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The Microtax: A Ray of Hope

I. Swiss Constitutional Initiative for Microtax

On 25 February 2020, the official text of the initiative "Microtax on Cashless Monetary Transactions" was published in the Swiss Federal Register. The organizers must now collect at least 100'000 signatures in order for the initiative to be placed on the ballot.

Text of the Microtax initiative, see enclosure

Much of the Swiss population is unhappy with the tax system as it stands today. In many ways the system is inequitable. Politicians constantly tinker with changes, without having a broad view or strategy. The result is a confusing patchwork: an archaic (and anarchic) tax system.

Neither does the existing Swiss system for taxation address the challenges posed by the global economy in which we find ourselves immersed. The world of Apple, Amazon, Facebook, and Google intervenes deeply in our everyday public and private lives without our permission.

The world of Swiss banking is also subject to these new pressures. Banks seek new business opportunities but have difficulties adapting to new paradigms and the growing demands of transparency. The latest algorithms allow casino finance. Machines trade shares in nanoseconds. The beneficiaries of these algorithms make riskless profits owing to sheer manipulation.

Away from the trading floor, banks enter into arcane bespoke "derivatives" contracts executed well outside of the spotlight. These private agreements between banks and an endless parade of alphabet-soup counterparties run to the trillions in value. Some are indeed executed for insurance purposes, but many others for pure speculation. And it is the public who pays when this house of cards comes tumbling down, as we saw in the last global financial crisis.

How does the Microtax change this world?

First, the Microtax achieves an improved tax system.

Second, the Microtax helps prevent further negative effects of financialization.

The Microtax initiative is broader than legal, finance, or taxation concerns, although it addresses all three. It is the right answer to digitalization. The Microtax brings transparency into the system of transactions and payments. It strengthens Switzerland as a sovereign nation.

The rollout of the Microtax initiative is designed for balance from both content and timing perspectives. The federal parliament and the federal administration have ample time to prepare for the improved tax system and the new paradigm of digital taxation.

II. Balanced Suggestion

A. Taxation of Payments

1. Digital Tax

The Microtax is a digital tax in the era of globalization and digitalization. A digital world requires digital taxation.

The central nervous system of both the real economy and the finance industry is the payments system. It is within the payments system that the Microtax makes its home.

Today, vast and growing cashless monetary transactions represent the backbone of the economy. This represents fertile ground for a Microtax on each and every digital money movement.

A digital tax on these transactions with a single tax rate is clear to all. No complicated tax tariffs, no exceptions, no exemptions.

Taxation takes place at each credit and each debit.

As an electronic tax, the Microtax reduces senseless bureaucracy.

2. Are electronic payments a public good?

Yes, electronic payments are clearly a public good. After all, the moment these electronic transactions no longer settle, the national economy grinds to a halt.

The surveillance of digital monetary transactions by the Swiss National Bank is essential from the point of view of the country, the economy, and the population.

Our confidence in the proper working of payments depends on proper supervision of the payments system by the Swiss National Bank and is as fundamental as our confidence in our bank notes and in our coins.

Our country has to take care of the public good of monetary transactions. They are the bedrock on which our economy is built.

Whether the privatization of the payment system meets the requirements of a public good is an issue requiring transparent discussion among stakeholders, including the taxpayers who will be asked to pay for the next string of financial crises.¹ Maybe politicians will be forced to deal with this issue only after our modern electronic payment system overruns our still-sovereign nation. Fortunately we are not yet in this position and farsighted solutions can still be discovered. The discussion following the introduction of the Microtax in Switzerland will help in finding the best solution.

3. Payments as part of monetary policy

We consider the perfect functioning of the national payments system as self-evident. The reliable settlement of monetary transactions is essential for the well-being of the population and the smooth functioning of the economy.

The confidence of citizens in banknotes and coins issued by the state is a necessary and fundamental precondition for cash payments. Today payments are made

¹ Is the delegation of this public good to a private organization the best route to follow? This remains to be seen. SIX Payments Services AG was a private enterprise owned collectively by and operated on behalf of Swiss banks. Yet at the end of 2018 this firm was sold to the French concern Worldline, a payments systems provider. The company SIX Group AG holds 27% of the shares in Worldline, as part of the deal.

largely electronically. Electronic payments need to be as reliable as payments made with banknotes. The Swiss National Bank (SNB) has the legal obligation to facilitate and secure payments. This implies the assumption of a guarantee for the functioning of payment systems as is the case for the issue of banknotes. Without the confidence of the population in the Swiss National Bank, monetary transactions become endangered. It is the obligation of the SNB and our federal government to ensure a smoothly functioning system.

