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Johnny Hallyday's decision to become a tax exile in Gstaad caused a predictable outcry in France and triggered another round of criticism of the cantonal tax system. Such criticism is not new. Alarmed at the growing number of European companies seeking refuge in Switzerland from the high taxes and onerous labour laws of its member states, the European Union have long argued that the cantonal tax system represents a breach of the provisions of the Free Trade Agreement that prohibit any form of "public aid" that distorts competition. But what was less predictable was the reaction of Economics Minister Doris Leuthard who denounced the lump sum taxation arrangements available to wealthy foreigners as "discriminatory for the Swiss". Was this is a sign of the Swiss political establishment joining forces with the external critics?

The EU's attitude to the Swiss tax system is difficult to understand. Its member states are awash with tax incentives that could equally be characterized as breaching the Free Trade Agreement. Ireland's low corporate tax rate was the culmination of a whole raft of inward investment incentives, many of which involved tax exemption if your business was located in the right part of Ireland. Even France has a special tax regime for French intellectual property and Luxembourg has a whole range of tax incentives to attract holding company and financing business whereas Spain and the Netherlands have tax privileged holding company rules. It is perhaps no accident that Ireland with its 12.5% corporate tax rate is Switzerland's major rival for inward investment from Europe and elsewhere in the world. While largely failing to get its own house in order and eliminate so called harmful tax competition from within its own borders it is easy to turn to Switzerland and criticize. Addressing the crippling corporate and employment tax burdens in France, Germany and the UK might be a more constructive use of its time.

And as for personal taxes, Switzerland is not alone in offering attractive tax arrangements to non-residents. The system in the UK makes the Swiss forfait arrangement seem positively ungenerous. UK residents who do not have a UK domicile can move to the UK and live on their wealth accumulated before their arrival without paying any tax at all in the UK. Even foreign income and gains earned while they are UK resident can stay out of the UK tax net provided that the income and gains are not received in the UK. The situation is almost identical to that in Switzerland except that the Swiss cantons at least extract some tax in return for the right of residence. Many UK non-domiciles pay no tax at all. So one solution to Ms. Leuthard's sense of injustice on behalf of Swiss millionaires is that they can come to the UK and pay no tax just as a procession of British film stars, rock stars and entrepreneurs have escaped the iniquities of the UK system by making their homes in Switzerland.

Doris Leuthard's comments almost exactly echo the sentiments of Labour Members of Parliament in 1997 following Tony Blair's first election victory. They questioned the fairness of billionaire residents of London's most exclusive residential enclaves paying substantially less tax than many UK workers on low or average wages. But hopes that the new Labour Government would level the playing field proved to be wholly unfounded.

In 2002 Chancellor Brown announced a review of the UK rules and many commentators thought that the outcome of that review was a foregone conclusion and that the special tax treatment available to non-UK domiciled residents would quickly come to an end. But that was before the outcry. Within weeks of the announcement the Greek shipping community, a number of Wall Street Investment Banks and other high profile entrepreneurs announced their intention to leave the UK in the event of the withdrawal of their tax privileges taking their extensive commercial activities with them. It became very clear that any revenue raised by the closure of the loopholes would be far outweighed by the economic damage which would follow as an inevitable consequence of the abolition. Although the Government maintains the pretence that the review is continuing, five years on there is no sign of any recommendations let alone of any change.

The debate in the UK raises an interesting point about the relationship between private wealth and corporate activity. The new rich have not inherited their fortunes but have largely created them through their own endeavours. When such people move to the UK or Switzerland they will often generate significant commercial activity in the jurisdiction in which they choose to make their home. If properly advised they will not personally pay very much tax on the profits of these activities but they will almost certainly generate employment and corporate profits. In short, they more than pay their way in their host society. Their presence in the country yields a net benefit. And that benefit accrues to their fellow taxpayers. In short the UK concluded that it could not afford to repeal the rules. That same logic will apply to Switzerland. So while the system may be unfair in principle, every taxpayer wins.

In globalized economies companies and individuals are substantially free to establish themselves wherever they choose. The smart nations are the ones who tailor their tax systems accordingly and realize that there is much merit in attracting taxpayers be they multinational companies or high net worth entrepreneurs. There is no point having the highest tax rates in the developed world if your domestic corporate taxpayers (not to mention iconic rock stars) are heading for the exit. Far better to lower the rate and increase the take to paraphrase the mantra of Reaganomics. Switzerland's approach to taxation has served it well in recent years and will continue to do so. That is why the views of Ms. Leuthard, the EU and the French will not prevail and why expatriate billionaires of Verbier and Knightsbridge will continue to raise a glass to the free movement of capital.

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