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Haute école de gestion
Genève

**Towards a removal of the rental value coupled
with the abrogation of parallel tax deductions:
What is at stake?**

**Bachelor Project submitted for the degree of
Bachelor of Science HES in International Business Management**

by

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**Haute école de gestion de Genève (HEG-GE)
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Declaration

This Bachelor Project is submitted as part of the final examination requirements of the Haute école de gestion de Genève, for the Bachelor of Science HES-SO in International Business Management.

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Geneva, June 3rd 2019

Ivan GARCIA ORGUEIRA

Executive Summary

No one can question the critical role that the real estate market represents for its economy, either by its size or its particularities. In Switzerland, the current tax system requires all property owners to pay a tax on the rental value, a fictitious taxable income that is calculated according to the potential income that the landlord could have generated if he rented his property to a third party. However, in order to compensate this tax burden, the tax authorities allow, in parallel, the fiscal deduction of certain housing-related expenses. These include the costs related to the mortgage interests, housing maintenance, environmentally-related renovations and those inherent to refurbishment of historic buildings. In force for decades, these specificities inherent to the Swiss tax legislation have become deeply rooted in customs, which means that a whole range of socio-economic actors have become involved over the years. Indeed, whether it is the Government through tax revenues, the construction sector which indirectly benefits from the tax advantage induced by the carrying out of maintenance works or the banking system which likes to do business through its mortgage financing activities, all these sectors benefit from it whether in one way or another. However, this current tax system may soon belong to the past.

Indeed, the debate about the very existence of rental value has come back to the forefront of the political scene. In February 2017, the Committee on the Economy and Royalties submitted an initiative to the State Council aimed at abolishing the rental value for owners of principal residences while at the same time withdrawing any compensatory tax benefits linked to property fiscal deductions. Although the existence of rental value is currently intended to promote an equitable fiscal system between tenants and landlords, it turns out that this tax has become a very serious burden, and not only for property owners.

Whether it aims to reduce the tax bill of the latter, undermined by an environment of historically low mortgage rates or to narrow down the indebtedness level of Swiss households fuelled by the current legislation and raising fears of the worst, there is no doubt about the legitimacy of the debate. Furthermore, given the variety and economic prominence of stakeholders involved, it is therefore more than likely that this tax reform would inevitably entail consequences, if it were to come into being.

In this sense, the objective of this study consists in analysing the inherent magnitude and the potential consequences that would result for the involved socio-economic actors. To achieve this, the conclusions of this thesis are based on analytical research including press articles, reports and official secondary data as well as qualitative interviews. After analysis, results indicate that the main beneficiaries of the reform would be homeowners as a whole, depending on their mortgage interest rates and the characteristics inherent to their properties. Among the winners, we would also find Switzerland and its economy which could gain in stability. In the event of a reduction of the household's indebtedness ratio deriving from the fiscal reform, the country could benefit from a reduction in systemic risk, although the criteria for access to mortgage financing imposed by banks are already considerably restrictive and thought to mitigate this aspect.

On the side of the disadvantaged, we obviously find the State, which could face significant tax losses, although the bill aims to advocate a tax-neutral reform. That said, it does not change the fact that the government may have to compensate this potential loss of revenues and the study shows that alternatives are already being considered. On the other hand, it would appear that banks may also have something to lose. Although a slowdown in mortgage activity is not expected to be timely as of today (due to the current interest rate environment), the analysis of various expert's opinions show that it is highly probable that this fiscal reform will lead to a change in homeowners' behaviour towards their mortgage debt. Finally, it would seem that the construction sector may also have to confront some restructuring in the coming years, not to mention the housing market, that might also have to face some demand and price variations.

One thing is certain, this reform and its potential implementation will not leave anyone indifferent.

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1. Introduction

Switzerland is a country governed by direct democracy. The debate is therefore, by its very nature, an integral part of its culture and it is at the rhythm of the latter that several times a year, its citizens gather around the polls to put forward their ideas. More varied from one another, the topics addressed are often the subject of much discussion and often give rise to lively and animated exchanges. Among these, there is one in particular that regularly comes to the forefront and that has the specificity of always unleashing passions; that of rental value. Although it has already been the subject of many votes over the years, it would seem that whether it is its detractors, who want to see it removed a long time ago or its supporters, who want to keep it, are not about to bury the debate.

Concretely, the rental value is a tax that concerns property owners. Its origin dates back to the end of the First World War¹. At the time, this tax was implemented as a war tax by the Confederation in order to offset the heavy setback that the war induced to its revenues. As it has never been abolished since then, it has therefore periodically punctuated public debates. However, although it has been maintained over the years, its role is now quite distinct from that assigned to it in the post-war period.

Indeed, this tax has been given a social role. It aims at maintaining a balanced and equitable relationship between tenants, who pay a monthly rent for life, and landlords who do not. At the same time, it also has the advantage of avoiding real estate speculation, which could lead us to real estate bubble situations such as the one Switzerland experienced in the 1990s. The problem is that the rental value has a fictitious dimension. Even if a landlord lives in his own property (primary residence), the tax authorities will calculate the income that he could have potentially generated if he rented his property to a third party². This amount is then added to the owner's existing taxable income, on which he will of course be taxed. It is therefore a fictitious income that is recorded as real one.

¹ TOUTIMMO, « *La valeur locative, un impôt à supprimer* », Olivier Rigot, published on March 18th 2019, consulted on April 3rd 2019

² CREDIT SUISSE, « *Valeur locative : ce que vous devez savoir* », published on April 12th 2018, consulted on March 15th 2019

However, in order to maintain a certain neutrality³, the current tax law requires that the owner may, for compensation purposes, deduct various expenses related to his property. These deductions include the interests inherent to the mortgage debt up to a maximum of CHF 50,000 per year, all maintenance costs aimed at preserving the value of the property (and not increasing it), all renovation costs promoting energy saving and environmental sustainability as well as all expenses related to the renovation of historic buildings⁴. It is also based on these deductions that the second major controversy comes to life. Indeed, in addition to its fictitious dimension, it turns out that the weight of the tax also bears a dynamic effect. The extent to which the granted deductions make it possible to offset (at least partially) the tax burden of the rental value is closely correlated to that of the mortgage interest rates. It is therefore the level of these that determine the magnitude of the tax. The lower it is, the higher the tax burden of the rental value increases and vice versa. The fact is that this is exactly the situation we are in today. The interest rate environment we are experiencing is at historically low levels due, among other things, to the slowdown of European economic growth⁵, on which we depend through our close economic ties. In response, the Swiss National Bank has no choice but to maintain interest rates at this level in order to stimulate the economy by promoting investment while keeping the Swiss Franc at an acceptable attractiveness level.

In the end, while some believe that its social dimension is justified, others question its fairness, its fiscal heaviness and its variable nature, especially in these times of relatively low interest rates. It is therefore quite naturally that in February 2017, the Committee on the Economy and Royalties submitted an initiative to the State Council aimed at abolishing the rental value⁶. Although it is still at the consultative stage, the main lines of the reform project nevertheless seem to be gently emerging. Indeed, it would abolish the rental value on primary residences (ed. a residence in which the owner lives) while making it impossible to deduct any parallel costs inherent to property ownership³, in order to preserve the spirit of equity and neutrality that is so important in a State of law (knowing that deductions linked to energy-related works should, however, be retained at cantonal level to stay in line with the Swiss Constitution).

³ ASSEMBLEE FEDERALE – LE PARLEMENT SUISSE, « *Imposition du logement. Changement de système* », published on February 20th 2017, consulted on May 5th 2019

⁴ ADMINISTRATION FEDERALE DES CONTRIBUTIONS FISCALES, « *L'imposition de la valeur locative* », published on March 15th 2015, consulted on April 3rd 2019

⁵ PERSONAL INTERVIEW OF MR. NICOLAS DEPETRIS, performed on April 5th 2019

⁶ BCV, « *Vers la fin de la valeur locative ?* », published on October 2nd 2018, consulted on April 1st 2019

In doing so, this fiscal reform pursues two main objectives. The first is to reduce the tax bill for homeowners, which is undermined by this tax which has the particularity of being magnified within a low interest rate environment. The second is to reduce the indebtedness level of Swiss private households. These happen to be among the highest in the world, favoured by an ever-increasing property access price, a relatively low interest rate environment and the current tax system. Indeed, the latter encourages indebted property owners to keep a high level of debt, since the related interest charge is fiscally deductible. It is therefore the main opportunity they have to offset the burden imposed by the rental value. This aspect is therefore a factor that entails a systemic magnitude risk for the entire national economy. In this sense, the reform would therefore, unlike the current system, induce an incentive for the owner to amortize his mortgage debt more quickly, in order to reduce the tax burden represented by the debt interests, which would no longer be deductible. However, this is a delicate balance since promoting access to property is a constitutional principle (Art. 108 cst)⁷ and must therefore be respected. This is why this tax reform project could reserve a specific status for first-time homebuyers, which would provide for the continuity of deductions and would thus stay in line with the Swiss constitution.

In view of the importance and the specificities of the real estate market in Switzerland, it is therefore necessary to ask what effects a tax reform such as the one currently under discussion and which implies a profound change in customs could have. Through this research, the objective will therefore be to explore the potential impacts it could entail to the different stakeholders; How does the State, (i.e. the Confederation, the Cantons and the municipalities) intend to compensate for any potential loss of tax revenue? Will preventing deductions for maintenance costs affect the construction sector and craftspeople? What do the owners, who are the first to be affected, think about this reform? Will the latter have an impact on the banking sector? Will it affect housing prices? What are the chances of this initiative succeeding, given that all previous initiatives on the same subject of rental value have always failed at the polls? Who would ultimately be the real winners and losers of this reform?

The purpose of this study is therefore to provide some answers to these questions so that everyone can form their own opinion on this national subject, which is clearly not about to end. Enjoy your reading.

⁷ LE CONSEIL FEDERAL, « *Constitution Fédérale de la Constitution Suisse* », Status as September 23rd 2018, consulted on January 9th 2019

1.1 Literature review

The rental value, this fictitious income, nevertheless recorded as real income and added to taxable income, continues to attract controversy since it significantly increases the property owners' tax bill¹. Having so far always failed against the ballot boxes until today, the rental value is back at the center of the debate.

As things stand, to compensate this taxation and thereby respect the principle of neutrality³ advocated by the Swiss tax system, property owners can, in return, deduct several costs related to their property from their fiscal bill. Among them we find the mortgage interest charge up to a maximum of CHF 50,000 per year, all maintenance costs aimed at preserving the value of the property, all renovation costs promoting energy saving and environmental sustainability, and all costs related to the renovation of historic buildings⁴. However, it happens that this system may soon be part of the past.

Indeed, the Committee on the Economy and Royalties (CER-CE) submitted an initiative to the State Council aimed at abolishing the rental value for primary residences⁶. In return for this fiscal relief, it is considering giving up the option of deducting all costs related to property owning and, at the federal level, expenditures concerning the save of energy and to preserve the environment³. It must nevertheless be noted that this last point should still be maintained at the cantonal level. Indeed, Switzerland has recently officially committed to a so-called green strategy. On May 2017, the Swiss people accepted (through a federal vote) the revised law on energy called "Energy Strategy 2050". It aims to reduce energy consumption, improve energy efficiency and promote renewable energy⁸, which is the reason why this deduction should be maintained.

If this tax reform comes to be implemented, the latter is likely to change the landscape of the real estate market knowing that many of its actors would probably be impacted, whether for good or bad. Indeed, as is often the case, while some stakeholders have much to gain, others have much to lose. This is the case of the State, for example, which, through this reform, could be impacted by substantial losses linked to tax revenues. In this sense, UBS, the financial mastodon, forecasts a loss which is equivalent to CHF 2.5

⁸ DÉPARTEMENT FÉDÉRAL DE L'ENVIRONNEMENT, DES TRANSPORTS, DE L'ÉNERGIE ET DE LA COMMUNICATION : « *Stratégie énergétique 2050* », consulted on April 3rd 2019.

billion at the National level⁹. There is therefore no doubt about the fact that the State will need to find new sources of revenue to counterbalance this eventual loss. And that's what's happening now. The National Councillor, Mr. Flach has already taken the lead by calling on the Federal Council to consider the possibility of offsetting any tax losses by replacing the rental value with a housing tax¹⁰. It should be noted that at the national level, however, one beneficial aspect could be induced by this reform. Indeed, this could result in a reduction in the debt of Swiss private households, which is among the most indebted in the world¹¹.

The current interest rate environment represents an incentive for indebtedness, which is also favoured by particularly high real estate prices and by the current tax system that also fuels this problem as it indirectly encourages indebted owners to maintain high debt levels to maintain a tax advantage over the burden of rental value¹². All these factors therefore represent, in essence, a significant risk as FINMA specified in one of its recent reports. Through it, the regulation authority points out that "problems on the mortgage market can, as the experience of past crises has shown, quickly affect banks and the whole real economy¹³". That is why the fiscal reform could play an important role by incentivizing property owners to reduce their debt over time. However, a certain balance must be maintained and the reform must not lead to a deprivation of access to property, since this principle is also enshrined in the Constitution⁷. Apart from these stakeholders, there are of course the property owners, who are the first to be affected by this measure, and the banks, who may have to deal with a change in mentalities that could have collateral effects on their mortgage activities. But that's not all. Removing tax deductibility of property maintenance costs could also result in an impact on the construction sector, which may lose business as homeowners could potentially be more reluctant to perform upkeep work in their properties. Finally, the housing/real estate prices may also be affected, although the effects on this market remain, for now, very difficult to predict.

