

Swiss banking demands flat taxes for the world – ...

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The most [astonishing document](#) has been published by a body called Swiss Banking, who appear to represent the collective body of bankers in that country. Dated in December 2009 it's only just come to my attention.

What is astonishing about it is the extraordinary arrogance of their proposals which will, they think, let them keep Swiss banking secrecy intact. To do so they are proposing a withholding tax in Switzerland on interest income, dividends, payments from funds, on capital gains and wealth. The object they say is:

to ensure that the assets deposited by foreign-domiciled clients with Swiss banks are compliant with the income tax laws of their relevant tax domicile. At the same time the purpose is to protect the privacy of these clients.

Switzerland offers to collect the flat rate tax on income paid on balances of foreign domiciled clients for countries that wish to avail themselves of the service. This tax is deducted by the paying agent (the bank) and credited to the tax authorities of the client's tax domicile.

In return, Switzerland demands undiscriminated access to the financial markets of these countries under prevailing national law.

This needs some serious unpacking.

First: let's be quite clear about the taxes that are proposed. They are flat taxes, about which the Swiss banks are eulogistic in their praise. Most of the rest of the world is not so enthusiastic, of course. The reality is that flat taxes are deeply regressive, and highly avoidable, [as my own work](#) on them has shown. As they say:

The model is generally also open to parties with progressive rates of tax, but on condition that a uniform rate is applied. A progressive taxation system would be technically virtually impossible to implement.

Second, let's be clear that the Swiss determine the rate according to this model. They

say it would coincide with the EU withholding rate — which will be 35% soon — but there's no guarantee of that.

Third, they demand that:

The payment of the flat rate tax by the client is definitive, meaning that the client's assets held with a bank in Switzerland have then been definitively assessed. The client no longer needs to declare the assets concerned in his/her/its annual tax return. The client receives (on request) an annual tax statement from the paying agent showing the tax amounts deducted.

There are massive further technical problems inherent in the proposals — which are naive on these technical issues to a degree that is quite extraordinary, but let's stop at this point and realise what the Swiss bankers are demanding. It is this:

- * That the Swiss be allowed to set the prevailing current flat tax rate on all sorts of investment income for any state that enters into an arrangement of the proposed sort with Switzerland.
- * That progressive taxation on investment income be banned in those partner states as a consequence because they would be unenforceable. That would be because Switzerland could always undermine higher rates and there would be no penalty on anyone making use of Swiss banks rather than local banks and as such local banking would collapse if there were to be higher rate or progressive taxes in any state entering into such a deal with Switzerland.
- * That any state entering into such an agreement with Switzerland must forego its own right to set its own tax rates henceforth — not least because Switzerland wants to apply this tax rate to some forms of company and other entities as well.
- * That any state entering into such an agreement forego its right to demand tax returns that are full, complete and accurate from its residents.
- * That any state entering into such a deal forego the right to ask its taxpaying population about why they have funds in Switzerland — and whether the capital transferred there should have been taxable in the home jurisdiction or not — so foregoing all prospect of ever making investigation of tax evasion.

I have to assume that those proposing this arrangement are aware of what it means. It would be patronising to thin otherwise. But in that case there are three things to say.

First, it's hard to take their technical competence seriously. They clearly do not understand the complexity of the issues they are addressing — which the EU has been tackling for many years with regard to the European Union Savings Tax Directive and which the Swiss seem to just brush aside.

Second, the staggering implicit assault on the tax sovereignty of other states within

these proposals is breathtakingly naive and politically brazen at the same time.

Third, it is astonishing that in all this the obvious intention is to dismiss the issue of banking secrecy as a simple one of non-taxation of income arising in Switzerland. The key issue of how the funds get there in the first place is completely swept aside — it is demanded that states ignore this issue.

I have said time and again that secrecy jurisdictions are profoundly political constructs. This is inherent in my definition of them, which is:

Secrecy jurisdictions are places that intentionally create regulation for the primary benefit and use of those not resident in their geographical domain. That regulation is designed to undermine the legislation or regulation of another jurisdiction. To facilitate its use secrecy jurisdictions also create a deliberate, legally backed veil of secrecy that ensures that those from outside the jurisdiction making use of its regulation cannot be identified to be doing so.

This is an almost perfect example of that definition being seen in practice.

We could just dismiss it. The reality is though that these people are serious: they really think this should be done.

That's why they're a threat to democracy itself. When bankers use the abusive legislation of a state they have captured to seek to undermine the right of people in other states to set their own tax rates, determine their own fortunes and determine their own criminal justice systems we can more readily appreciate the scale of their assault on society as whole, which is why we have to fight back.

And don't think these are fringe organisations. The members of the organisation promoting this include UBS, Credit Suisse, Barclays, HSBC, Lloyds and RBS.

Be worried. Be very worried. These people really do want to rule the world — and that's no joke.