

H. E. Mr. Ueli Maurer
Swiss Finance Minister
Switzerland

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30 August 2021

Dear Ueli,

It was my pleasure to meet with you in Bern last month to discuss issues of particular interest to Switzerland, including taxation issues. I understand the importance of these issues to Switzerland and thank you for your follow up letter dated 25 August 2021.

A key objective of the current work on Pillars One and Two is to restore the international consensus on corporate taxation so that uncoordinated unilateral measures and the resulting overtaxation and trade tensions can be avoided. As we discussed during our meeting, Pillar Two is not designed to eliminate tax competition between jurisdictions, but to put a multilaterally agreed floor in place. It does not and is not intended to achieve tax harmonisation. Delivering a broad consensus on both pillars and swift implementation of the agreed measures will bring much-needed tax certainty to both tax administrations and taxpayers. With Switzerland having joined the July Statement, I very much appreciate that we can count on Switzerland's continued and constructive engagement in achieving a consensus at the October Inclusive Framework meeting on the remaining issues and next steps.

With respect to the specific points raised in your letter, I offer the following comments, noting that these are issues to be discussed and decided in the Inclusive Framework.

- **Ensuring global acceptance and uniform application of both pillars.** I very much share your view that it is important to ensure consistency, certainty and coordination in the application of the two pillars. This, however, can be done in a number of ways, including through the development of multilateral instruments, model legislation, clear guidance and peer reviews. The 133 countries and jurisdictions that have joined the July Statement so far have agreed that a multilateral instrument will be developed for Pillar One. This is necessitated by the fact that Pillar One establishes a new and formulaic approach to the allocation of profits of a multinational group. Given that Pillar Two can be implemented through domestic legislation, it is not clear that a multilateral instrument is essential to ensuring its consistent application. I acknowledge that this requires further discussion in the Inclusive Framework as part of the development of the implementation plan for Pillar Two.
- **Profit reallocation under Pillar One.** I acknowledge your position on how revenues redistributed under Pillar One should be borne by different countries, noting that this is an open question subject to ongoing discussions. The July Statement only refers to the principle that the Amount A tax liability *"will be drawn from those [entities] that earn residual profit"*.



- **Minimum rate, carve-out percentages and the corresponding tax adjustment.** As you are aware these are all open questions. It is my hope and expectation that consensus on these issues can be reached by the October Inclusive Framework meeting. The July Statement reflects agreement on a rate of “at least” 15% and a formulaic substance carve-out that will exclude an amount of income that is at least 5% of the carrying value of tangible assets and payroll. What these final percentages will be is one of the key outstanding issues to be resolved by October. I understand that Switzerland is not alone among Inclusive Framework members in wanting the rate to be 15% (at most) and for there to be higher mark-up percentages on both tangible assets and payroll. Given the divergent positions among Inclusive Framework members, and as we discussed during our meeting, I personally do not see a consensus being reached at a rate above 15%.
- **Double counting of payroll costs.** The terms of the carve-out are critical to many countries and also linked to the final decision on the minimum effective tax rate. I understand that there were extensive discussions, as part of the work on the October Blueprint, on how to accommodate R&D costs in the substance carve-out. I am told that part of the reason for the inclusion of a payroll element in the substance carve-out was to accommodate the views of countries that supported special rules for R&D. Following the public consultation and further consideration of these issues by the Working Party, the July Statement reflected an agreement on a formulaic substance carve-out that does not distinguish between various types of activities associated with such costs. I also note that the percentages for the substance carve-out have not yet been agreed. I would expect that as part of the ongoing discussions, countries such as Switzerland may argue that the mark-up for payroll should be set at a higher rate.
- **Implementation period.** The implementation timeline is necessarily ambitious given the intense political pressure to resolve this longstanding issue. Each country has its own legislative processes to adhere to and this should be taken into account by the Inclusive Framework. It is nevertheless important to maintain momentum and ensure swift implementation. I understand that Switzerland has already raised its timing constraints with the Inclusive Framework, and as I indicated during our meeting and since publicly, I am very conscious of the specific democratic processes required under your system of government. I am strongly committed to ensuring a smooth implementation which is appropriately respectful of your internal democratic processes and have instructed Pascal and his team accordingly. They are acutely aware of the need to minimise any adverse unintended consequences as we transition into the new framework. Deferred implementation of the Undertaxed Payments Rule is one of the design options they are presently considering.
- **Treating carbon taxes as covered taxes.** Addressing climate change is one of the top priorities for the OECD and it is indeed important to consider a range of tools to tackle this issue. However, I think it best to separate carbon pricing from the issues being addressed by Pillars One and Two. Carbon taxes are taxes on inputs (not income) and therefore do not fit with the conceptual or design framework of the two pillars. I worry that we would only further complicate matters by using a tool designed to address one problem to try and solve another. As you know, I have proposed further work on explicit and implicit carbon pricing to facilitate a global dialogue and further progress to address climate change ambitiously and effectively. I am very keen to discuss this further with you.



I hope these responses are helpful. I remain, as always, fully available to discuss these and any other issues you may have over the next few weeks leading up to the October Inclusive Framework meeting.

Kind regards,

A handwritten signature in blue ink, consisting of a large, stylized 'M' followed by a 'C'.

Mathias Cormann

Cc: H.E. Mr. Giancarlo Kessler, Ambassador, Permanent Representative of Switzerland to the OECD