⁹ L'AGEFI, « *La suppression de la valeur locative et ses conséquences* », Philippe G. Müller, Published on October 10th 2018, consulted on February 9th 2019

¹⁰ ASSEMBLEE FEDERALE – LE PARLEMENT SUISSE, « *Une « taxe habitation » pourrait-elle remplacer l'imposition de la valeur locative* », Interpellation from Mr. Beat Flach, filled on the December 14th 2018, consulted on May 15th 2019.

¹¹ 20 MINUTES, « *Les options pour éliminer la valeur locative* », published on February 15th 2019, consulted on January 5th 2019

¹² LE TEMPS, « *L'impôt sur la valeur locative vacille* », Bernard Wuthrich, published on January 18th 2019, consulted on April 23rd 2019.

¹³ FINMA, « *Le marché hypothécaire au centre de l'attention de la surveillance de la FINMA* », published on March 2019, consulted on February 29th 2019

1.2 Methodology

The methodology used throughout this research pursues three distinct objectives. The different sections and subsections have therefore been designed to meet them.

The first objective is to make the content understandable and intuitive to everyone, including a neophyte. The second is to enable the reader to gain an overall but concrete overview of the Swiss mortgage market and its particularities. In this sense, the "background" section plays an essential role in the reader's progress since it is precisely the latter that will provide him the necessary theoretical tools to gain a concrete idea of the impacts that could result from the law bill if it were to be implemented. The various topics covered therefore follow a very precise order, a kind of red thread to finally get to the heart of the subject: the rental value. It is thanks to the analytical research performed, the various interviews collected either personally, through various press articles or even official reports that it was possible to gather all kinds of opinions from implicated stakeholders, which brings me to the third and final objective of this methodology.

Finally, the latter also aims to foster the reader's critical thinking by confronting him with a panel of diverse and varied opinions, the objective being to allow him to form his own idea of the subject, in view of the probable arrival of the rental value at the polls. After all, let us not forget that debating develops critical spirit, which represents in itself an essential aspect to exploit the potential of direct democracy.

"Democracy cannot succeed unless those who express their choices are prepared to choose wisely. The real safeguard of democracy, therefore, is education"

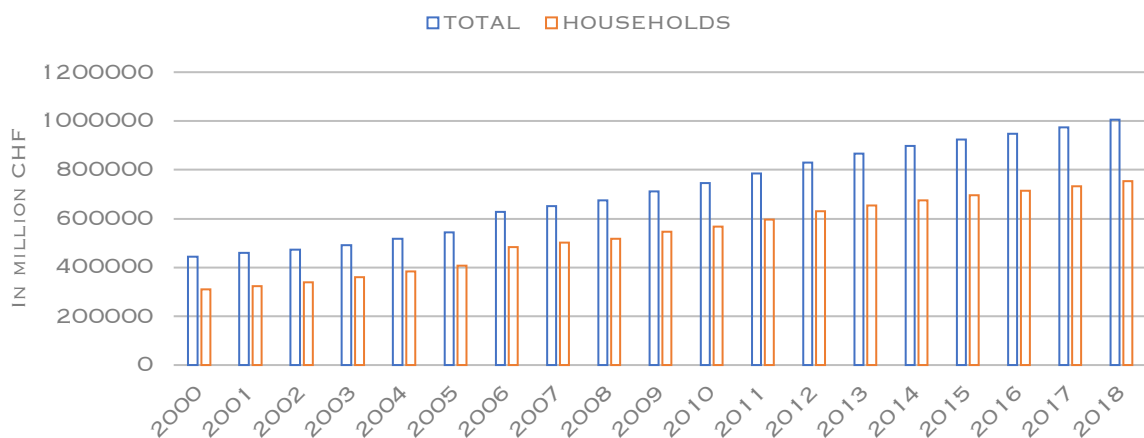
Franklin D. Roosevelt, 32nd U.S President

2. Background

2.1 The mortgage activity in Switzerland

Whether near or far, the mortgage business concerns us all. Indeed, as can be seen on the below graph, if we consider the whole of the mortgage activity in Switzerland, it amounts, at the end of 2018, to more than one thousand billion Swiss Francs (CHF 1,005,667,000,000¹⁴), which represents more than 148% of Switzerland's 2018 GDP (CHF 679'011 million¹⁵). This amount has been growing steadily since the beginning of the new millennium, having increased by more than 227% since then. On average, the share attributed to private persons (households) represents almost 75%, the rest being attributed to legal persons.

Figure 1: Distribution of the Switzerland's mortgage activity



Sources: Author & Swiss National Bank

These stratospheric amounts undeniably show the fundamental importance of mortgage lending activity in Switzerland, and thus, explains the reason why this theme is also often at the heart of political debates, as it is the case at the moment. There are several factors that can explain the magnitude of household mortgage debt in Switzerland:

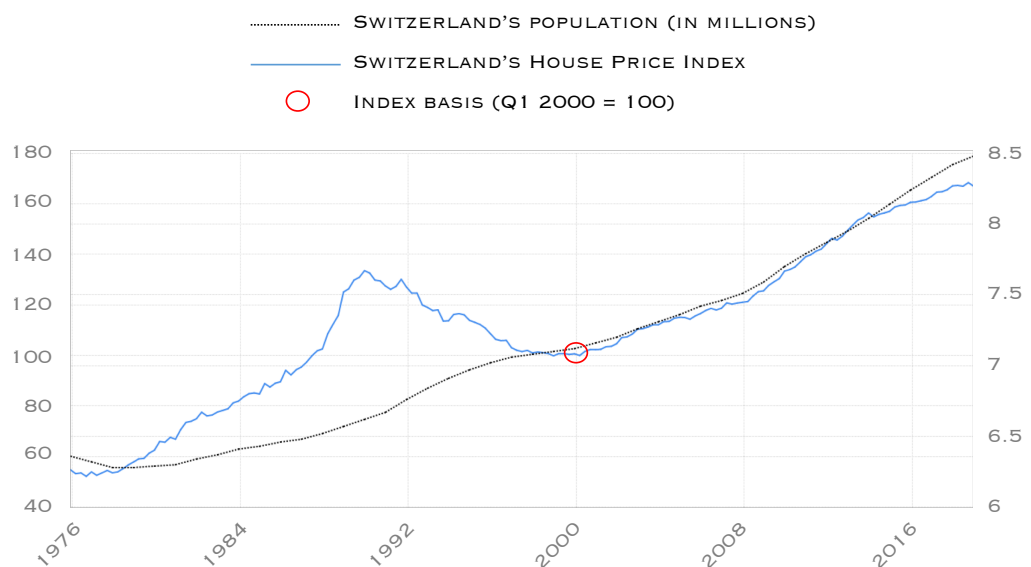
¹⁴ SWISS NATIONAL BANK DATABASE, <https://data.snb.ch/fr>, consulted on March 5th 2019

¹⁵ COUNTRYECONOMY <https://countryeconomy.com/gdp/switzerland>, consulted on May 8th 2019

1. The supply constraint: The fact that the surface area of Switzerland is not particularly high and fixed (not extensible) makes the buildable part of it rare and therefore expensive as the demand is far higher than the supply. In this sense, not only the people who want to access property are often forced to use credit to do so, but the borrowed amounts are also significant.

As can be seen on the below graph, demographic factors tend to drive prices upwards; Switzerland's population growth is strictly correlated with its house price index (the gap that can be seen and that has widened since the 1980s until the end of the 1990s is attributed to a housing bubble that Switzerland has had to face at the time. The situation came back to normality in the early 2000s).

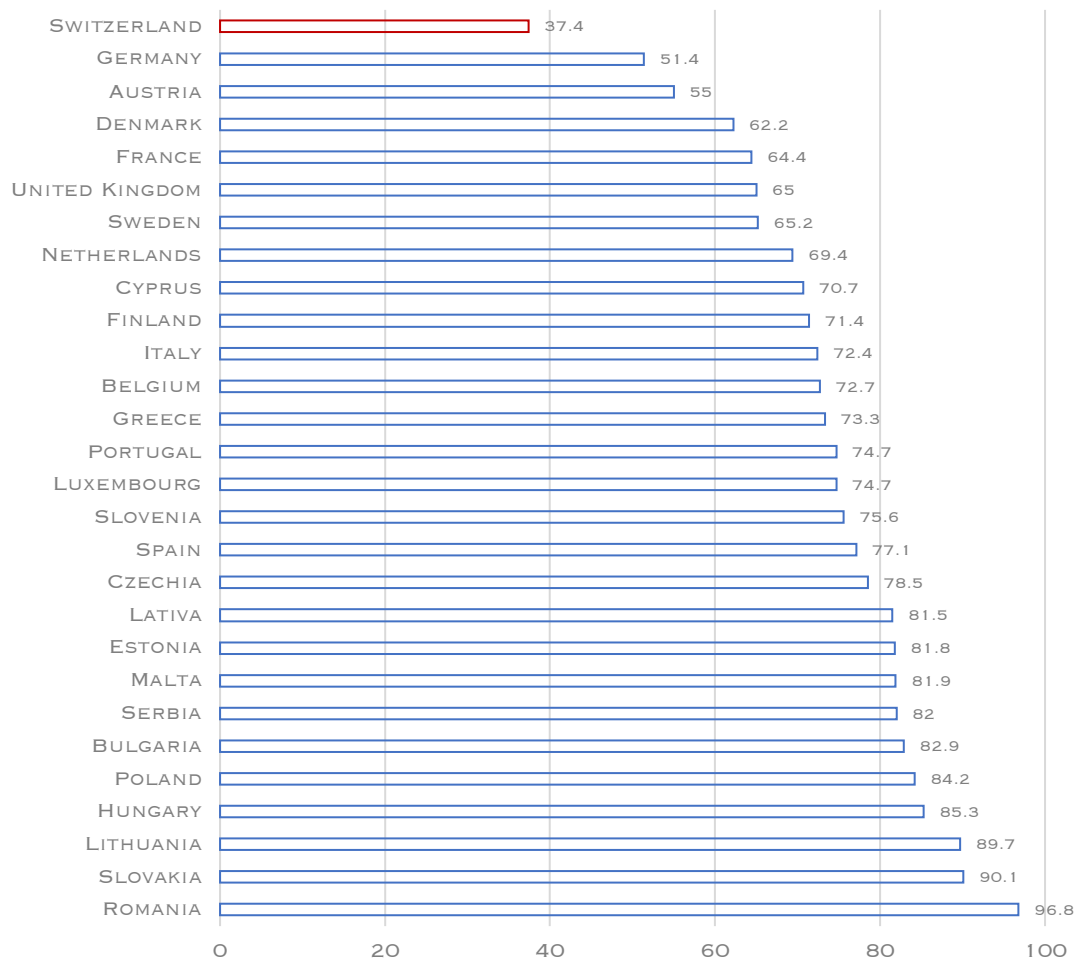
Figure 2: Correlation between Switzerland's population and house price index



Source: Tradingeconomics

Furthermore, as can be also seen on the below graph, the country's particularly high real estate prices as well as the recent tightening of the different regulations governing access to credit also result in Switzerland having the lowest rate of owner-occupied dwellings at the end of 2017, among all the European countries that are surrounding us.

Figure 3: EU countries rate of owner-occupied dwellings (2017)



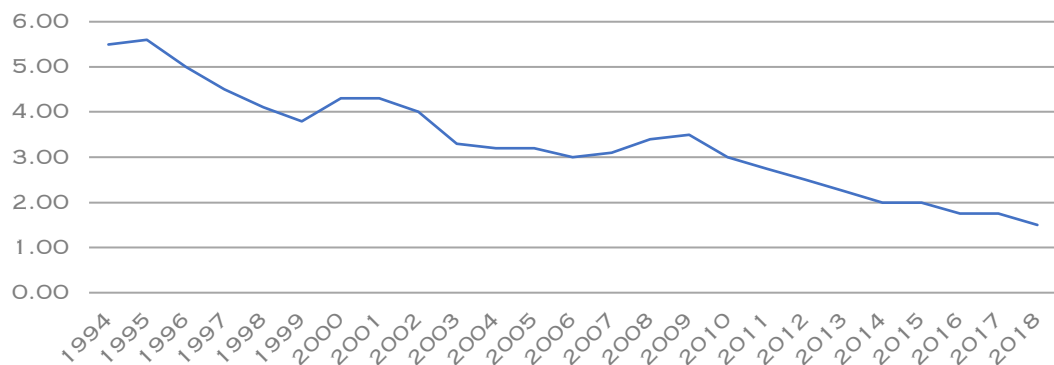
Sources: Author, Statista & OFS

2. The unexpected costs: Although unforeseen, a person who becomes an owner often tends to review his needs upward (better layout of the living space and furniture). The costs inherent to these unforeseen and therefore additional changes are therefore added to the already existing indebtedness.
3. The safe haven perception: Investing in real estate has always been seen as a safe investment against the backdrop of the economic climate, making it a prime argument when deciding how to allocate one's investments. In addition, the quality of construction as well as the limited supply of Swiss homes "guarantees" their value over time. In this sense, a private person with the necessary funds therefore generally has no trouble in obtaining a mortgage loan to finance a real estate project, given the security offered by the sector.

