The Swatch Runs Out
An End to 300 Years of Swiss Banking Secrecy

Swiss-US Tax Negotiations & Banking Secrecy | Ethan Rutledge

To the Swiss, playing host to secret bank accounts is a time-honored national tradition. Banking secrecy rivals the prestige of neutrality, ski chalets, fondue, and chocolate so divine you’ll quit your job as a tax collector for one more piece. However, unlike these cornerstones of Helvetic tradition, Swiss banking secrecy has yielded to a far more diligent tax collector: the United States government.

After the Great Depression, Swiss banking faced its most salient existential threat up to that point. France and Germany pressured Switzerland to divulge depositor information for “the good of the state.” Ironically, this was one area of agreement between France and Germany during an interwar period otherwise notable for their mutual animosity. However, the small yet resilient Swiss Confederation would not submit to self-interested bullying by its powerful neighbors. In fact, they used the opportunity to strengthen both the privacy of its banking sector and the Swiss government’s tradition of non-interference in the private affairs of its citizens. With the passage of the Swiss Banking Act in 1934, violation of banking secrecy became a criminal offense. Institutional secrecy, it seemed, was forever ingrained, impervious to pressure.

Institutional secrecy made little effort to conceal their future plans to make similar tax treaties regarding other Swiss banks, claiming UBS “was not the only bank” under direct scrutiny.

Yet the US remained unsatisfied with what it viewed as mostly cosmetic reconfigurations of individual Swiss institutions. On August 29, 2013, passage of a comprehensive agreement between the U.S. and Swiss governments required all Swiss banks not already under criminal investigation by the United States to provide details on accounts held by American taxpayers. Additionally, the agreement required banks fully to reveal through what means they enabled tax evasion, including other professionals and third-party advisors. This effectively ended any remaining Swiss claim to privacy in their banking system.

Though described by critics as a violation of Swiss national sovereignty, this treaty maintains a favorable view among the main players in the international community, particularly after the most recent G8 summit hosted by British Prime Minister, David Cameron. There, national leaders addressed the need to combat multinational tax evasion and the proliferation of offshore tax havens, of which Switzerland was the largest. It even produced a multilateral convention on information-swapping with 10 British dependencies with large financial sectors, including Jersey and the Cayman Islands.

The US-Swiss tax treaty may be the snowflake that starts the avalanche of international offshore tax haven reform. With such momentum and tight fiscal situations across the rich world, one can reasonably expect more such treaties, their reach expanding to other countries and dependent tax havens.

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