

SYSTEM CHANGE IN THE TAXATION OF RESIDENTIAL PROPERTY

System change in the taxation of residential property approved in referendum – an overview of the most important changes:

- The cantons will be given the authority to introduce a property tax on second homes that are predominantly owner-occupied.
- The imputed rental value will be abolished.
- Costs in connection with owner-occupied properties are largely no longer tax-deductible.
- Private debt interest is only tax-deductible in exceptional cases and to a limited extent.
- The date of entry into force of the legislative changes is yet to be determined.

EXECUTIVE SUMMARY

On 28 September 2025, a federal referendum was held on the reform of the taxation of residential property. The proposal reached the required popular majority (57.7%) and majority of the cantons (16,5 cantons). The subject of the proposal was the introduction of a special property tax on predominantly owner-occupied second homes at constitutional level. This was simultaneously linked by parliament to the abolition of the taxation of imputed rental value and the abolition of various tax deductions related to home ownership at the legislative level.

As a result of today's vote, the following changes will be made to the taxation of owner-occupied residential property:

- The cantons will have the authority to introduce a property tax on predominantly owner-occupied second homes. It will be up to the individual cantons to decide whether to introduce such a tax and how to structure

it. Given the new constitutional basis, the cantons are not bound by the usual constitutional taxation principles (universality, uniformity and taxation according to economic capacity) when designing the new tax.

- The imputed rental value will be abolished. The taxation of a fictitious rental income for owner-occupied first and second homes as income will no longer apply.
- Most costs associated with owner-occupied properties are no longer deductible from taxable income at federal level, namely maintenance and repair costs, costs for energy and environmental protection measures, demolition costs relating to replacement construction, and insurance premiums. Deductions for monument preservation work and for costs of administration by third parties will remain.
- At a cantonal and municipal tax level, the deduction of maintenance and repair costs and insurance premiums for owner-occupied properties will no longer be possible. For the other costs mentioned above, the cantons are free to continue to grant the deduction or to abolish it.
- The deductibility of private debt interest will largely be abolished. Only under certain conditions will a limited deduction of private debt interest remain possible for persons with rented or leased properties in Switzerland. Furthermore, first-time buyers of owner-occupied residential property can deduct debt interest incurred for this specific property from their taxable income, subject to time and amount restrictions.

The date of entry into force of the legislative changes (abolition of imputed rental value, deductibility of costs in connection with real estate and deduction of debt interest) has not yet been determined. The introduction of a cantonal real estate tax on owner-occupied second homes is at the discretion of the cantons. Whether and when the individual cantons will introduce a new real estate tax remains to be seen.

STATUS QUO

TAXATION OF IMPUTED RENTAL VALUE

Until now, owners of owner-occupied first and second homes have had to pay tax on the so-called imputed rental value as income. The imputed rental value is determined by the cantons according to different calculation models, whereby they have a certain degree of discretion. The imputed rental value is a fictitious income covering the amount of a fictitious rent. The imputed rental value was originally introduced to counteract the unequal tax treatment of tenants and property owners. The rationale for the taxation of the imputed rental value was that owners who live in their own property or properties do not have to pay monthly rent, which leads to a financial advantage over tenants which should be offset by taxes.

TAX DEDUCTION OF COSTS RELATED TO REAL ESTATE

Owners can currently deduct various costs related to real estate for tax purposes, while tenants do not have the corresponding deduction options, namely:

- Third-party administration costs
- Costs for maintenance and repairs (value-retaining) as well as insurance premiums
- Costs related to energy-saving and environmental protection measures
- Demolition costs relating to replacement construction
- Costs for monument preservation work

TAX DEDUCTION OF DEBT INTEREST

Private debt interest of up to CHF 50,000 plus the amount of taxable investment income can currently be deducted from taxable income. The deduction is not limited to mortgage interest but also includes interest payable on other private debts such as loans or consumer loans. The debt interest deduction is not only for owners of real estate. However, since real estate is largely financed by third parties, it is particularly relevant for them.

PROPERTY TAXES

Some cantons already set a property tax at cantonal or municipal level. As a rule, no distinction is made between owner-occupied and non-owner-occupied properties and whether they are a first or second home.

BACKGROUND TO THE REFORM

The taxation of imputed rental value has long been subject to criticism. In the past, there have been several attempts to abolish it, but all of them have failed.

The current reform aims to achieve a balanced solution which, on the one hand, completely changes the system (abolishing the taxation of imputed rental value as well as tax deductions related to owner-occupied properties) and, on the other hand, considers the interests of those cantons with a high proportion of second homes. The bill comprises two parts:

- The introduction of a cantonal property tax on predominantly owner-occupied second homes, which allows for a deviation from the usual constitutional principles of taxation and requires a constitutional amendment for its introduction.
- The abolition of the taxation on the imputed rental value as well as tax deductions in connection with owner-occupied properties, which could be implemented by means of a change in the law.

The two proposals were linked by parliament in such a way that the legislative amendments will only come into force if the constitutional amendment is accepted. No referendum was held covering the amendment to the law itself, which is why this part was not submitted directly to the electorate for a vote.