4. The speculative factor: The reality is that not everyone buys / builds a home to live in it. Real estate speculation (the practice of buying real estate for the sole purpose of reselling it at a higher price and thus making a profit on the sale of the property) inevitably leads to an increase in property prices.

5. Interest rates environment: As can be seen in the below graph, since the early 90s, mortgage interest rates have been falling steadily. This phenomenon became even more accentuated with the 2008 financial crisis, which prompted the central bank to intervene in order to stimulate the economy by lowering the cost of investment (ie. borrowing). As a result, funding for housing has never been so cheap, which has driven many families into pursuing home ownership. Twenty-five years ago, mortgage interest rates were evolving between 5% and 6%. Today, these same rates are levelled around 1.5%. Enough to induce many undecideds to definitively take the step to become owners.

Figure 4: Evolution of Switzerland's mortgage interest rates



Sources: author, Swiss National Bank & OCSTAT

Note: the figures presented in the above graph represent the average mortgage interest rates applied by banks to their clients without considering the mortgage type. Also, the collected data is limited to banks whose amount of mortgage activity on the balance sheet exceeds CHF 300 million.

6. The fiscal incentive: in Switzerland, several costs inherent to property access (such as mortgage interests) can be deducted for tax purposes, which is an argument of choice and thus creates an incentive by decreasing the opportunity cost of going into debt to finance a real estate project.

2.2 The different types of mortgages

There are currently three standard mortgage products on the market: the floating rate mortgage, the fixed rate mortgage and the money market mortgage. Although all of them are among the most frequently used, the present study will focus on the fixed and the money market mortgage, also called LIBOR rate mortgage. The fixed rate mortgage is the most traditional product. As its name suggests, its interest rate is fixed and does not change over the entire contractual term, which is usually comprised between two and fifteen years depending on the lending institution. On the contrary, with the money market mortgage, the interest rate is linked to the evolution of the short-term Libor rate and is therefore adjusted periodically.

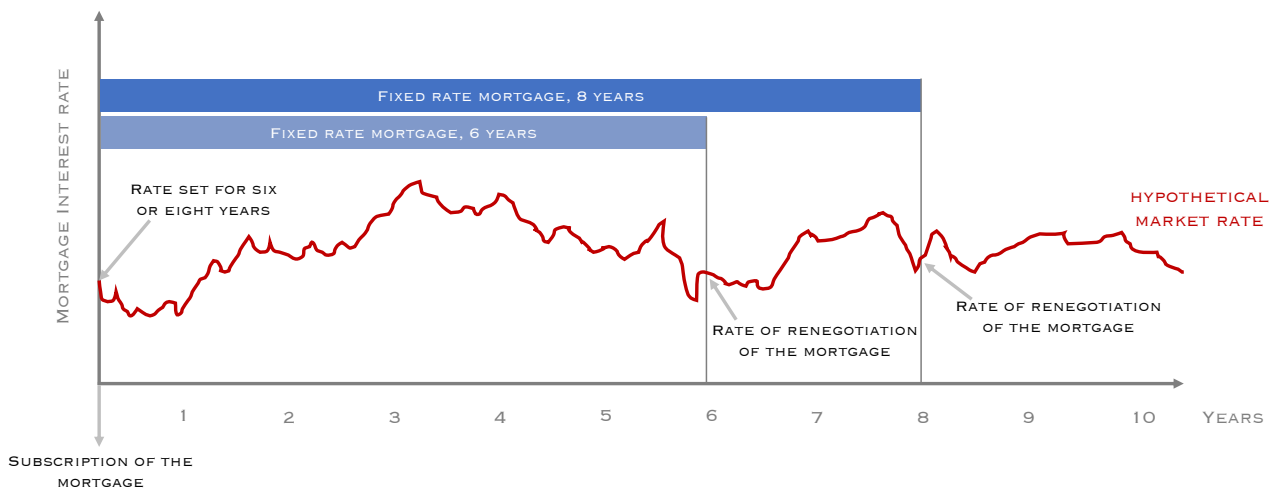
In the following, we will describe both of them to better understand their mechanism and the specificities that differentiate them. (*Important note: all mortgage products discussed below and the specificities related to them are based on the financing offer of UBS, the largest bank in Switzerland*).

2.2.1 The fixed rate mortgage

The fixed rate mortgage is a form of mortgage whose interest rate and maturity are set in advance and remain fixed for the whole duration of the term. The advantage for the contractor is that he can project himself in a stable and precise way on his real estate project. Indeed, the fact that he knows the exact costs of his funding in advance means that he is able to budget them accordingly. In addition, the main advantage of this type of financing method is that in the case of a rise in mortgage rates during the term of the loan, the borrower will not be affected since they are fixed at the time of subscription. However, the disadvantage is that in the opposite case, the person who opts for a fixed rate mortgage runs the risk of not being able to benefit from a possible fall in mortgage rates. Finally, once the mortgage has expired, it is possible to extend the duration of it, knowing that the mortgage interest rate will have to be adjusted to prevailing rates, as we can see on the below explanatory graph.

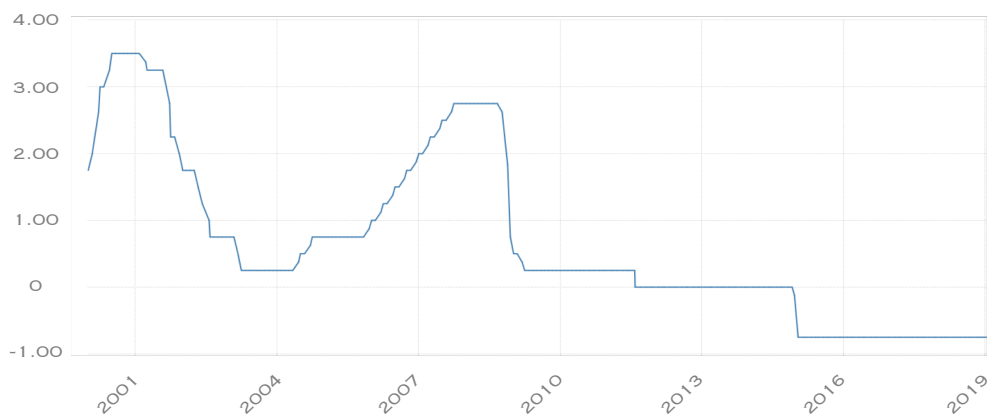
To avoid any confusion, it is important to understand the difference between interest rates – those that are set by the central bank in order to regulate the economy – and mortgage interest rates – those that are independently set by financial institutions when lending money to their clients. Indeed, the central bank does not directly set the mortgage interest rates. Its duty is to set the monetary policy by preventing the economy from overheating, by increasing interest rates or from entering in recession, by decreasing them. It is based on this indicator that a bank will decide the mortgage/credit interest rates it will apply to its clients for financing activities. The difference between the central bank interest rate and mortgage interest rates is usually represented by the margin that allows the bank to generate revenue while covering default risks.

Figure 5: Fixed rate mortgage explanatory graph



Sources: author & UBS

Figure 6: Evolution of Switzerland's interest rate



Source: Tradingeconomics & SNB

Current situation of Switzerland's interest rates: The Swiss National Bank (SNB) left its benchmark interest rate unchanged at -0.75 % on March 21st 2019, meaning that the Swiss franc (CHF) is still highly valued. Interest Rate in Switzerland averaged 0.76 % from 2000 to 2019, reaching an all-time high of 3.50 % in June of 2000 and a record low of -0.75 % in January of 2015¹⁶, period at which the SNB dropped the floor rate against the Euro currency (EURCHF 1.20).

2.2.2 The money market mortgage (LIBOR mortgage)

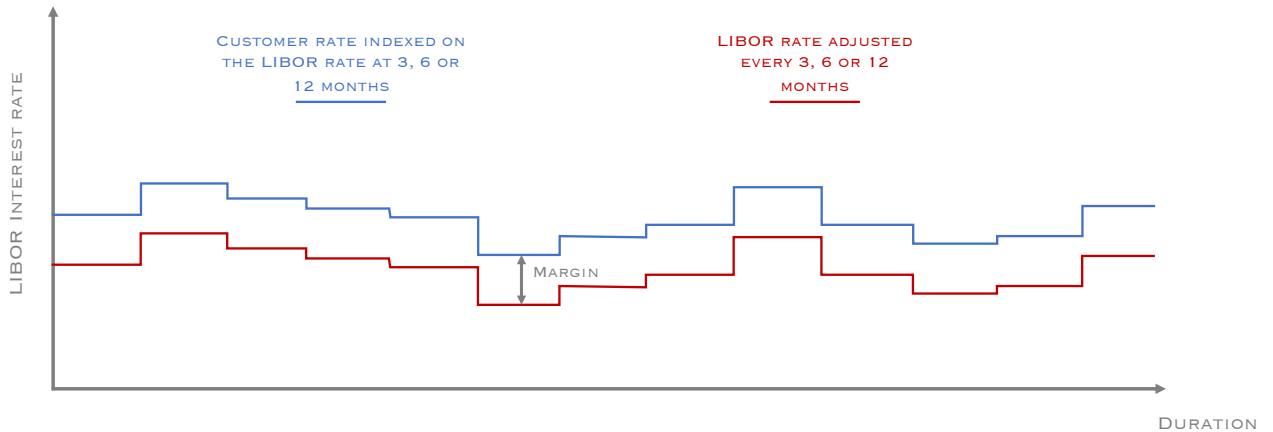
The Swiss Franc (CHF) LIBOR (which stands for London Interbank Offered Rate) interest rate is “the average interbank interest rate at which a large number of banks are prepared to lend one another unsecured funds denominated in Swiss francs on the London money market¹⁷”. The LIBOR mortgage is a real estate financing product whose maximum contractual term (duration) is generally three years although it is also renewable. This product is flexible/dynamic in essence, since its interest rate is modelled and adjusted to that of the money market. It is up to the contractor to choose the LIBOR rate period he wants to set at the time of the subscription of the mortgage. This can be based on the LIBOR interest rate at three, six or twelve months and remains fixed for the duration of the chosen period before being renewed periodically.

This financing method therefore does not provide any interest rate guarantee. The contractor must therefore be aware of the possibility of a variation in the rates that may play either in his favor or against him. This is the reason why the contractor may, at the end of the chosen period of interest rate, convert his LIBOR mortgage into a fixed rate mortgage (this type of conversions usually depends on the lending policies of each lending institution). The graph below illustrates the interconnection between the LIBOR market rate and the resulting mortgage interest rate (customer rate) that will be applied to the customer. The difference between both is the bank margin. In other words, the revenue that the bank generates from its mortgage activities. Here again, the margin depends on each lending institution.

¹⁶ TRADINGECONOMICS: <https://tradingeconomics.com/switzerland/>, consulted on March 26th

¹⁷ GLOBALRATES: <https://www.global-rates.com>, consulted on March 26th 2019

Figure 7: Money market mortgage explanatory graph



Sources: author & UBS

Figure 8: Evolution of the CHF LIBOR rates



Source: iborate.com

Current situation: Swiss Franc LIBOR Three Month Rate increased from -0.71% on Monday March 25 2019 to -0.70% in the previous trading day. Since 1989, Interbank Rate in Switzerland averaged 2.28 %, reaching an all-time high of 10 % in January 1990 and a record low of -0.96 % in January of 2015¹⁸, just after that the Swiss National Bank dropped the floor rate against the Euro currency (€).

¹⁸ TRADINGECONOMICS : <https://tradingeconomics.com/switzerland/interbank-rate>, consulted on March 26th 2019





















2.2.3 Stability against dynamism




Buying a property is a very important moment in someone's financial and emotional life. Indeed, it is a significant decision since it is likely to change one's standard of living during a significant period of time. This is why choosing the right financing method/product is an essential element that must consider several factors so that it fully adapts to borrower's personal wishes and financial situation. In this sense, the funding agency (eg a bank) has an important role to play in advising a prospective borrower on the type of product that suits him best. Apart from the conscientious analysis of the client's financial situation (which will be discussed later), the bank will base its advice on two crucial preliminary criteria: the interest rate environment and the client's typology.

2.2.3.1 The interest rate environment

It goes without saying that the interest rate environment represents an essential element to introduce into the equation because it is according to the latter that a financing product may prove to be more suitable than another.

