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Taxation of real estate - abolition of imputed rental value?

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Taxation of imputed rental value – present framework

- Today property owners in Switzerland have to pay income tax on what is known as ‘imputed rental value’. The intention of that taxation is to treat tax payers that own real estate equal to tax payers that rent an apartment / a house.
- As a consequence certain expenses such as maintenance costs and mortgage interest expense are allowable as deductions from the taxable income.
- This tax frame has the effect of significantly higher household debts in Switzerland compared to other countries.

Taxation of imputed rental value – reasons for change

- Complex system, high administrative costs for tax payers as well as for municipalities
- Different tax treatment of property owners and tenants
- Intent to reduce household debts
- Facilitation of investments into owner-occupied residential property

Envisaged changes in taxation (1/2)

- Abolition of taxation of rental value for the primary residences. Secondary residences such as holiday homes are not affected.
- As a consequence, the maintenance and renovation costs will no longer be tax-deductible with respect to primary residences.
- At the federal level, deductions for energy saving and environmental costs will no longer be allowed. The cantons may continue to include such deductions in their cantonal tax laws.
- The tax deduction related to interests on debt for owner-occupied properties will be abolished or considerably reduced.

Envisaged changes in taxation (2/2)

- Tax benefits for first investments in owner-occupied real estate will be established.
- If changes are approved by the parliament they will come into force earliest in 2021.
- Changes shall be neutral with respect to national revenue.

Envisaged changes in taxation – consequences for property owners

– Tax advantages related to the envisaged changes depend on

  - loan-to-value ratio of real estate,
  - condition of building / need for renovation,
  - interest rate of mortgage and
  - location of property (tax rates).

– Not all property owners will benefit.

Envisaged changes in taxation – consequences for banks?

- For banks offering mortgages the effect could be twofold:
  - Reduction of mortgages; less interest income
  - Reduction of assets under management due to repayments of mortgages
- Amongst others the following types of Swiss banks might be affected:
  - Cantonal banks
  - Raiffeisen banks
  - Mortgage banks
- Consequences are difficult to assess as legislation is not finalized yet.
- Based on news paper articles
  - the Cantonal Bank of Zurich estimates that between 10 and 14 % of the mortgages could be amortized.
  - the Cantonal Bank of Lucerne estimates that its balance sheet will be reduced by 5 % over a period of 10 years.

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Thank you

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