CHANGES DUE TO THE ACCEPTANCE OF THE REFORM

CANTONAL PROPERTY TAX ON OWNER-OCCUPIED SECOND HOMES

The immediate subject of the proposal was the introduction of a new constitutional provision (Art. 127 para. 2^{bis} of the Federal Constitution), which allows the cantons to levy a property tax on owner-occupied second homes (provided that no tax is levied on the imputed rental value). This property tax is intended to compensate for the loss of tax revenue due to the abolition of taxation of imputed rental value, particularly in tourist regions. Given that the new property tax is only levied on second homes, there is a higher taxation of such properties, which violates the constitutional principles of universality and uniformity of taxation as well as taxation according to economic capacity. Accordingly, the new constitutional provision expressly grants the cantons the right to deviate from these constitutional principles within the framework of the new property tax.

The constitutional amendment only grants the cantons the competence to introduce a property tax on owner-occupied second homes. There are no guidelines regarding its structure. The cantons are free to decide whether to introduce such a tax at all, how to structure it and whether to exercise this competence themselves or delegate it to the municipalities. As some cantons already have a property tax, it is also possible to link the new property tax on owner-occupied second homes to the existing property tax. With regard to the specific implementation, the questions to be clarified range from definitions and legal terms (e.g., what are "second homes" and what does "predominantly owner-occupied" mean) to the basis of assessment (market value, property tax value, apportioned value or another value) to the determination of the tax rate (proportional or progressive; allowances, consideration of the taxpayer's personal circumstances, etc.). The taxpayer is clear. With property tax being an object tax, natural persons who own second homes that are predominantly owner-occupied are generally liable for tax. In the case of usufruct or rights of residence, it is conceivable that the entitled person is liable for tax. Real estate held through companies will not be covered by the new property tax.

ABOLITION OF TAXATION OF IMPUTED RENTAL VALUE

The taxation of imputed rental value will be completely abolished because of the reform. Owners of owner-

occupied first and second homes will therefore no longer have to pay tax on fictitious rental income.

ABOLITION OF TAX DEDUCTIONS FOR COSTS RELATED TO REAL ESTATE

Various costs in connection with real estate are no longer tax deductible. At the level of direct federal tax, all deductions are waived without replacement, except for costs for monument preservation work, which is prescribed by law or carried out in agreement with the authorities or by official order of the authorities. At the cantonal and municipal tax level, the cantons will be obliged to abolish the deduction for maintenance costs. For other costs, it is up to the cantons to decide whether they want to retain the deduction option.

The following tables summarise the changes regarding the deductibility of costs related to owner-occupied properties:

Direct federal tax (DBG)

Third-party administration costs	Remain deductible
Costs for maintenance and repairs (value-retaining) and insurance premiums	No longer deductible
Energy saving and environmental protection measures	No longer deductible
Demolition costs relating to replacement construction	No longer deductible
Carryforward of cost surpluses to the next two tax periods	No longer deductible
Monument preservation work	Remains deductible

Cantonal and municipal tax (StHG)

Third-party administration costs	Unclear
Costs for maintenance and repairs (value-retaining) and insurance premiums	No longer deductible
Energy saving and environmental protection measures	Remain deductible*
Demolition costs relating to replacement construction	Remain deductible*
Carryforward of cost surpluses to the next two tax periods	Remains deductible*
Monument preservation work	Remains deductible*

*** Optional provision:** The cantons may allow or abolish the deduction on a voluntary basis.

The changes only affect owner-occupied, directly held properties that are part of private assets. Costs associated with rented properties can continue to be deducted from taxable income. The new legal provisions do not contain any regulations for mixed-use properties. It can be assumed that in such cases a proportional deduction of the costs is permissible, although it is unclear how the calculation will be made in practice (e.g., based on rental days or on income in relation to a market rent).

EXTENSIVE ABOLITION OF THE PRIVATE DEBT INTEREST DEDUCTION

Principle

The deductibility of private debt interest is generally abolished. In principle, individuals without taxable rental and lease income can no longer deduct private debt interest (see below for exceptions for first-time buyers of residential property). Private debt interest incurred by individuals who rent or lease real estate remains deductible to a limited extent. The decisive factor here is the value-based share of the rented and leased properties located in Switzerland in relation to the taxpayer's total assets (so-called quota-restrictive method). Specifically, this means that the value of a person's rented properties located in Switzerland are to be applied in relation to their total assets. A deduction of debt interest is only permitted in this proportion. It remains unclear how properties rented to third parties will be valued for the determination of deductible debt interest. The obvious approach is the wealth tax value, which in many cantons is below market value.

Example: A person has private debt of CHF 5 million, for which annual debt interest of CHF 100,000 is incurred. The person has the following assets:

	Value CHF	%
First home	1,500,000	15
Holiday house (owner-occupied)	500,000	5
Rented properties in Switzerland	3,000,000	30
Rented properties abroad	1,000,000	10
Other wealth	4,000,000	40
Total	10,000,000	100

New regulation: The share of properties located in Switzerland rented to third parties is 30% of the total assets. This means that 30% of the private debt interest, corresponding to CHF 30,000, can be deducted from taxable income. The remaining debt interest of CHF 70,000 is not deductible.