Figure 9: UBS mortgage profile theory according to interest rate levels

INTEREST RATES LEVEL	FIXED RATE MORTGAGE			LIBOR RATE MORTGAGE
	SHORT TERM	MEDIUM TERM	LONG TERM	
HIGH				
FALLING				
NORMAL				
RISING				
LOW				

	APPROPRIATE		CAN BE APPROPRIATE		INAPPROPRIATE
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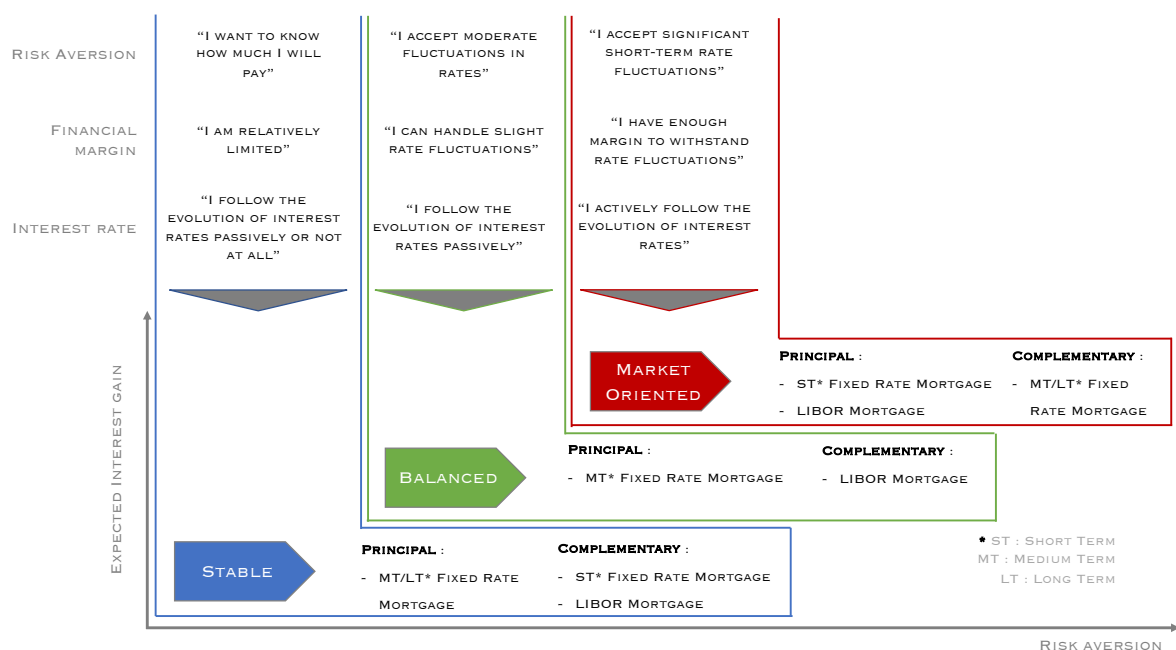
Source: author & UBS

As can be seen on the above mortgage profile theory table, fixed rates mortgages are mostly recommended in periods where interest rate levels are considered as normal, low or raising. Indeed, this financing method allows the contractor to benefit from a low and durable interest charge, as he will not be impacted by an eventual rise of prevailing rates. However, when it comes to periods witnessing a high or falling level of interest rates, contracting a fixed rate mortgage is considered inappropriate as the borrower could not be able to benefit from an eventual fall of interest rates. On the contrary, Libor rate mortgages are never considered as inappropriate. This is principally due to their inherent dynamism. Being constantly adapted on a short-term basis (three, six or twelve months), these products allow the borrower to review its situation periodically and give him the opportunity to adapt/change its financing method depending on the rate environment.

2.2.3.2 The client typology

The so-called "superficial" typology of the client plays an important role in the client advisory activities when proposing a type of financing. To assess this aspect, banks implemented some profile mapping tools to provide a financing advice framework tailored to each customer. As we can see below, at UBS, they consider three different profiles:

Figure 10: UBS mortgage profile theory according to client typology



Source: author & UBS

As can be seen from the above profile mapping tool, factors such as the risk aversion, the financial margin and the interest rates knowledge will determine or at least give an idea about the financing products that can be proposed to each client typology. However, it is important to note that such simplified mapping tools and their inherent interpretation are subject to variations depending on each lending institution. In this sense, they represent a guide but in no way replace the advisory expertise of an expert.

2.3 Mortgages in practice

2.3.1 The constitution of the loan

This section focuses on the practicalities of mortgages. Firstly, it is necessary to understand what elements they are made up of, namely the necessary capital intake for the contraction of the loan as well as the portion of debt which is often subdivided into two distinct parts.

2.3.1.1 The capital intake

In the event of a mortgage credit contraction, the law requires the borrower to make a capital contribution of at least 20% of the value of the property (the remaining 80% being the mortgage itself). Prior to 2012, the choice of the source of this capital contribution was left to the will of the purchaser. It was therefore customary to draw on (or to pledge) the funds of the second pillar pension plan to make up this contribution, knowing that due to the high level of property prices, it was often the only option for future owners to have enough capital input.

However, between 2012 and 2014, a series of measures aimed at restricting access to mortgage credit and thus avoid a housing bubble were taken jointly by the Federal Council, the Swiss Bankers Association and the FINMA¹⁹, which is the Swiss Financial Market Supervisory Authority. Among the measures introduced, one of them provides that a mortgage borrower is now obliged to make a "hard" contribution of 10% out of the 20% of the required capital intake, which means that these can no longer be taken from the second pillar but can only be withdrawn from personal savings. In the average case, this new directive implies that a contribution of 50,000 to 100,000 CHF in cash is necessary²⁰.

¹⁹ LE TEMPS, « *Financement hypothécaire, retour sur les nouvelles exigences* », Roland Bron, published on December 21st 2014, consulted on April 1st 2019

²⁰ BILAN, « *Comment financer son hypothèque* », Mary Vakadiris, published on May 30th 2018, consulted on April 1st 2019

As stated by Mr. Stephan Mischler, Operational Director at DL MoneyPark: "This decision was a necessary evil to put an end to the upward spiral of prices²⁰". This new measure provoked controversial reactions at the time, as the use of the second pillar for financing the purchase of housing was not only strongly rooted in morals but often benefited people with a limited income and financial wealth. In summary, the rules regulating the capital intake contribution (minimum 20%) establish that this share can come from:

- Personal savings (minimum 10% - pension funds excluded)
- The second pillar
- The third pillar
- A donation
- The contribution in kind of a real estate object already fully acquired

2.3.1.2 First and second-tier mortgage

When a future owner contracts a mortgage with a bank, who finances up to 80% of the value of the property, takes some risk related to the potential default of the borrower. If the latter is unable to repay his loan, the acquired property (which is used as a pledge) will then be sold by the bank to honor the contracted debt. However, due to a multitude of factors, the amount recovered by the sale of the property might not be sufficient to repay the 80% of the loan granted (due to a fall in the price of real estate or in case of physical property damages, for example). From a risk management perspective, the bank considers that when reselling a mortgaged property, the chances to recover at least 66.6% (2/3) of the total value of the property are realistic and legitimate. The remaining 13,3% (which complements the 80% loaned by the bank in the case the borrower brings 20% of capital intake) are thus riskier. To reflect this risk and back itself against an eventual credit default of the borrower, the lending institution often subdivides the mortgage into two separate tiers.

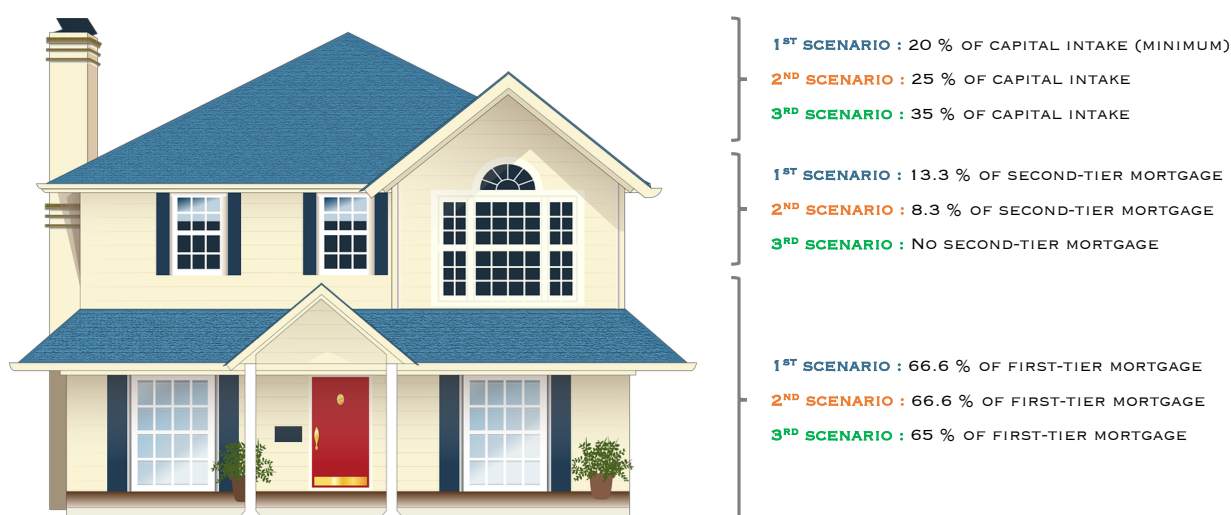
The first-tier mortgage therefore covers a maximum of 2/3rd of the value of a property. It is a mortgage considered "low risk" by the bank, which is almost certain to recover its money in case of resale of the property, given the limited housing supply.

Towards a removal of the rental value coupled with the abrogation of parallel tax deductions: What is at stake?

In this sense, it does not only often benefit from a more advantageous mortgage interest rate, but there are also no restrictions regarding its repayment; the level, the amount as well as the duration of amortization is left to the choice of the borrower (remember that a mortgage contractor can decide to extend the duration of the loan by extending/renegotiating the latter at the expiration of the contractual term).

On the other hand, the second-tier mortgage finances the difference between the first-tier mortgage and the borrower's capital intake (see below illustration). As previously explained, this tier is riskier for the bank, which is why it might not only be subject to a higher interest rate, but it must also be amortized within 15 years after its contraction (until not so long ago, debtors were given up to 20 years to repay their second mortgages. However, as a growing number of experts, among which the FINMA, fear that the Swiss real estate market may overheat, banks have been "forced" to tighten their self-regulatory policies²¹) and / or before the borrower reaches the age of sixty-five years old (if the borrower is 55 years old at the moment of the mortgage subscription, he will have 10 years to amortize it). Finally, it must be noted that taking out a second-rank mortgage is not mandatory. It depends entirely on the financial capacity of the borrower. If the first-tier mortgage coupled with the borrower's own capital intake do not cover the whole value of the property, the buyer will have to take out a second-tier mortgage (please refer to the below infographic).

Figure 11: scenario-based mortgage constitution infographic



²¹ INFOMAISON, « *Avantage de l'ammortissement direct d'hypothèques* », published on July 25th 2018, consulted on April 8th 2019

2.3.2 The indebtedness capacity ratio

As in any credit activity, the lender must ensure the counterparty's debt/financial capacity. In other words, the bank must insure itself that the client subscribing to a mortgage has the necessary funds to assume the repayment of the debt contracted and that he can maintain his standard of living in a suitable manner without putting himself in a perilous financial situation. The regulation criteria in force established the following basic criterion: The expenses related to the property acquisition must not exceed 33% of the annual gross income of the borrower (or the couple, if a real estate purchase is financed in common).

In this sense, the expense analysis includes:

- **Mortgage Interest Charge:** Regardless of the current level of interest rates, UBS establishes a notional interest rate of 5%²² when calculating the client's debt capacity. This is a precautionary measure that aims to ensure that the borrower can support an eventual significant increase in interest rates if the mortgage comes to be renewed over time.
- **Amortization expense:** When financing more than two-thirds of the real estate value (which means that a second-tier mortgage is necessary), the second-tier-mortgage must be amortized in equal instalments (on a straight-line basis) in the space of 15 years or before the retirement age of 65 years old²².
- **Maintenance costs and ancillary expenses:** In addition to the maintenance costs inherent to the accession of the property, ancillary expenses include expenses related to home insurance, water, electricity, etc. When calculating the debt capacity of the borrower, the bank expects them to weight 1% of the value of the property per year²². Here again, the percentage is applied as a precautionary measure.

²² DL MONEYPARK, « *Le taux d'endettement – critère décisif pour l'hypothèque* », DL, consulted on April 9th 2019

2.3.2.1 Illustrative example with scenario calculation

Scenario: The Müller family, a married middle-class couple with two young children living in the Geneva region wants to buy a real estate property not far from there to live in with their children. They go to their banker for a preliminary meeting to see their debt capacity.



PROPERTY PRICE : CHF 1'000'000



CAPITAL INTAKE (MIN. 20%): CHF 250'000 (25%)

ORIGIN :

- COUPLE'S SAVINGS : CHF 125'000
- OCCUPATIONAL PENSION (3RD PILLAR) : CHF 125'000



MORTGAGE DEBT: CHF 750'000 (75%)

DECOMPOSITION :

- 1ST TIER MORTGAGE : CHF 666'666.6̄ (66.6̄ %)
- 2ND TIER MORTGAGE : CHF 83'333.3̄ (8.3̄ %)



INTEREST RATE: 1.2 %



ANNUAL GROSS INCOME (COUPLE): CHF 183'350

	CALCULATION WITH THE ESTIMATED INTEREST RATE 5%	CALCULATION WITH THE REAL INTEREST RATE 1.2%
ANNUAL INTEREST EXPENSE:	CHF 37'500	CHF 9'000
ANNUAL DEPRECIATION CHARGE*:	CHF 5'556	CHF 5'556
ANNUAL ACCESSORY CHARGES:	CHF 10'000	CHF 10'000
TOTAL ANNUAL EXPENSES:	CHF 53'056	CHF 24'556
TOTAL MONTHLY EXPENSES:	CHF 4'421	CHF 2'046
FINANCIAL CAPACITY:	29.91%	13.38%
RULES OF THUMB CHECK:		
✓	MINIMUM 20% OF CAPITAL INTAKE	
✓	10% OF CAPITAL INTAKE COME FROM PERSONAL SAVINGS	
✓	MORTGAGE CHARGES DO NOT EXCEED 33% OF COUPLE'S ANNUAL GROSS REVENUE	
RESULT: THE MORTGAGE CAN BE GRANTED		

* AS THE MORTGAGE REPRESENTS MORE THAN TWO-THIRDS OF THE REAL ESTATE VALUE, THE 2ND TIER MORTGAGE MUST BE AMORTIZED ON A STRAIGHT-LINE BASIS IN THE SPACE OF 15 YEARS.

