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EU Tax Ultimatum to Switzerland Could Affect Russia

By The Moscow Times

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The European Union's tax commissioner told Switzerland to stop allowing regional administrations to have tax codes that favor foreign firms over domestic ones, a rule several Russian companies benefit from.

Algirdas Semeta said that if Switzerland doesn't comply by June, it could be put on a blacklist of "uncooperative" countries, Tax-news.com said.

Switzerland is popular with corporations because of two benefits provided by the cantons, said Natalya Kuznetsova, a partner at PricewaterhouseCoopers, Vedomosti reported.

One benefit is a tax exemption on profits from loans to foreign borrowers, which is very attractive for holding companies. The second benefit can significantly reduce the corporate tax rate for traders, most of whom receive more than 80 percent of their income from abroad, she said. Instead of paying 20 to 30 percent, they can pay 8 to 12 percent.

Much of the Russian oil, metals and grain business goes through Swiss traders, and most of them use the tax structure of the cantons, a senior executive at a consulting company said.

Switzerland is home to major oil trader Gunvor, Gazprom Export trader Gazprom Schweiz, LUKoil's Litasco, ENRC CMI, Novex Trading NLMK, Severstal Export, Mechel Trading and Norilsk Nickel's Metal Trade Overseas.

The world's largest trader, Glencore, which owns 8.75 percent of RusAl, is based in Switzerland.

"If they remove local tax incentives, we will get out of Switzerland," said a senior executive of a large grain trader.

But Swiss authorities are not rolling over just yet.

Swiss Finance Minister Eveline Widmer-Schlumpf fiercely criticized the commissioner's action, saying that the policy is not how the EU should deal "with good treaty partners."

Constantly issuing threats and ultimatums is not the way to achieve results, the minister added, noting that Switzerland is in a constructive dialogue with the EU and has already put forward proposals for discussion.

Switzerland is not an EU member, but the European Commission considers some cantonal company tax arrangements for holding companies to be forms of state aid, which are not compatible with the 1972 Free Trade Agreement.

Although the Swiss Federal Council has consistently rejected the EU's interpretation, considering it to be unfounded, it is negotiating to resolve the matter.

In a 2007 decision, the commission requested a mandate from the council to take up negotiations with Switzerland. The council adopted the mandate that same year.

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