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REFORM OF THE TAXATION OF RESIDENTIAL PROPERTY – POTENTIAL INTRODUCTION OF A CANTONAL REAL ESTATE TAX ON SECONDARY RESIDENCES WITH THE CONSEQUENT ABOLITION OF DEEMED RENTAL INCOME

1. Context

On December 20th 2024, the Swiss Parliament approved two reform projects regarding the taxation of residential property. On one hand, a legislative amendment was adopted providing for the abolition of the taxation of the deemed rental value and limitation of the possibilities for deducting mortgage interest and maintenance expenses. On the other hand, a constitutional revision was proposed through a federal decree allowing for the introduction of a cantonal real estate tax on secondary residences, aimed at compensating potential tax revenue losses for cantons and municipalities.

The two projects are legally tied and may only come into force simultaneously. Therefore, during the popular vote on September 28th, 2025, Swiss citizens will be called upon to approve or reject the federal decree on the cantonal real estate tax for secondary residences. This decision, which requires a double majority (people and cantons) to pass, will also determine the fate of the deemed rental income, which will be automatically abolished only if the decree is approved.

2. Abolition of the deemed rental income value

The potential elimination of the deemed rental value for both primary and secondary residences would have significant tax implications, such as:

- A decrease in taxable income for owners who use the property as their main residence.
- Restrictions on tax deductions: at the federal level, it would no longer be possible to deduct maintenance costs and mortgage interest, with certain exceptions, while interest deduction would only be allowed for first-time homebuyers in Switzerland using the property as their main residence, and only during the first ten years of ownership.

Property owners who rent out a property would still be able to deduct mortgage interest partially, in proportion to the rented value relative to their total real estate assets. Additionally, cantons would retain the autonomy to continue granting deductions for expenses related to energy savings and environmental protection until 2050. These deductions, however, would no longer apply to the direct federal tax, but only at the cantonal and municipal levels.

A key factor will be represented by mortgage interest rates. In a low-interest rate environment, the reform would reduce the tax burden for most homeowners. Conversely, if rates are high, the reduced deductibility of interest could lead to higher taxes for the same category of taxpayers.

It is worth noting that, according to preliminary indications from the Swiss Federal Tax Administration (FTA), limitations may also apply to the deductibility of interest on debts backed by movable assets.

3. Introduction of a cantonal real estate tax on secondary residencies

If the deemed rental income on secondary residences would be abolished, cantons and municipalities with a strong tourism profile - such as Graubünden, Valais and Ticino - could face significant tax revenue losses, especially in a low-interest rate environment. To compensate such loss of revenues, cantons may introduce a new tax on owner-occupied secondary residences.

If the new constitutional basis is approved, owners of secondary residences will be required to pay this tax according to cantonal legislation. The amount will vary depending on how each canton chooses to implement the measure. The constitutional provision leaves broad flexibility to the cantons, allowing them to tailor the tax to regional needs. Cantons may also authorize municipalities to collect directly this tax, which could be introduced as a new standalone tax or as a surcharge to an existing real estate tax.

This mechanism would allow the cantons most affected by the abolition of deemed rental income to offset lost revenues under the new tax system.

4. Final considerations

Approval of the residential property taxation reform would have far-reaching tax consequences, extending well beyond just property owners.

The main beneficiaries of the reform would be:

- Pensioners, who are heavily impacted by the inclusion of the deemed rental income in their taxable income, often combined with relatively low mortgage debt.
- New homeowners, particularly in a low-interest rate environment or those owning modern properties, with limited short-term renovation and maintenance needs.

On the other hand, the reform could be disadvantageous for:

- Owners of older properties requiring urgent renovation or maintenance, which would no longer be deductible at the federal level.
- Taxpayers facing high interest rates or a high loan-to-property value ratio, who would no longer benefit from the current tax deductions.

We will gladly keep you informed on the outcome of this important vote on September 28th, 2025.

For further information on the above, please do not hesitate to contact us.