Towards a removal of the rental value coupled with the abrogation of parallel tax deductions: What is at stake?

As we can see, the 5% theoretical interest rates applied during the establishment of the debt capacity ratio provide a margin of safety far from being negligible. In doing so, the bank protects itself while protecting its borrowers from a bad surprise if interest rates came to rise between the mortgage contraction and its maturity.

However, there are some possible derogations regarding this maximum indebtedness ratio. Indeed, if we take the example of Credit Suisse, in the case a client brings more capital intake and does not need a second-rank mortgage, the bank can increase this indebtedness limit up to 39%⁵³.

To summarize it in a few words, any individual interested in financing a real estate project must comply with the three following rules of thumb:

- 20% of capital intake, of which at least 10% come from personal savings
- Expenses (amortization, 5% mortgage interest and 1% maintenance fee) must not exceed one-third of gross annual revenues
- In the case a second-tier mortgage is contracted, its amortization must be made for a maximum of fifteen years or before retirement age.

Note: The Müller family, which has virtually been imagined for the illustrative needs of this study and whose characteristics are presented above, will be used as an example throughout this research to illustrate some theoretical aspects of the field and allow the reader to project himself more easily within the given situations. However, although the basic scenario will remain the same, the latter might vary slightly in the next chapters.

2.3.3 The mortgage's amortization

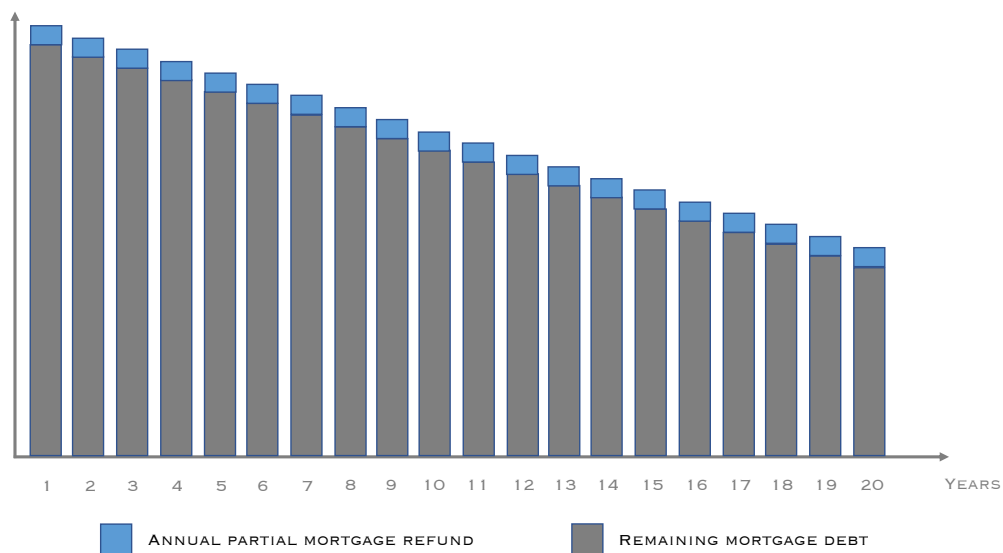
Like any loan, a mortgage must be repaid. The term amortization (or depreciation) refers to the repayment of the mortgage loan or part of it on an annual basis, by equal instalments. In this sense, for budgeting purposes, it is acknowledged that approximately 1% of the total amount of debt should be allocated to annual amortization expenses. However, there are two types of depreciation methods that are fundamentally different: the direct and the indirect one.

Towards a removal of the rental value coupled with the abrogation of parallel tax deductions: What is at stake?

2.3.3.1 Direct amortization

With this model, the mortgage is repaid (amortized) directly to the bank in equal monthly instalments, which gradually reduces the debt load (see below graph). While this method may be wise, it has a major disadvantage: the amount of the mortgage decreases constantly, thus also lowering the interest on the debt, which is fiscally deductible. As a result, the tax bill increases continuously. Given the particularly low level of interest rates, it's not a big deal at the moment since the tax benefit obtained by deducting mortgage interests is in any case minimal as will be seen later on.

Figure 12: Illustration of the direct amortization method



Source: author

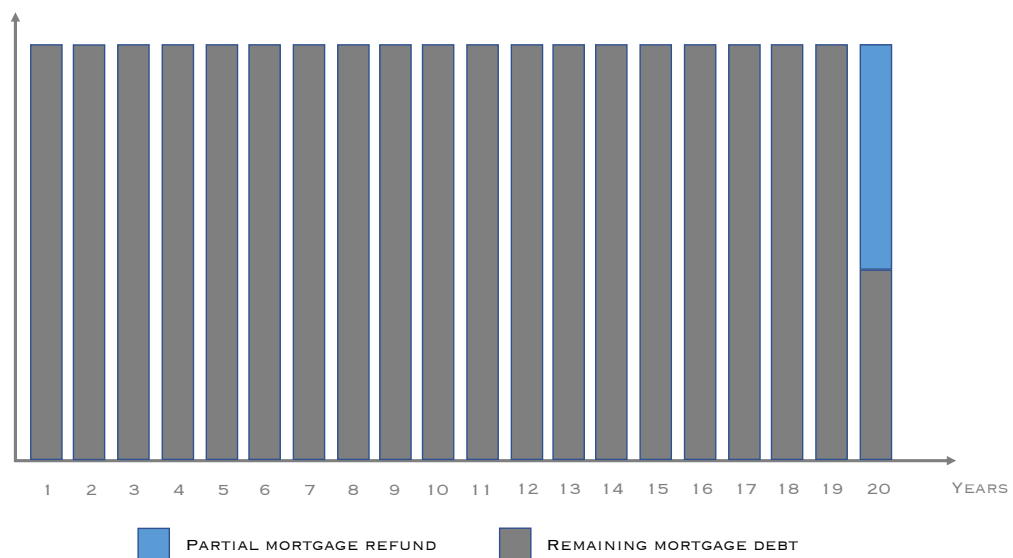
2.3.3.2 Indirect amortization

Contrary to the direct method, the primary purpose of the indirect amortization is to keep the mortgage debt constant for the whole duration of the loan. As can be seen in the graph below, the debt remains constant over time, as well as the tax burden related to interests. With this model, the amortization slices are not paid directly into the "bank mortgage account", but into a 3rd pillar A account (personal pension saving plan), that must usually be held within the lending institution, who will keep it as a pledge.

With this regard, it is important to point out that in order to be able to link a mortgage depreciation via a 3rd pillar, it is obligatory for the holder to be the owner of the real estate and that he lives in it (principal residence). In addition, at UBS for example, such personal pension plan account pays a yearly interest rate of 0.2%.

The advantage of this depreciation method is that it offers more interesting fiscal opportunities: the payments on pillar 3a (this year, CHF 6826 for employees affiliated to a pension fund) can be deducted from one's taxable income. Furthermore, as the debt remains constant, the deductible mortgage interest charge does not decrease, so the tax burden remains identical during the whole duration of the loan.

Figure 13: Illustration of the indirect amortization method



Source: author

The mortgage reimbursement is therefore partially made at once and takes place at the expiration of the 3rd pillar benefits, (ie at the time of retirement – 64 years old for women and 65 for men) or five years before this deadline in case of early retirement. Except in case of extraordinary anticipated amortization (early withdrawal of the 3rd pillar, 2nd pillar, cash, etc.), the debt therefore remains constant with this type of amortization, and makes it possible to deduct higher mortgage interest rates than if the loan was gradually repaid (amortized).

As previously stated, amounts paid to 3rd pillar A are deductible from someone's income up to (possible deductions may vary from canton to canton, the example of Geneva will be taken here):

- for employees contributing to the 2nd pillar: maximum of CHF 6'826 annually²³
- for self-employed persons: maximum of CHF 34'128.- annually²³
- for employees not contributing to pension fund: maximum 20% of annual net income²³.

In addition, anticipated withdrawals of 3rd pillar A (and 2nd pillar) can only occur in the following cases:

- to reach the 20% of own capital intake needed for the purchase of a principal residence²⁴
- to amortize the debt of one's principal property²⁴
- to perform maintenance work for one's main dwelling²⁴
- to become professionally independent (creation of a company)²⁴
- to change of independent professional activity²⁴
- definitive departure abroad²⁴
- in case of disability²⁴

Note: There are several types of third-pillar personal pension saving plans. Some can be contracted through an insurance company or, as presented above, through a banking institution. Although each has its own specificities, we will not discuss them here.

2.3.3.3 Is it a good idea to amortize the mortgage?

As can be noticed in both illustrative graphs, regardless of the method of amortization chosen, there is still a portion of the remaining debt that is not amortized at the end of the term of the loan. In fact, borrowers often decide to keep their debt by renewing their mortgage over time for fiscal reasons. Thus, only the mandatory part is usually repaid.

²³ UBS, « *Plafond du pillier 3A pour 2019* », consulted on April 15th 2019

²⁴ DEFFERRARD & LANZ, « *L'amortissement direct ou indirect* », version number 8, page 87, published on June 2017, consulted on April 15th 2019

From a fiscal point of view, a debt brings benefits because it is deductible from taxable wealth. In parallel, the related mortgage interests are deductible from taxable income. Given the current level of today's interest rates, it is not very interesting to amortize a debt if we limit ourselves to the tax aspect. In doing so, property owners therefore ensure the ongoing deduction of mortgage interest from their income to at least partially offset the taxation of rental value, a concept that will be amply developed later. This compensatory aspect is also confirmed by Mr. Olivier Feller, Secretary General of the Fédération Romande Immobilière (FRI). "Currently, homeowners pay a tax on income they do not collect. Therefore, to neutralize it, they keep their mortgage as high as possible, so that the interest they pay to the bank, which is tax deductible, is also the highest possible²⁵".

As a result, this is one of the main reasons why, in Switzerland, the average level of indebtedness at retirement age is around 40% - 45%²⁶, which is particularly high compared to other countries in which mortgage-related national legislation forces borrowers to fully repay their debt within a defined time period.

In addition, other elements must be considered. Apart from the fiscal incentive, deciding whether repaying a mortgage or not can also be seen as a matter of opportunity cost and depends on the personal situation of each. To get an idea, there are several questions that one can ask itself about whether depreciation is a good option (keeping in mind that capital used for mortgage amortization is tied to real estate and cannot be used for consumption expenditures):

- "What do I plan to do with the money that was initially entitled to amortize?"
- "Can I get a higher return than mortgage interest with alternative investments?"
- "In the long run, would the after-tax return be higher than the savings made through a smaller mortgage?"

In general, depreciation is not profitable if you can earn a return higher than mortgage interest with alternative investments.

²⁵ 24 HEURES, « *Retirer la valeur locative ferait-il grimper les prix ?* », Ivan Radja, published on August 26th 2018, consulted on March 15th 2019

²⁶ BCV, « *Faut-il amortir son prêt hypothécaire?* », Fabrice Welsch, published on April 2017, Fabrice Welsch, consulted on April 8th 2019

In that respect, if the money initially intended for the amortization of the mortgage ends up in a bank saving account, the idea of investing a part of it in housing may prove to be wise, insofar as the interests on bank accounts are virtually nil. Not even so virtual as the UBS bank has just announced that it will no longer remunerate saving accounts from June 1st 2019²⁷. It will be the first big bank to dare to take the plunge.

Finally, an aspect that must also be considered when deciding whether to amortize or not concerns the maturity of the mortgage and the inherent interest rate risk. Indeed, although recent years have accustomed borrowers to particularly low interest rates, they should keep in mind that this will not always be the case. The risk of having to pay higher interests than today when renegotiating the mortgage does exist given that the mathematical probability that rates will be higher in the future is greater than the opposite. Within the current interest rate environment, the fixed rate mortgage offers an attractive opportunity since it provides a secure budget planification during the duration of the loan. To hedge against an eventual rise of interest rates, it may therefore be wise to enter into fixed-rate financing solutions while spreading this risk out by contracting several mortgages with different maturities. This is the case where the principle of amortization makes perfect sense because here we come to another definition of the verb "amortize": to reduce shocks²⁸.

At the same time, opting for a LIBOR mortgage also provides some advantages, even if caution is needed. Since the rates may rise, it is important for each borrower to set a certain rate limit that should not be exceeded. A limit beyond which one's budget could be put at risk. However, in this case (increase in interest rates), it should be kept in mind that a mortgage of this type can be quickly converted into a fixed rate mortgage, knowing that the opposite process is impossible. Therefore, this type of financing requires an active follow-up of the evolution of the LIBOR rates as well as a fair understanding of their functioning mechanisms in order to avoid any bad surprise.















²⁷ TRIBUNE DE GENEVE, « *UBS ne rémunère plus les comptes épargne* », published on May 21st 2019, consulted on May 22nd 2019

²⁸ DL MONEY PARK, « *En période de taux bas, doit-on amortir plus ?* », June 2017, consulted on April 15th 2019

2.3.3.4 Direct or indirect amortization: fiscal impact simulation

In order to be aware of the tax impact resulting from a direct or indirect depreciation method, the best solution remains to illustrate it through a tax simulation, inspired by the one provided by DL MONEYPARK, a swiss real estate consulting company²⁹. To perform it, the scenario of the Müller family has been taken.

