating more

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income to market jurisdictions should, and could, be built into the longstanding system that is anchored on the arm's length principle, and should include highly digitalised businesses. Any newly revised system should maintain focus on value creation and avoid any taxed-induced distortive effects that could hamper global growth and investment.

Regarding Pillar 2, Switzerland favors a compromise solution that essentially respects tax rates and policies set by jurisdictions, and that does not stifle healthy competition among competitors, another key element for sustainable growth: Competition is a driver of efficiency and the optimal allocation of resources.
Smaller countries have to be able to resort to being highly competitive and being drivers for growth to compensate for the lack of scale that larger markets guarantee. A modest minimum tax rate and limited carve-outs, e.g. for tax regimes which are accepted by the OECD, would address risks of profit shifting to jurisdictions with no or very single-digit taxation while assisting all countries, big or small, in developing strong, sustainable, inclusive and balanced growth. Global blending would clearly appear administrable more easily than jurisdictional or entity-based blending.

Furthermore, the high complexity of the approaches envisaged under the two pillars, a fact that was also pointed out by many stakeholders at the recent Public Consultation, remains a concern. Complexity needs to be reduced, and compliance costs for businesses and tax administrations have to be significantly scaled down.

The avoidance of double taxation, underpinned by dispute prevention and binding dispute resolution mechanisms is key to both pillars.

On procedure, any binding decision by the Inclusive Framework on the architecture and design of the approaches under Pillars 1 and 2 must only be sought once all essential elements and details of the solutions are defined.

As we believe a path to a consensus must be built, we look forward to continuing the work with the OECD.

Sincerely yours,

Ueli Maurer
Head of the Federal Department of Finance

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

Secretary-General
Secrétaire général

AG/2019.676.pb

20 December 2019

Dear Mr. Maurer,

Thank you for your letter dated 13 December 2019 concerning the work on a multilateral solution to the tax challenges of the digitalisation of the economy. I very much appreciate your strong support for the OECD's efforts in this regard. I also extend my gratitude to Switzerland for its initiative at the UN to successfully lead our Members in securing a new paragraph acknowledging the Inclusive Framework on BEPS in the context of the final adoption of the UNGA resolution on Illicit Financial Flows. This is very important to the OECD.

I have noted your comments on the two Pillars of the project and the need to consider compliance costs and tax certainty in the design of the solution. I have transmitted your letter to the Centre for Tax Policy and Administration team to carefully consider your comments. We are at a critical juncture in the work and need to advance it at the upcoming meeting of the Inclusive Framework on 29-30 January 2020 if we expect to deliver a solution by the end of 2020. I count on Switzerland to continue to engage constructively to find a workable solution for all.

As you may have seen, on 16 December 2019, following three days of discussions in the Inclusive Framework Steering Group, three key documents were distributed to the Inclusive Framework for comments. All Inclusive Framework members, including Switzerland, are invited to submit comments on these notes by 15 January 2020. I encourage Switzerland to avail itself of this opportunity and to engage directly with Pascal and his team as necessary to communicate your views. Based on the comments received, the notes will then be revised by the Steering Group and submitted to the Inclusive Framework for discussion and approval at the January 2020 meeting.

Lastly, I would like to thank you for your personal initiative to foster constructive collaboration on this project through the organisation of information meetings between Pascal Saint-Amans and the ambassadors of the small OECD member countries. It is indeed crucial that all our members remain fully informed and engaged in this important project.

Yours sincerely,

Angel Gurría

Mr. Ueli Maurer
Head of the Federal Department of Finance
Switzerland

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