The new regulation restricts the deduction of all private debt interest, which affects not only property owners with a mortgage, but also all other persons with private debts such as consumer loans, Lombard loans or private loans.

Exception: Debt interest deduction for first-time buyers

An exception applies to individuals who are purchasing a permanent and exclusively owner-occupied property in Switzerland for the first time. They are granted a so-called "first-time buyer deduction" that is limited in terms of time and amount. In the year of purchase, married couples can deduct a maximum of CHF 10,000 and other taxpayers a maximum of CHF 5,000 in debt interest from their taxable income (if it has actually been incurred). Subsequently, the maximum deductible amount is reduced by 10% each year. After ten years, the first-time buyer deduction ends, and no more debt interest can be deducted for tax purposes. The first-time buyer deduction can also be claimed by persons who purchased a property for their own use for the first time no more than ten years before the new provisions came into force.

Business debt interest deduction

The deduction of business debt interest is not affected by the new regulation and can continue to be claimed in full as an expense for tax purposes, provided it is justified on business grounds. The same applies to debt interest incurred by a legal entity.

IMPACT ON LUMP-SUM TAXPAYERS

For people who are taxed according to expenditure (so-called lump-sum taxation), income tax is currently calculated based on the amount of annual living expenses, but at least according to the highest of the following amounts:

- The minimum amount according to federal or cantonal law,
- Seven times the annual rent or imputed rental value, or three times the cost of boarding,
- the sum of gross income from Swiss assets.

Following the abolition of the imputed rental value, lump-sum taxpayers who own residential property will be taxed on seven times the "rental value determined in accordance with local conditions" instead of seven times the imputed rental value. It is currently still unclear how this local rental value will be determined and whether it will correspond to the current imputed rental value. Since imputed rental values are typically below market rents, it is conceivable that this will result in higher values, which may have an impact on the basis of assessment of taxation according to expenditure.

ENTRY INTO FORCE OF THE AMENDMENTS

The Federal Council will determine the date of entry into force of the legislative amendments, with the cantons generally being given a period of two years after entry into force of the amendments to adapt and amend their cantonal tax laws. The Federal Council has not yet announced the date of entry into force. Due to the many unresolved issues and the need for coordination with the cantons regarding the introduction of the cantonal property tax, it can be assumed that the federal government will give itself and the cantons some time before the amendments come into force.

As already mentioned, the cantons are already free to introduce property tax on owner-occupied second homes.

In some cantons, the introduction may require an amendment to the cantonal constitution if all types of tax are listed individually in the cantonal constitution. If the competence to levy taxes is outsourced to the municipality, the municipalities must be granted the competence to levy the property tax in cantonal law. It is conceivable that the canton will determine the most important aspects of property tax on owner-occupied second homes and that the municipalities will only determine the tax rate, or that each municipality will be free to decide how to structure the property tax on owner-occupied second homes within the scope of its tax collection competence. In both cases, however, the municipality must create a legal basis if it is assigned the competence to levy taxes. Depending on the structure, this results in a faster or slower legislative process. Whether and when the individual cantons will introduce property tax on owner-occupied second homes remains unclear.

ASSESSMENT AND OUTLOOK

The change in the system for the taxation of residential property brings fundamental changes for owners of owner-occupied properties, regardless of whether they are first or second homes. Due to the abolition of the general deduction of debt interest, the reform will also have a noticeable impact on people who do not own real estate. Many questions and details regarding implementation remain unclear. The tax implications of the reform are difficult to assess today and depend in particular on whether and how the individual cantons introduce the new property tax, as well as whether and to what extent certain tax deductions for property-related costs will be retained at cantonal and municipal tax level. Until the date of entry into force has been determined, the taxation of imputed rental value and the deductibility of costs related to real estate and debt interest will remain in place.

An early analysis of your own situation to consider the (possible) effects of the reform and the resulting tax planning options is clearly worthwhile. With careful planning, it is still possible to take advantage of the benefits of the current system (e.g., planning major maintenance work) while also evaluating and, if necessary, implementing planning options under the new system at an early stage (e.g., private or business debt financing, direct or indirect holding of real estate and, if necessary, inclusion of pension assets).

AUTHORS



Daniel Bader

Partner

daniel.bader@baerkarrer.ch

T: +41 58 261 54 32



Hanna Brozzo

Partner

hanna.brozzo@baerkarrer.ch

T: +41 58 261 53 52



Dr. Ruth Bloch-Riemer

Partner

ruth.bloch-riemer@baerkarrer.ch

T: +41 58 261 56 51



Christoph Suter

Partner

christoph.suter@baerkarrer.ch

T: +41 58 261 57 25



Matthias Bizzarro

Partner

matthias.bizzarro@baerkarrer.ch

T: +41 58 261 56 98