Scenario: After having performed the indebtedness capacity assessment with their banker, the Müller couple has decided to go further and to purchase their dreamed property. Now comes the time to decide how they plan to repay their mortgage, considering the below scenario characteristics.

	MR. MULLER 35 YEARS OLD		PROPERTY PRICE : CHF 1'000'000
	MS. MULLER 32 YEARS OLD		LOCATION: GENEVA
	CHILDREN : 2		CAPITAL INTAKE (MIN. 20%): CHF 200'000
	CIVIL STATUS: MARRIED		ORIGIN : ○ COUPLE'S SAVINGS : CHF 200'000
	GROSS INCOME (COUPLE): CHF 183'350		MORTGAGE DEBT: CHF 800'000 (80%)
	FISCAL RESIDENCE : GENEVA		DECOMPOSITION : ○ 1 ST TIER MORTGAGE : CHF 666'000 (ROUNDED - 66.6 %) ○ 2 ND TIER MORTGAGE : CHF 134'000 (ROUNDED - 13.3%) → MUST BE AMORTIZED WITHIN 15 YEARS
	MARGINAL TAX IMPOSITION RATE : 38.5%* <small>* THEORETICAL RATE</small>		MORTGAGE INTEREST RATE (FIXED): 1.5 %

In case of direct amortization: As seen previously, the direct amortization induces a constant annual decrease of the mortgage debt. With our example, this decrease would be equivalent to CHF 8'930 (CHF 134'000 / 15) per year. Considering a fixed mortgage rate of 1.5%, we come to an annual decrease in interest expense of CHF 134 per year (CHF 8'930 x 1.5%). Since mortgage interests are deductible from taxable income, direct amortization mechanically leads to an increase in taxable income, which can be calculated through the marginal tax rate²⁹.

²⁹ TOUT L'IMMOBILIER, « *Amortissement direct ou indirect ?* », DL, consulted on April 15th 2019

This rate is used to estimate the tax change resulting from an increase or decrease in taxable income and depends on the place of residence, the marital status and the annual gross income, among other factors. In this sense, the taxable income of the Müller family would increase by CHF 134 per year, they will see their tax burden increase by CHF 51.60 per year ($134 * 38.5\%$). As a result, their net benefit resulting from direct depreciation amounts to CHF 82.40 per year ($CHF\ 134 - CHF\ 51.60$)²⁹.

In case of indirect amortization: This option would consist, for the Müller couple, in amortizing their loan through a 3rd pillar A personal pension plan. Unlike the direct method, the idea of this method is to maintain a constant level of debt by provisioning the funds inherent to the amortization through their third pillar (these funds are set aside and taken as pledge by the lending institution up to the effective repayment).

Indeed, this will allow the couple to benefit from a tax reduction since the premiums paid to this personal pension plans are deductible from taxable income up to CHF 6'768 per year and per person. Therefore, considering an amortization amount equivalent to that of the direct amortization, the Müller couple will thus benefit from an annual tax reduction of CHF 3'438 ($CHF\ 8'930 * 38.5\%$). If we calibrate this analysis over a period of ten years, the charges constituted by the interest on the loan and taxes, the result is the following (without going into the details of the calculation)²⁹:

- With direct amortization: Total expenses would amount to CHF 116,836 ($CHF\ 114'000$ of interest + $CHF\ 2'836$ of tax increase)²⁹
- With indirect amortization: Total expenses of CHF 85,620 represented by $CHF\ 120,000$ of mortgage interests ($CHF\ 800,000 * 1.5\% * 10$ years) minus $CHF\ 34'380$ of tax deductions ($CHF\ 3438 * 10$ years)²⁹

As we can see, with the given scenario, the financial gap between the two options thus amounts to CHF 31,216 ($CHF\ 116,836 - CHF\ 85,620$) which is far from negligible²⁹.

In conclusion, if we consider a purely fiscal aspect, indirect depreciation appears to be more judicious. On the other hand, as previously explained, it is important to remember that direct depreciation offers a significant advantage given this period of relatively low interest rates: a reduced mortgage debt is likely to compensate, at least partially, the future potential higher interest expense if interest rates were to start again at the rise.

Towards a removal of the rental value coupled with the abrogation of parallel tax deductions: What is at stake?

2.3.4 The notary fees

During the initial purchase phase of a property, various parallel fees must be taken into account such as the notary fees or the ones concerning the property registration to the land register. These are generally comprised between 2% to 5% of the value of the property (in average, in Switzerland). Although they may vary from one canton to another and are not considered in the financing calculations, it is very important not to forget them. If we continue with the example of the Müller family, those additional costs would rank between CHF 20,000 and CHF 50,000. If unforeseen, those could therefore endanger one's planned budget.

2.3.5 The mortgage pledge

In order to cover the risk of credit default, the real estate to which the mortgage is linked is used as a pledge. In case of non-repayment of the mortgage, the property will be seized by the lending institution in order to be resold on the market. This right of pledge comes to life at the time of registration of the property in the land register, through the loan contract, which must be ratified by an authenticated act (notarized) to be valid.

2.4 The fiscal impact of access to property

Access to property is a very important moment in an individual's life. This entails a long-term financial commitment and results in a change in the tax imposition mix, knowing that many parallel costs must also be budgeted in order to avoid bad surprises. It is therefore important to understand the fiscal mechanisms that hide behind it in order to realize its magnitude as it will take place at every step of the process; at purchase, during ownership and in case of resale of the property.

2.4.1 At purchase

During this initial phase, the biggest impacts to take into consideration are mainly related to costs which should not be neglected since depending on the financial situation of each, these can weigh heavily on the budget balance if unexpected. Firstly, the transfer of ownership of an existing property is accompanied, in most cantons, by transfer duties³⁰. These are calculated on the purchase price of the property and rank between 1 and 3%³⁰. In addition, it should be noted that depending on the canton, these costs must either be borne by the buyer, by the seller, or distributed equitably between the two counterparties. As previously stated, it is also during this phase that emoluments are due to the land registry office and the notary. Depending on the canton, these costs are generally comprised between 2 and 5% of the value of the property, which represents a non-neglectable expense.

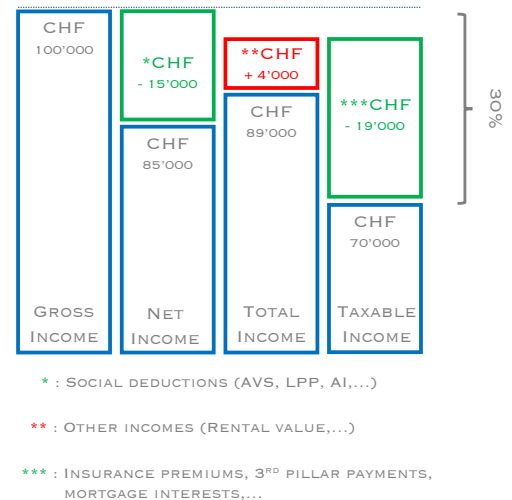
2.4.2 During ownership

It is usually during this phase that the biggest fiscal changes occur. Indeed, the tax situation of the buyer is likely to change for a significant period of time. In this sense, two tax factors are usually impacted: the wealth tax as well as the income tax, knowing that tax imposition rates vary greatly according to the canton of fiscal residence (annex 4).

³⁰ UBS, « *Aspects fiscaux: information sur les impôts et les frais* », consulted on March 9th 2019

2.4.2.1 Income tax

An income tax is a tax that governments impose on income generated by individuals within their jurisdiction. By law, taxpayers must file an income tax return annually to determine their fiscal obligations³¹. From a general perspective, the enclosed simplified calculation example illustrates the path required to arrive at taxable income, starting from the annual gross salary³².



To see the tax evolution emanating from a situation where a tenant becomes an owner, we can see below two explanatory graphs. As shown, the rental value is added to the taxable income, thus raising the tax burden. In parallel, this increase is compensated by various deductions (mortgage interests, maintenance costs, payments done through indirect amortization on a 3rd pillar personal pension plan, etc.), which will reduce the taxable income and the resulting tax burden.

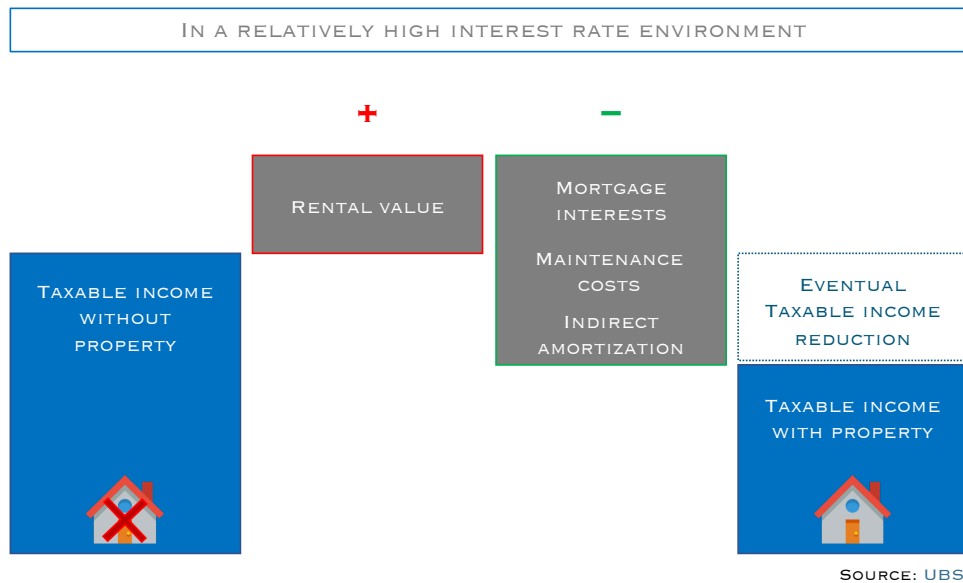
However, the extent to which deductible compensations make it possible to offset the effect of taxation on the rental value depends on a key aspect of the debt: the interest expense. In this sense, the first figure illustrates a particularly high interest rate environment. We can see that although the rental value increases the taxable income (and thus the resulting tax burden), it is fully offset by the fiscal deductions and even results in a tax gain compared to a tenant.

On the other hand, in the opposite scenario, (a particularly low interest rate environment as is the case today), the various deductions are not sufficient to offset the burden imposed by the taxation of the rental value. Worse, it even raises taxable income to a higher level compared to a tenant, as illustrated in the below second figure.

³¹ INVESTOPEDIA, « *Income tax* », Julia Kagan, published on March 23rd 2019, consulted on April 29th 2019.

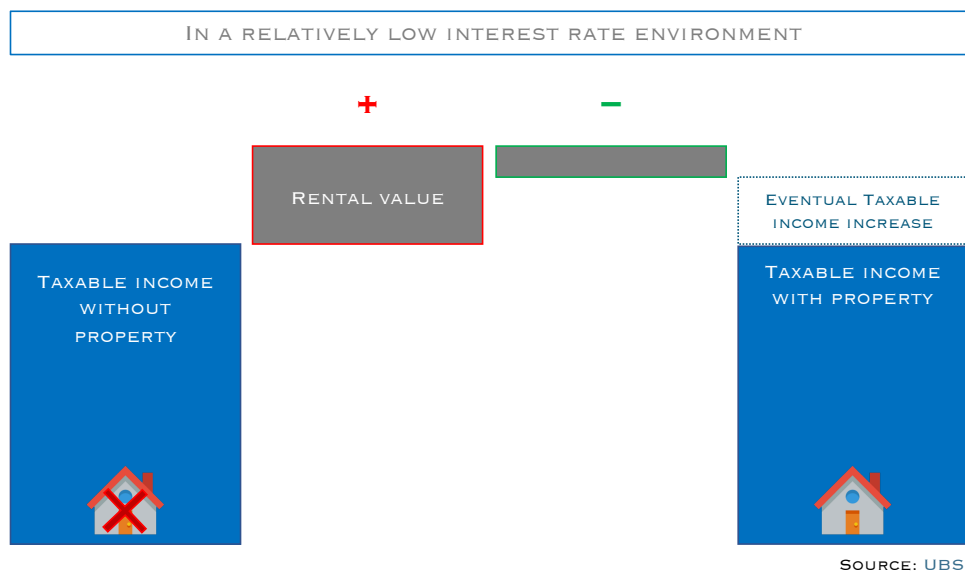
³² SUISSE HYPOTHEQUE, « *Précis à l'usage des futurs propriétaires* », page 21, consulted on March 23rd 2019

Figure 14: Impact of access to property on income tax in a relatively high interest rate environment (simplified)



Source: Author & UBS

Figure 15: Impact of access to property on income tax in a relatively low interest rate environment (simplified)





Source: Author & UBS

2.4.2.2 Wealth tax

For its part, the wealth tax is a governmental imposition which is based on the market value of the assets that are owned by an individual. It encompasses both “movable assets” (cash assets, investments, etc.) and “immovable assets” (real estate for example). For a property owner, the wealth tax is, among others, calculated on the fiscal value, which lives in it, the taxable wealth is reduced by 4% per year of occupancy, up to 40%³³. Also, if an owner carries out added value works, (for example enlarged housing or builds a veranda / a swimming pool), they must be declared to authorities since they increase the fiscal value of the property³³. The simplified calculation below makes it possible to get an idea of the wealth tax evolution that is induced by access to property. As can be seen, the impact is reasonable from one situation to another. If this is the case, it is primarily thanks to the possibility of deducting mortgage debt from global wealth. Although the property fiscal value makes taxable wealth increase significantly, the burden is partially offset by the debt deduction. If this was not the case, the wealth tax would amount to CHF 5'625; which would represent a difference of more than 300% compared to a tenant. However, from another scenario perspective, if the individual decided to use all its cash reserves for the mortgage capital intake (CHF 250'000), the remaining cash available in bank account would be zero. In this case, the effect of access to property would be neutral as the wealth just changes from “movable” to “immovable”.