4. Monetary and Foreign Exchange Policy of the Swiss National Bank

Monetary transactions executed within the financial system are a key driver of the monetary and foreign exchange policy of the Swiss National Bank, because this "velocity of money" is a key determinant of economic growth. A prime example here is the flows into and out of the current accounts maintained by operating banks at the Swiss National Bank. Yet since 2013 the transaction volume of these accounts is no longer published by the SNB. Why not? These flows are a central plank in the monetary and foreign exchange policy of our country. They show the volume of monetary exchange between the National Bank and the operating banks. We still await a satisfactory answer from the National Bank as to why this information is now kept outside of the public eye.

What we expect from the National Bank is an all-encompassing report on the volume of annual money movements in Switzerland. This is crucial information for us as a public, even independent of a new digital tax. These data however are also obviously important to set the relevant level for the Microtax; the tax rate for the Microtax can only be fixed after all such data are on the table. Based on the annual payment volume, it will become the task of the federal parliament to adjust the rate of the Microtax annually.

Further, the volume of monetary transactions and the tax rate for the Microtax will be an important factor in defining future Swiss fiscal policy and the financing of the federal budget.

5. Elasticity of the Volume of Monetary Transactions

Because of the international mobility of capital there exists the risk some money flows might leave Switzerland under a Microtax system. But should we really worry about this? What kinds and qualities of money flows will we lose exactly? Should we spill crocodile tears if criminal money laundering chooses to go elsewhere, for example? Or big international hedge funds who operate in secrecy, pulling the puppeteer's strings under cover of darkness? These types of activities create a reputational risk for our banks, and more importantly for us, the Swiss people.

Our stable political system, the excellent infrastructure of our county, our reliable and well-trained work force, combined with the abolition of both the Value Added Tax and the Direct Federal Tax will in contrast support the continued prominence of Switzerland as a great place to do business. Further soft factors will also continue to weigh positively for Switzerland. These include a reliable and dynamic multi-party political system, the rule of law, a well-tended environment and standard-setting environmental and agricultural policy, physical safety and security, an outstanding school system, and a top-functioning healthcare system. Also important are factors such as reliability, good order, punctuality, cleanliness, and hygiene. These qualities, obvious from the moment a visitor steps off the plane or train, are the true gold of our economy, although they have unfortunately been the subject of self-ridicule as "Swiss-Bünzli".

In view of these fundamental Swiss assets the enactment of a Microtax will not lead to funds moving out of Switzerland. On the contrary our economy and the civil society will welcome the elimination of certain negative aspects of financialization. Organizations such as Economiesuisse and Avenir Suisse might however beg to differ. After all, they are controlled and financed by the business aristocracy, and therefore might have another perception from citizens of the real world, who are fortunately entitled to a vote.

The Microtax will bring many advantages to Switzerland as a sovereign state. It is a new approach in the digital and global era. The Swiss position will be strengthened internationally and other states will follow our lead in the introduction of similar taxes. In recent years Switzerland has often been on the back foot, reacting to the decisions of the big countries around us and across the seas. It is time for us to be proactive, and to seize this opportunity for beneficial innovation.

B. The Microtax allows the abolition of three obsolete federal taxes

1. Why should the Microtax abolish three federal taxes?

The current global economy produces an immense and ever-growing volume of transactions, at a level not seen previously. The main driver here is not, however, increases in activity in the “real economy”. In contrast, the giant volume is caused by financialization, or the excesses of the finance industry. The real economy is also growing, but at a much lower rate. A small tax with a tax rate in the fractions of one per mil will exceed the combined total revenue of the Direct Federal Tax, the Value Added Tax, and the Stamp Duty. The Microtax will not decrease the volume of monetary transactions. In the same way as the tax on gasoline does not decrease car traffic nor does the tax on alcohol decrease the consumption of beer.

2. The Microtax will help deregulation

Regulation should be clear, well-worded, and convincing. The world of tax law goes in the opposite direction. The federal tax code alone (without the cantonal taxes) as laid out in the book “Steuern 2020” (Taxes 2020) by Prof. Hinny, comprises over 2500 pages!

