

NEWSLETTER

June 24, 2010

Project of the Federal Counsel: Abolition of taxation of rental value

On June 23, 2010, the Federal Counsel has released its project regarding the abolition of the rental value. This project is a counter-project to the people initiative "Housing security at time of retirement". The project of the Federal Counsel will be examined by the Federal Chambers and Swiss people will then vote on the initiative and counter-project. The entry in force might not happen before January 1st, 2012. The changes introduced by this project will deeply modify the taxation of property ownership.

According to current law, any property income is taxed together with the other income of the tax payer. If the property is occupied by the owner himself, the tax authority will compute a so-called rental value (valeur locative) and tax it together with the other income. In exchange, the owner can deduct related **interest expenses** and **maintenance costs**.

The initiative "Housing security at time of retirement" intends to introduce for those who are retired the possibility to renounce to the taxation of the rental value. In exchange, the retired person could no more deduct the interest expense, insurance premiums and administration costs in connection to the real estate. Maintenance costs could still be deductible up to an amount of CHF 4'000 per year.

The Federal Counsel does not agree with this initiative and proposes to abolish the taxation of the rental value for all property owners. This goes along with measures that have strong effects:

- **Maintenance costs**, insurance premiums and administration costs will no more be tax deductible, except if the property is rented out. If the property is rented out only partially, those costs are deductible in proportion.

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- The deduction of **interest expense** is limited to 80% of the net wealth income. This means that the property owner who has little wealth apart from his property will not be able to deduct the interest expense on his mortgage. A specific rule applies to tax payers who purchase a property for the first time. Married couple will be able to deduct interest expense up to CHF 10'000 per year (CHF 5'000 for a single person), amount which will be reduced by 10% per year, over a period of maximum 10 years.
- The other deductible expenses are limited to investments realized in the field of Energy savings and Environment. The project specifies that those have to be especially efficient.

The Federal Council is of the opinion that those measures should be tax neutral. Its computations show nevertheless that it will lead to additional federal taxes of CHF 450 millions, while the deductions as set by the project should allow tax savings of CHF 350 millions. In the end, it still leads to additional taxes of CHF 100 millions (assuming property owners will effectively realize the investments that are tax deductible...).

We can conclude from this project that it will be better to acquire a property that offers low maintenance costs and that it will be more tax efficient to purchase it through little foreign financing. Furthermore, tax payers with sufficient wealth income will not be touched by the limitation to the interest expense deduction and should still seek for a strong debt financing. We can also conclude that current property owners who are considering engaging maintenance costs should do it in a near future. It would also probably be wise to reduce the mortgage for the entry in force of the project (if accepted). Those amendments will deeply modify the way properties has been acquired in Switzerland for years and the related "traditionally used" tax planning.

For any questions on the subject, Daniel Spitz stays at your disposal.

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