Figure 16: Illustrative simplified calculation of impact on wealth tax

WITHOUT PROPERTY		WITH PROPERTY	
MOVABLE ASSETS		MOVABLE ASSETS	
CASH IN BANK ACCOUNTS	CHF 250'000.00	CASH IN BANK ACCOUNTS*	CHF 125'000.00
IMMOVABLE ASSETS		IMMOVABLE ASSETS	
REAL ESTATE FISCAL VALUE	CHF -	REAL ESTATE FISCAL VALUE	CHF 1'000'000.00 
DEDUCTIONS (MORTGAGE DEBT)	CHF -	DEDUCTIONS (MORTGAGE DEBT)	CHF 750'000.00 
TOTAL WEALTH BEFORE TAX	CHF 250'000.00	TOTAL WEALTH BEFORE TAX	CHF 375'000.00
WEALTH TAX RATE (GE)	0.50%	WEALTH TAX RATE (GE)**	0.50%
TAX	CHF 1'250.00	TAX	CHF 1'875.00
TOTAL WEALTH AFTER TAX	CHF 248'750.00	TOTAL WEALTH AFTER TAX	CHF 373'125.00

* THE MULLER'S COUPLE HAVE USED HALF OF THEIR SAVINGS AS CAPITAL INTAKE FOR THE FINANCING OF THEIR PROPERTY
 ** HYPOTHETICAL RATE

Source: Author

³³ ESTHER LAUBER FIDUCIAIRE, « *Impôt à la charge d'un propriétaire (particulier) d'un bien immobilier à Genève* », Esther Lauber, published in July 2018, consulted on April 29th 2019

2.4.3 In case of sale

The sale of a property does not entail a liability for direct federal tax, since the capital gains inherent to it are tax exempted at this level. However, the seller will have to pay a cantonal or communal tax on the profit made compared to the purchase price (see graph). In order to fight against real estate speculation, this tax is progressive. It means that in case of long possession of the property in question, the tax will be rather low. In contrast, real estate gains realized over a short period will be heavily taxed. If we take the example of the Canton of Zurich, the tax rate imposed on the capital gain on the resale of a property owned for less than one year is equivalent to 60%. However, if the duration of possession of the property exceeds 20 years, the tax rate will be 20% on the gains made³⁴.



SOURCE: UBS

2.4.4 Summary of primary tax impact in case of home ownership

The simplified enclosed table illustrates the compensatory aspect of the various tax factors to be considered. However, once again, it is important to remind that the tax burden may largely vary not only depending on each Canton's fiscal policies but also on the interest rates

	INCOME TAX	WEALTH TAX
RENTAL INCOME:	↑	-
MORTGAGE INTERESTS:	↓	-
MAINTENANCE FEES:	↓	-
FISCAL VALUE:	-	↑
MORTGAGE DEBT:	-	↓

environment, that will determine whether the level of compensation of a charge against the deductions inherent to it are sufficient to offset the burden, or not.

³⁴ UBS IMMO NEWS, « Immo news », first quarter 2005, page 4, consulted on April 30th 2019

2.5 The dilemma between buying and renting

Note: the following sections concerning the attractiveness' comparison between owning and renting a property are based on the 2019's Credit Suisse real estate report³⁵.

“It is surprising to see that in Switzerland, two thirds of households are still tenants³⁶”. One of the reasons for this trend probably resides within the strictness of the property financing regulation: capital intake must cover at least 20% of the purchase price of a property, which is not neglectable for most of Swiss citizens. At the same time, real estate prices are constantly rising, especially in popular areas where demand is very high. However, if we consider the monthly expenses linked with property ownership, it turns out that they are often significantly lower than those of a comparable rented property.

2.5.1 Favorable economic conditions boost demand

The conditions relating to access to property remain fundamentally particularly favorable. The economic growth that will continue in 2019 is a significant stimulus. In this sense, the strong growth of the labor market has a positive effect on household incomes, which supports the demand for owned housing. In addition, the psychological aspect also plays an important role: job security is an essential condition for making major financial decisions such as the purchase of real estate. The decline in unemployment should therefore reinforce the additional demand for owned housing³⁵.

2.5.2 A low mortgage interest rate environment

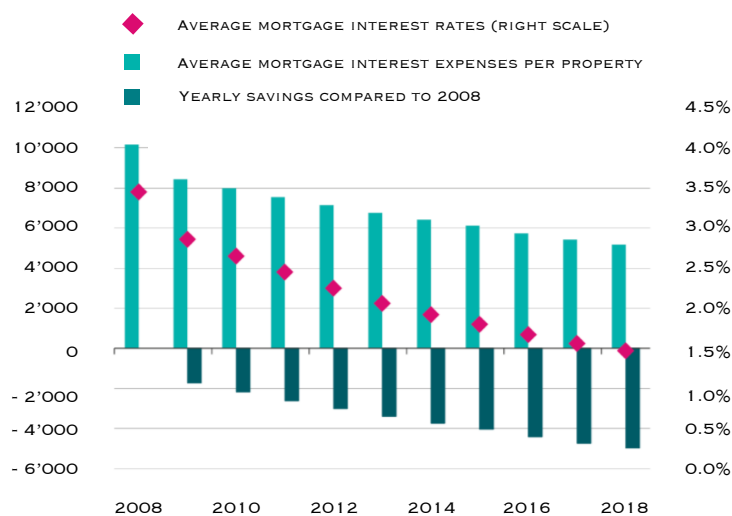
Low mortgage interest rates are also helping to create good framework conditions for homeownership. In this sense, the Swiss National Bank continues to focus its monetary policy on the exchange rate of the Swiss franc and is unlikely to change course in 2019, so that mortgage interest rates are likely to remain very low.

³⁵ CREDIT SUISSE, « *Localisation, localisation et plan de sol* », March 2019, consulted on April 9th 2019

³⁶ CREDIT SUISSE, « *Louer ou acheter : pesez le pour et le contre* », published on August 8th 2018, consulted on May 18th 2019

In addition, as can be seen in the chart below, homeowners' mortgage interest expense continues to decline. In fact, the average mortgage rate dropped from 1.56% to 1.47% in the space of one year. According to estimates by Credit Suisse Bank, the average mortgage interest charge was reduced by CHF 245 to reach a yearly average expense of CHF 5'181. Overall, the Swiss owners thus had an additional CHF 514 million to spend for other purposes in 2018. Compared with 2008, each of them was able to save CHF 4'985 per year in mortgage interest³⁵, which is far from being neglectable.

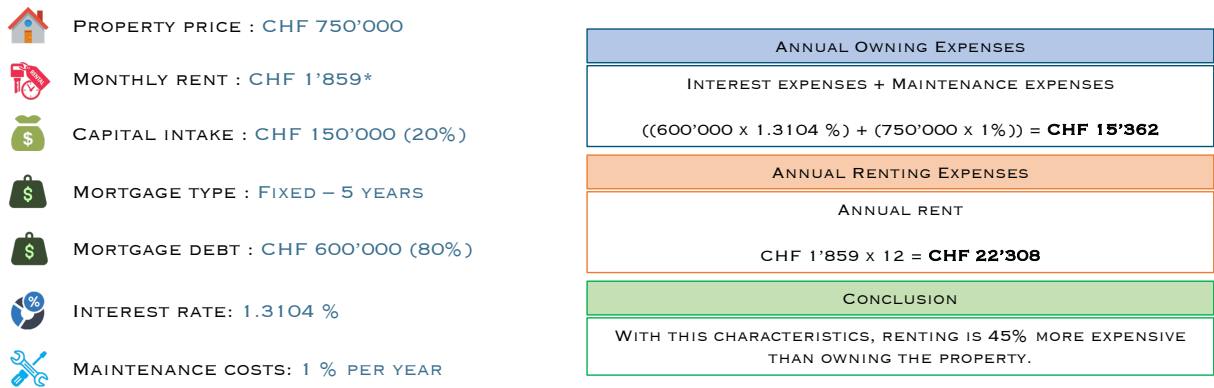
Figure 17: Evolution of savings related to property ownership



Source: Credit Suisse 2019 real estate study, Office federal du logement, BNS

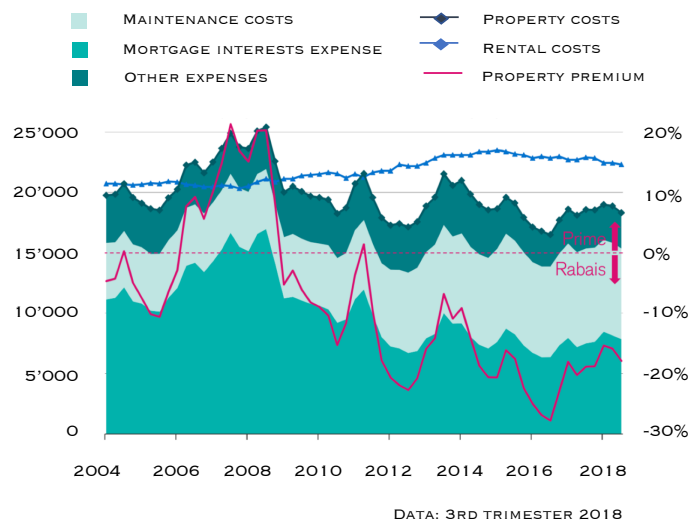
Consequently, home ownership is an attractive option compared to renting. To further prove this aspect, Credit Suisse's 2019 report of the real estate market illustrates this phenomenon through a simplified simulation that compares the average price of a rent for a 4.5 room apartment (including interest and maintenance charges) with a similarly owned apartment. As can be seen below, the results obtained leave no doubt as to the dilemma of ownership or rental. Indeed, with CHF 15'362 per year, the expenses for an apartment owned are significantly lower than rental costs, which represent CHF 22'308 per year³⁵. In percentage, renting is therefore 45% more expensive than owning a property, knowing that the lower the debt ratio, the larger the gap (in the given example, the debt ratio is maximum - 80%).

Figure 18: Simplified comparative calculation between property renting/owning costs



* AVERAGE FOR A 4.5 ROOM PROPERTY, ACCORDING TO CREDIT SUISSE
SOURCE: CREDIT SUISSE 2019 REAL ESTATE STUDY

Figure 19: Graphical comparison between property renting/owning costs



Source: Credit Suisse 2019 real estate study & Meta-Sys AG

However, the simple comparison of mortgage interest and maintenance costs to rents does not reflect the totality of costs associated with home ownership. This is why it is important to note that the simulation “does not consider the cost of depreciation of the 2nd rank mortgage, since depreciation is the transformation of cash into real estate but is not an expense per se. However, it should not be forgotten in the budget planning process. Also, to simplify the calculation, tax aspects such as rental value have been ignored. As they depend on the income of each, its impact varies from case to case³⁶ “.

That said, there are many other factors that determine whether it is more advantageous to buy or rent a home on a case-by-case basis. Among them, we include the fiscal changes and the opportunity cost related to access to property. That is to say alternative investment of capital intake and potential return that could result from it. In addition, real estate is very likely to generate good profit opportunities through the long-term land appreciation. Nevertheless, it must be noted that these factors vary greatly according to each individual. This is why they are difficult to quantify even if Credit Suisse confirms that “buying remains more profitable than renting after a complete and detailed calculation of the different costs³⁶”.

2.5.2.1 Mortgage interest rates play a critical role

As we have witnessed, mortgage interest rates have a significant impact on the relationship between buying and renting. We will newly illustrate this influence thanks to another simulation tool made available by Credit Suisse. By entering the purchase price of a property, a capital intake contribution, an interest rate of the mortgage and the monthly rent, the tool indicates which of the two options is more interesting. We will therefore be able to apply the test to the Müller family by varying the interest rate and / or the rent they pay to see from what limit one option becomes more interesting than the other. The price of the property (CHF 1'000'000) as well as the capital intake contribution (25%) will remain identical to the initial example in all simulations. However, before running them through the Credit Suisse tool, it is important to have an idea of the variation of applied mortgage interest rates depending on the loan duration and on the type of financing solution.

As can be seen from the table below, the general rule is: the shorter the term, the lower the interest rate. This aspect finds its logic in the fact that the longer the duration of a loan, the greater the risk of witnessing a change in rates environment, whether up or down. In this sense, the bank (or other financing institution) must guard against this interest rate risk and the volatility inherent in it.

