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FDF

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Mr Mathias Cormann  
OECD Secretary-General  
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France

Bern, 25 August 2021

Dear Secretary-General, *liebe Mathias*

Thank you again for the open and constructive conversation we had during your visit to Berne in July this year. I appreciate your interest in our position and concerns with regard to the Two-Pillar-Approach of the OECD/G20-Project; in particular also regarding the Statement of the Inclusive Framework («IF») on BEPS published on July 1, 2021.

I would like to share some of our points in writing.

As we are all aware, one of the consequences of digitalisation and the resulting changes in business models is that the existing international consensus on corporate taxation is eroding. Many states have already introduced unilateral measures or are planning such measures in case the OECD project fails. Such unilateral measures carry the risk of over-taxation and harm sustainable growth.

Switzerland would like a new international consensus to be reached, so that legal certainty can be guaranteed for both, countries as well as companies. Therefore, in the spirit of a possible compromise and the continuation of a consensus-finding process within the OECD, Switzerland conditionally supports the key parameters of international corporate taxation published by the IF on BEPS beginning July. However, Switzerland rejects any tax harmonization that goes beyond the avoidance of harmful tax competition. Global tax harmonization with the main objective of additional government revenue will not deliver sustainable growth and prosperity. Even worse, it may stifle competition and run against the intended goals.

Our reservations are the following:

- The new rules must be broadly accepted, and globally and uniformly applied. It is essential that the rules for both pillars are sufficiently clear, provide for dispute avoidance mechanisms, and that appropriate instruments are in place to ensure that domestic rules and regulations that are approved by the OECD are accepted by all countries. Therefore, **Switzerland strongly supports the development of a multilateral instrument for both pillars** in order to ensure consistency, certainty and co-ordination in the application and operation of the rules. This would also address the concerns expressed by some countries regarding the compatibility of Pillar Two with existing tax treaty provisions.
- Switzerland expects that the **revenues intended to be redistributed under Pillar One are borne evenly by all headquarter countries and by all companies concerned** according to the statement of the Inclusive Framework on July 1, 2021.
- The **minimum tax rate shall not exceed 15%** and is flanked by a substantial carve-out. To achieve this, at least 15% of the carrying value of tangible assets and payroll should be considered, and no adjustment of the «covered taxes» in respect of income that is exempt from the GloBE rules under the carve-out should be made. The latter would render the carve-out ineffective.
- Furthermore, the **double counting of payroll costs** related to research and development in the carve-out would promote much needed innovation in an effective manner.
- The implementation of Pillar One (e.g. approval and ratification of a multilateral instrument) and of Pillar Two in Switzerland will require changes to our domestic tax law and possibly to our constitution, which has to follow the democratic legislative process. In this respect, we would like to emphasize that Switzerland requires an **implementation period for both pillars of at least three years from the finalization of the multilateral agreement and / or the model regulations. It must be ensured that a jurisdiction does not suffer any disadvantages during the implementation period**, particularly with regard to Pillar Two, if other jurisdictions implement the rules earlier, i.e. neither a shift of the taxation right (collection of top up tax) from the Ultimate Parent Entity to the next Parent Entity down the ownership chain nor a collection of UTPR top-up tax towards Ultimate Parent Entity jurisdiction shall be allowed during the implementation phase. We would furthermore like to emphasize that we strongly support a deferred implementation of the UTPR.

At our meeting, we also talked about the great challenge of climate change and that climate and environment are important issues on the OECD agenda. In this regard, I would like to share with you the following thought: Carbon pricing is very effective in promoting the shift in production and consumption decisions towards low and zero carbon options that is needed to limit climate change. Although not currently envisioned, why not encourage this in this major project and recognize carbon taxes as covered taxes to underscore the importance of this issue and to incentivise Carbon pricing? Otherwise any solution might be outdated even before it is implemented – given the urgency to act on climate change.

I will be grateful if you can support us in ensuring that our concerns are taken into account in this project. Of course, both myself and my administration are available for questions and input at any time.

I look forward to seeing you again at the OECD ministerial meeting in early October.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Ueli Maurer". The signature is fluid and cursive, with the first name "Ueli" written in a larger, more prominent script than the last name "Maurer".

Ueli Maurer  
Federal Councillor