By contrast, the Microtax is simple, easy to understand, and consists of only one tax rate. It helps to vastly simplify tax codes. It not only simplifies tax law, but also banking law, banking regulations, and the jumble of regulations of the FINMA.

The Microtax provides automatic regulatory benefits. It will tame certain unproductive activities in the area of financialization, without prohibiting them. Good regulations excel through few interdictions. The Microtax helps to remind us of past promises: “If you enact one additional law, eliminate two”. The Microtax will allow the elimination of three tax laws: the Direct Federal Tax, the Value Added Tax, and the Stamp Duty.

Cantonal taxes are not affected by the constitutional Microtax initiative. Our federal system ensures cantonal autonomy in the area of taxation.

C. Which taxes will be abolished?

1. The Direct Federal Tax, or the “Wehrsteuer” (Defense Tax)

The Direct Federal Tax was introduced during the Second World War, when Switzerland was surrounded by fascist states. After the war was over, the federal government broke its promise to the population to abolish this special one-off tax. This promise can now be belatedly kept, thanks to the Microtax.

For many the Direct Federal Tax is a holy cow because it is strongly progressive, meaning it has the most effect on the wealthy. But of course the truly rich are not affected either way. Middle class families, where both spouses have to earn money and where each franc counts, are painfully punished by the “progressive” tariff of the federal income tax.

2. The Value Added Tax is not fair

The Value Added Tax, introduced in 1995, is a bureaucratic absurdity with three different controversial tax rates and thousands of exemptions. The tax is borne by the last ones in the value chain, that is, the population. The presence of this regressive tax also leads to a constant struggle between industry and the tax authorities to negotiate lower rates. The latest fight took place among lobbyists for a lower rate for sanitary towels and tampons. Certain entities, such as municipalities and hospitals, are exempted from the VAT and therefore cannot reclaim the input tax. To compensate this disadvantage yet another rule was enacted under the name “virtual input tax”. The white horse neighs. One wonders, nobody understands, and we ask: what is going on?

The Value Added Tax is also problematic across our international borders. The many tax scams in this arena speak for themselves.

The Value Added Tax should be abolished.

The Microtax will relieve families of the burden of this regressive VAT. With a yearly income of 100'000 CHF a middle class family pays a VAT of around 4'000 CHF per year, on top of their income taxes. Assuming a Microtax rate of 00.10% (10 basis points) this typical family profits tremendously, paying only a fraction of the VAT as Microtax, namely 200 CHF per year.

3. Stamp Duty

For many years, our banks have asked for an abolishment of the Stamp Duty, which similarly to the VAT operates according to a series of poorly conceived and byzantine rules.

III. The banks do not come up short

A. Collection of the tax by processors of monetary transactions

Banks are already well equipped to collect taxes via their existing systems. They do so already with the Stamp Duty. Bank fees are already levied electronically. Processors of monetary transactions, mainly banks, are legally bound to collect the Microtax automatically and to transfer it to the federal tax authority. The updating of banks' software to assess and collect the Microtax is already part of their “daily bread”.

B. Remuneration for Processors

Processors of monetary transactions will be adequately remunerated for the collection of the Microtax and for the maintenance of the required software. The amount of the remuneration will be fixed by the federal parliament. First estimates show that the remuneration for the banks will amount to several billion Swiss francs per year, a welcome new source of income.

C. The Microtax: The Perspective of the Banks

First reactions to the Microtax from business associations and from the banks themselves have been muted. This initial reaction is not easy to understand as banks

will both profit directly from it (in the form of remuneration for processing) and as a knock-on effect, their reputations will improve as some unwanted business slithers away. Payment of the Microtax itself is actually borne by the clients of the bank, and further, the Stamp Duty will be abolished. Fees on asset management provided by the banks will also no longer be subject to Value Added Tax.

One critic of the Microtax, a professor, mentions that it would not be fair that the banking sector should pay to finance the abolition of three federal taxes to the tune of 50 billion Swiss francs annually. His basic premise here is incorrect. It is after all not the banks who pay the Microtax; the banks merely collect the tax. Every participant in the economy pays the tax, as we move money electronically to cover our needs. We are all subject to the Microtax. As the finance sector with its shadowy web of activities currently generates the highest volume of transactions, it however bears a correspondingly higher burden in the form of Microtax.

