

**Cornelia Mattig**

Rechtsanwältin und Urkundsperson
M.Law mit Vertiefung im Wirtschaftsrecht UZH
LL.M. in European Law Queen Mary University of London

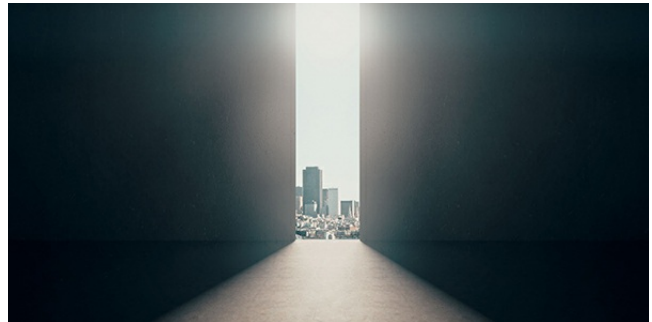


Blog > Steuerberatung > Taxation of residential property - There is a light at the end of the tunnel

01.2018

Taxation of residential property - There's a light at the end of the tunnel

At all time, real estate has been named as one of the core investments. However, there are not only return on investment or self-use considerations; but also tax considerations. For individual persons, real estate is taxed as part of their wealth as well as income. Tax authorities consider actual or fictitious rent as income. The taxation of fictitious rent is referred to as imputed rental value taxation, which has been the basis for several discussions and parliamentary proposals. Most recently the parliamentary proposal by Susanne Leutenegger-Oberholzer member of the National Council. Her proposal has been discussed and refused by the National Council in their session of 12 September 2017. This leaves the question: and what now?



© iStock.com/peshkov

1. Status Quo

a. Tax implications for rented investment properties

As pointed out above, if a rented investment property is held by an individual the rent counts towards the income tax. To balance this, all costs in relation to the return on investment can be deducted from the taxable amount. Such costs are maintenance activities, insurance fees or fees for third-party real estate management. The Federal Court also held in relation to this that individuals renting such properties to close family relations for a lower rent, that only the actual revenue is taxable provided, it is no tax evasion. The authorities on a federal level assume tax evasion when the rent is lower than half of the imputed rental value taxation. Nevertheless, Cantonal tax authorities remain reluctant in applying this judgement. Furthermore, this may be amended should there be a change of the system regarding imputed rental value taxation.

b. Tax implications for your privately owned home

Many people aim at building or acquiring a privately owned home. Yet, there is tax to pay, too. As mentioned Swiss tax authorities assume a fictitious rent, which is treated as revenue and taxed as such. This value only exists on paper. Naturally, costs in relation to the property can be deducted from the taxable amount. As with the tax for rented investment properties, these are maintenance activities, insurance fees or fees for third-party real estate management. It should be said though that value adding costs cannot be taken into account. These costs may be deducted when the property is sold and the tax on profits from real estate is determined.

It is recommended to carefully inspect the tax assessment and if necessary to challenge it.

2. Isn't this just like before?

It is true that representation above is concerning the current legal status; however, the parliamentary proposal of Federal Council member Leutenegger-Oberholzer restarted the discussion on imputed rental value taxation. The arguments brought forward did not change significantly. The arguments in favour of a change of the system are the burden on the homeowners; in particular, the elderly as they often have paid off their mortgages and due to their retirement experience a reduction of income. This sets the wrong motivations as it incentivises people to get into debt. Today, the level of debt for private households in Switzerland is comparatively high in an international comparison. These arguments led to the parliamentary initiative, thereby adding fuel to the discussion.

Said parliamentary initiative aimed at a complete change of system abolishing both the imputed rental value taxation as well as the deduction possibilities. The Commission for the Economy and Tax, therefore, petitioned the Federal Council to dismiss the initiative.

Nevertheless, the Commission saw the need for action based on the same arguments and started their own initiative. Contrary to the previous initiative, the Commission believes a complete change of system to be premature. Hence, they prepared a proposal that abolishes the tax as such while still allowing deductions. In addition, the Commission argues to exempt secondary residences from the system change for now. The Commission for the Economy and Tax of the Council of State will now discuss this second initiative by the Federal Council Commission and draw up a bill.

The extent and the content of this bill are not yet clear and therefore, Mattig-Suter and Partner will keep you updated on the developments in this area.

Tags: Steuerberatung, Tax, Switzerland, Investment properties, Real estate