D. But please, no more trickery

The reputation of our banks has suffered greatly over the past 20 years. Not only nuts-and-bolts issues of daily business are at stake, such as the long list of money laundering cases, unfair commercial practices, and indecent bonus distributions. The perception in the population is widespread that banks consider themselves to be a world apart, functioning outside of societal norms. This perception is very detrimental to the reputation of the finance industry. Further, the poor perception of Swiss banks abroad leads to a dark view of Switzerland and the Swiss people themselves.

Basic human issues are at stake. Banks should also behave with decency and follow the old Swiss rule of good faith. Is that asking too much? The Microtax initiative committee would like to draw special attention to the following two points, which have to do with decency and correct behavior.

1. No Systematic Netting to the Detriment of the Microtax

The Microtax is due on all monetary transactions. Individual netting in normal circumstances is no problem. The Microtax is levied on gross amounts and therefore it applies to the pre-netting transaction volumes.

In the SIC Payment System, Swiss franc payments are made in real time and on a gross basis between financial entities. A system on gross basis is more secure than one on a netting basis. SIC is a "Real Time Gross Settlement" System or abbreviated RTGS-system. **"RTGS-systems mark a crucial step in the direction to an efficient and secure cashless payment system"**².

The gross basis applies to all payments subject to the Microtax. Banks began some years ago to make use of systematic netting, especially in the area of Foreign Exchange. This is not in the interest of the client, because systematic netting often cannot be retraced. Systematic netting does not correspond to a secure cashless payment system.

Vigorous enforcement by motivated, competent, and well-compensated federal tax inspectors will ensure a successful Microtax program.

² From „Die Entwicklung des Zahlungsverkehrs im digitalen Zeitalter – eine Zentralbank-Perspektive“ by Andréa M. Maechler and Thomas Moser S. 5

2. “The Intent and Purpose of the Microtax must be honored”

This is the key sentence of the initiative. A journalist has recently called this sentence “the shocked sigh of the drafters” of the Microtax initiative.

Indeed we have spent quite some time deliberating whether we should introduce this sentence “the Intent and Purpose of the Microtax must be honored” into the initiative at all. Several in the legal profession have indeed advised us against its inclusion. After all, this sentiment should be implicit already in all of our laws and regulations. But really? We still assume that Switzerland is an independent country and that the Swiss are law-abiding people. Our key sentence is directed on the one hand at the federal parliament. This important body has here and there cheated when implementing constitutional initiatives. The sentence is on the other hand also directed to compliance and tax practitioners in the financial sector who – often under the direction of management – have deliberately misinterpreted laws and regulations and contravened the spirit of good faith. This attitude applies especially to tax laws, which have often been undermined with corrupt intent. Banks have misused gaps in regulations intently in their interest and to the detriment of the general public. Banks have to answer for the huge bureaucracy in connection with the Automatic Information Exchange themselves. They considered themselves as being beyond the rule of law and decency. Also here I have to quote my venerated and longtime boss at Julius Baer, Hans J. Bär: “It is not all about money”: it is first and foremost about decent behavior.

To take a concrete example, the very long draft of the constitutional Minder initiative (2013) in the end did not meet a principal purpose: to eliminate unjustified and self-directed bonuses in the executive boardrooms of quoted companies including banks. In implementing this initiative, the federal parliament conjured up a bureaucratic and worthless paper tiger. In the Minder initiative the sentence “Intent and Purpose ... must be honored” was missing. The mafia of the big corporate economy coldly exploited the situation and reversed the original intent and purpose of this initiative. We do not want to allow any wiggle room for this same fate to befall the Microtax initiative: its intent and purpose must be honored.

IV. The Microtax is neither left nor right, it is digital

Politically speaking, the Microtax falls into neither traditional “left” nor “right” buckets: it is digital and fair. Who moves more money, pays more tax. The Microtax does not tax work, but money.

A. Moving money is taxed, work is not

The existing tax system is nationally and internationally overwhelmed, too complicated, arthritic, and unsuited to meet the challenges of the digital era. The solution is the Microtax on cashless monetary transactions. The elimination of complicated tax tariffs will be only one of many blessings.

No longer are human beings and legal entities taxed but payments. Work is not taxed but rather payments. The higher the amount of the payment, the higher the tax. He or she who makes the biggest payments will be most burdened with the tax. The questionable High Frequency and Foreign Exchange trading will both be subject to the Microtax, as will all other payments. The immense volume of monetary transactions is not taxed today. Common sense dictates a new approach in the era of digitalization and financialization.

The Microtax will not swell the state apparatus unnecessarily. Instead the Microtax will shrink it, as well as dismantling weaknesses in the national economy as a whole.

B. The Microtax does not apply to Cantons

The Microtax does not interfere with the authority of the cantons. Cantons are free to levy taxes as they do today.

C. The Microtax is liberal and unbureaucratic

The Microtax is liberal and requires far less bureaucracy than either the Direct Federal Tax or the Value Added Tax. The Microtax is not progressive, as there is only one tax rate. Therefore it is very easy to calculate and the overall volume of tax receipts is therefore never a mystery. This means it is also transparent.

D. The Microtax advances the social good

It is socially minded because it taxes the flow of money, not work.

E. The Tax Rate of the Microtax is flexible

The tax rate is adaptable. The rate can vary depending on the revenue provided by the Microtax. The rate varies between 0.05 per mil and 5 per mil. The applicable rate will be fixed yearly by the federal parliament as soon as the total volume of the Swiss monetary transactions including current accounts of the National Bank are properly analyzed and made public.

The volume of national monetary transactions and the Microtax rate will be deciding factors for the future financing of the budget of the Confederation.

V. A smooth and flexible transition to the Microtax: the implementation phase

The transitional rules embedded in the Microtax initiative allow a careful phase-out of the long-winded regulations for the Value Added Tax, the Direct Federal Tax, and the Stamp Duty. The respective legislation will be decommissioned. After the approval of the initiative by the sovereign the federal parliament has an ample four years to enact the necessary legislation for the Microtax. In the first year after entry into force of the new legislation, the tax rate will be 0.05 per mil. The first year is a test phase. Thereafter the tax rate will be adjusted; the three taxes which are to be eliminated will be first reduced and must be abolished as soon as possible.

VI. Final Remark

Both the disproportion between sky-high debt in relation to worldwide GDP and the sheer size of the global market for derivatives give great cause for concern as Prof. Marc Chesney has mentioned. The growth of electronic monetary transactions continues apace with the massive growth of the global finance industry. The respective available data what underpins this growth are not complete. We are presented with a black box that we need to unlock.

As Felix Bolliger, the originator of the Microtax has outlined, in a next financial crises the taxpayer will once again have to bear the financial consequences of a failed system of casino finance.

The tax system of today is not satisfactory and has no answer to digitalization and financialization.

The answer is the Microtax on cashless monetary transactions.

Jacob Zraggen/4.3.2020

Table of Contents

I.	Swiss Constitutional Initiative for Microtax	1
II.	Balanced Suggestion.....	2
	A. Taxation of Payments.....	2
	1. Digital Tax.....	2
	2. Are electronic payments a public good?	2
	3. Payments as part of monetary policy.....	2
	4. Monetary and Foreign Exchange Policy of the Swiss National Bank.....	3
	5. Elasticity of the Volume of Monetary Transactions	3
	B. The Microtax allows the abolition of three obsolete federal taxes	4
	1. Why should the Microtax abolish three federal taxes?.....	4
	2. The Microtax will help deregulation	4
	C. Which taxes will be abolished?.....	4
	1. The Direct Federal Tax, or the “Wehrsteuer” (Defense Tax).....	4
	2. The Value Added Tax is not fair	5
	3. Stamp Duty	5
III.	The banks do not come up short.....	5
	A. Collection of the tax by processors of monetary transactions	5
	B. Remuneration for Processors.....	5
	C. The Microtax: The Perspective of the Banks.....	5
	D. But please, no more trickery	6
	1. No Systematic Netting to the Detriment of the Microtax.....	6
	2. “The Intent and Purpose of the Microtax must be honored”	7
IV.	The Microtax is neither left nor right, it is digital.....	7
	A. Moving money is taxed, work is not	7
	B. The Microtax does not apply to Cantons	8
	C. The Microtax is liberal and unbureaucratic.....	8
	D. The Microtax advances the social good	8
	E. The Tax Rate of the Microtax is flexible	8
V.	A smooth and flexible transition to the Microtax: the implementation phase	8
VI.	Final Remark.....	8