Figure 20: Overview of the average proposed mortgage rates



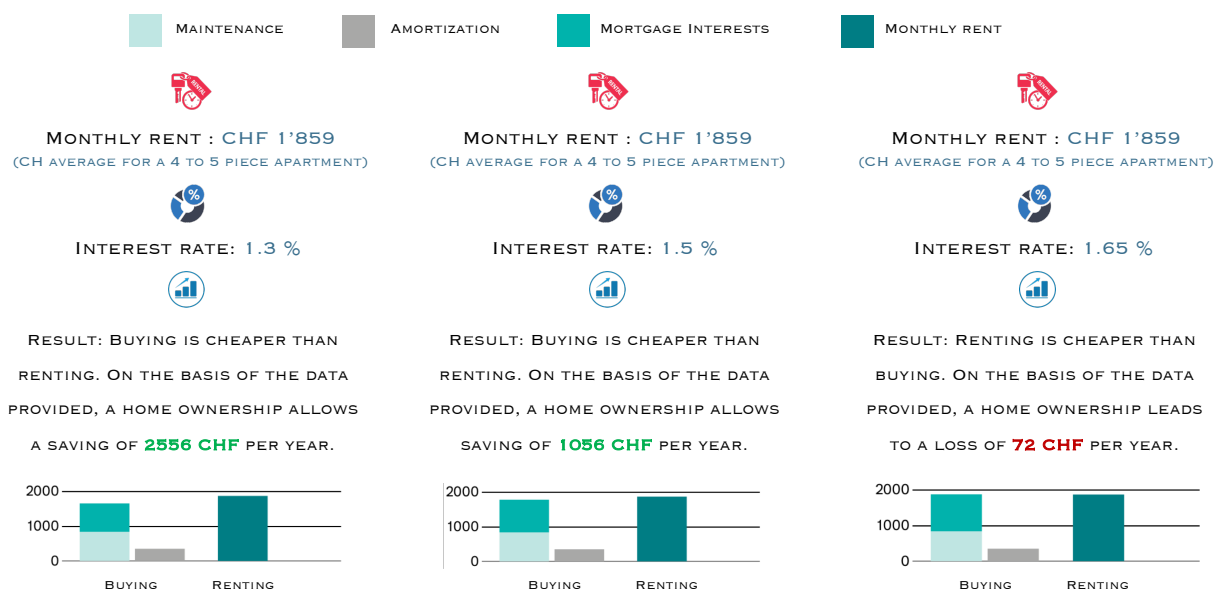
Source: Bonus.ch

* THE “PERSONALIZED RATES” SHOW THE RATES THAT ARE LIKELY TO BE PROPOSED TO THE MÜLLER’S FAMILY WHEN NEGOTIATING WITH FINANCING AGENCIES. THIS TRANCHE IS DEFINED ACCORDING TO THE ESTABLISHMENT OF THE CHEAPEST AND MOST EXPENSIVE NEGOTIABLE RATE CALCULATED TO DATE (APRIL 5- 2019).

** THE “INDICATIVE RATES” CORRESPOND TO THE RATE RANGE CURRENTLY DISPLAYED BY THE FINANCING ORGANIZATIONS WITHOUT CONSIDERING THE DISCOUNTS THAT MAY BE GRANTED ACCORDING TO ONE’S PERSONAL SITUATION. THIS INSTALLMENT IS DEFINED ACCORDING TO THE ESTABLISHMENT OF THE CHEAPEST RATE AND THE MOST EXPENSIVE COMMUNICATED TO DATE (APRIL 5- 2019).

Now that we have an idea of the level of interest rates applied according to the duration of the loan and the type of financing option, we will focus on the simulations to see whether the Müller family should buy or rent, thanks to the Credit Suisse tool (which is freely available on their website).

Note: According to Credit Suisse, when amortizing the mortgage, money is not spent but invested in the property. Depreciation payments are therefore not housing costs, but only a transfer of cash to property wealth. This is why these amortization payments are shown separately in the below simulations.



MONTHLY RENT : CHF 1'859
(CH AVERAGE FOR A 4 TO 5 PIECE APARTMENT)

INTEREST RATE: 1.5 %

RESULT: BUYING IS CHEAPER THAN RENTING. ON THE BASIS OF THE DATA PROVIDED, A HOME OWNERSHIP ALLOWS SAVING OF **1056 CHF** PER YEAR.



MONTHLY RENT : CHF 1'859
(CH AVERAGE FOR A 4 TO 5 PIECE APARTMENT)

INTEREST RATE: 1.65 %

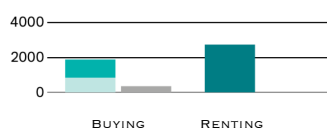
RESULT: RENTING IS CHEAPER THAN BUYING. ON THE BASIS OF THE DATA PROVIDED, A HOME OWNERSHIP LEADS TO A LOSS OF **72 CHF** PER YEAR.



MONTHLY RENT : CHF 2'712*
(GE AVERAGE FOR A 5 TO 7+ PIECE APARTMENT)

INTEREST RATE: 1.65 %

RESULT: BUYING IS CHEAPER THAN RENTING. ON THE BASIS OF THE DATA PROVIDED, A HOME OWNERSHIP ALLOWS A SAVING OF **10164 CHF** PER YEAR.



MONTHLY RENT : CHF 2'712*
(CH AVERAGE FOR A 5 TO 7+ PIECE APARTMENT)

INTEREST RATE: 2.5 %

RESULT: BUYING IS CHEAPER THAN RENTING. ON THE BASIS OF THE DATA PROVIDED, A HOME OWNERSHIP ALLOWS SAVING OF **3792 CHF** PER YEAR.



MONTHLY RENT : CHF 2'712*
(CH AVERAGE FOR A 5 TO 7+ PIECE APARTMENT)

INTEREST RATE: 3.05 %

RESULT: RENTING IS CHEAPER THAN BUYING. ON THE BASIS OF THE DATA PROVIDED, A HOME OWNERSHIP LEADS TO A LOSS OF **336 CHF** PER YEAR.



* GE MONTHLY RENT AVERAGE SOURCE : OFFICE CANTONAL DE LA STATISTIQUE
SIMULATION TOOL SOURCE : CREDIT SUISSE

As we can see with the simulation, at the national level, the mortgage interest rate limit above which renting becomes more profitable than buying is 1.65%. However, at the Geneva cantonal level, this limit rises to 3.05 %, knowing that this canton is one of the most expensive in terms of access to property. Therefore, unless the witness of a sudden sharp rise of interest rates, buying will still be more profitable than renting in Geneva. In addition, it should be noted that the impact of the imposition of the rental value, which adds itself to the existing taxable income, is not considered here. In this sense, depending on the individual's tax residence, adding this element could lead to see renting become more judicious than buying.

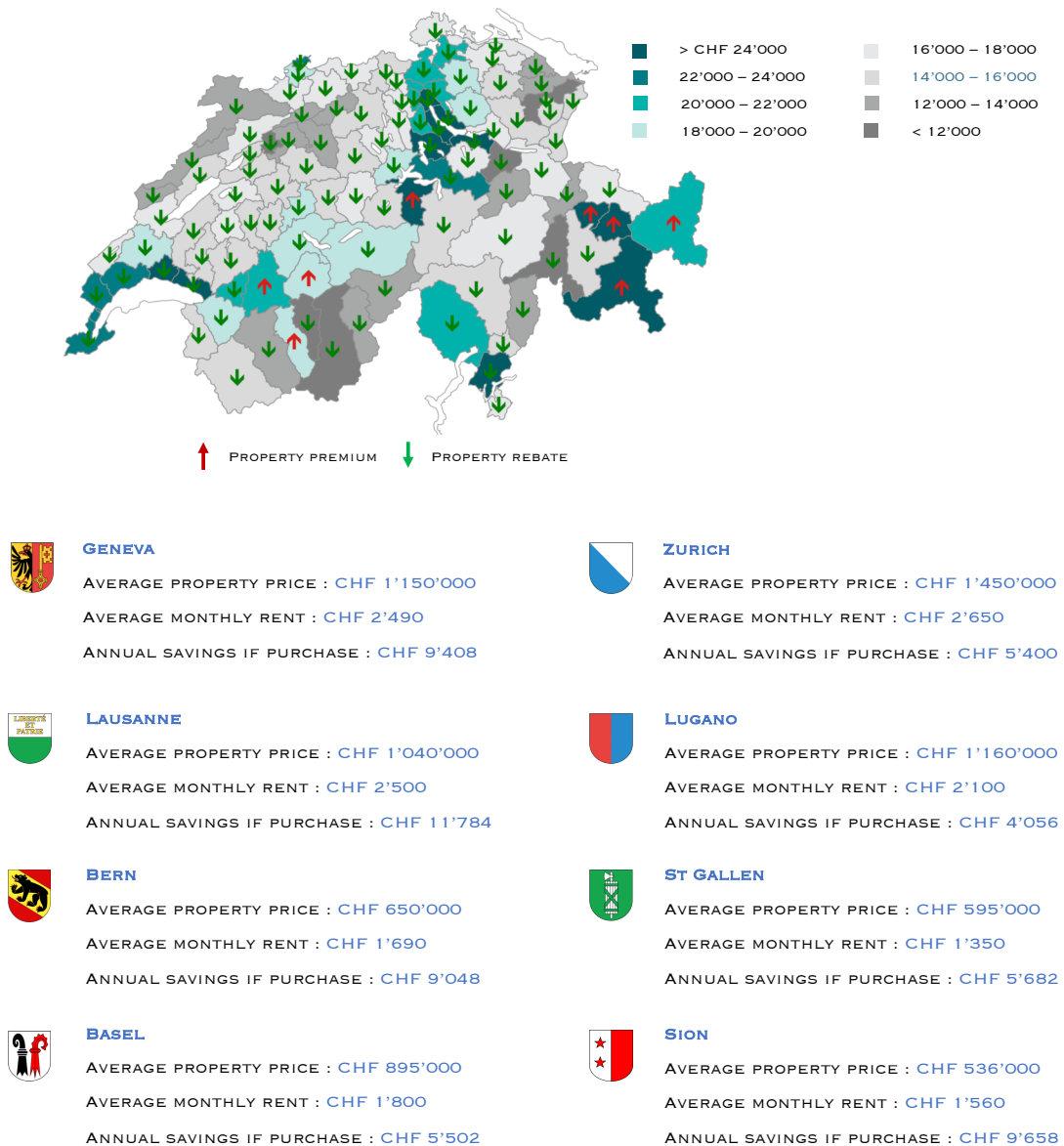
Towards a removal of the rental value coupled with the abrogation of parallel tax deductions: What is at stake?

2.5.3 The geographical impact

As can be seen in the below map, even if real estate prices vary greatly across Swiss cantons, in most cases, no matter the geographical location, buying is more profitable than renting. However, there are some exceptions for particularly touristy places where “for the time being, buying is more expensive than renting, as the willingness of investors to buy secondary homes is driving prices up³⁶”.

Figure 21: Geographical impact in deciding whether renting/owning

Estimated financial charge for a 4.5-room property (including maintenance and other costs per year), 2018



Source : Credit Suisse

Towards a removal of the rental value coupled with the abrogation of parallel tax deductions: What is at stake?

2.5.4 The emotional aspect of access to property

Although subjective, its influence should not be neglected. Indeed, access to property is closely linked to a strong emotional aspect. It is a principle deeply rooted in morals and therefore represents, for many, a culmination; a life-time dream. Living in your own home, no longer having to pay a rent, giving life to your own architectural ideas to finally climb the social ladder. This psychological dimension of accessing property therefore makes that many households are ready to review their consumption habits downwards to achieve their goal, despite the real estate price levels. This emotional aspect is also mentioned by Mr. Fredy Hasenmaile, Head of Real Estate Analysis at Credit Suisse as he confirms that "studies clearly show that property owners feel a greater sense of security and independence. The empirical results are very solid and not only for Switzerland³⁷".

2.5.5 Advantages / disadvantages of property ownership

Advantages:

- Investment: As previously explained, since land (and building land) is a finite resource, its value either remains generally stable or tends to increase over the long term, making it a good investment. However, we must remain cautious. In fact, as the real estate market is subject to cyclical characteristics, no one is immune to a fall in prices.
- An advantageous option compared to renting: as we have seen, provided that mortgage interest rates remain low, the monthly costs of rented accommodation are often higher than those of an individual property of comparable size.
- Less unpleasant surprises: this is one of the worst nightmares that a tenant can face; the termination of the lease. Indeed, by respecting the legal deadlines, an owner can ask to recover a property which he rented for his own needs. In this sense, access to property cancels this aspect.

³⁷ CREDIT SUISSE, « *Sans valeur locative, la propriété du logement deviendrait soudain plus attritive* », Joffrey Vögeli, published on April 12th 2018, consulted on April 25th 2019.

- A pleasant freedom: Access to the property allows the owner to give free rein to his architectural ideas, unlike a property for rent. Changing the furniture, the bathtub, enlarging / shrinking / adding a room, all these actions become possible by being the sole master of one's home, which is an attractive aspect for many individuals.

Disadvantages

- Opportunity cost: the acquisition of a property is expensive and drastically changes the composition of the fortune and its use. In fact, access to the property immobilizes a portion of the fortune that cannot be used for other purposes.
- Maintenance costs: Unlike a rental, all expenses related to the maintenance of the property must be fully borne by the owner. Whether it comes to painting the walls, changing the roof, the heating system or the washing machine, all of them can weigh heavily on an individual's/family budget.
- Succession and its perils: Although this element is specific to each family, it should not be neglected. Indeed, it is very difficult to divide a dwelling into equitable shares. In this sense, when several heirs must share a home inherited by their parents (or others), it can, as often, end in family quarrels and potentially result in very harmful consequences. This is why it is important to think about it upstream.
- Less flexibility: No one knows what tomorrow will be made of. If a drastic and unforeseen change were to occur whether professionally (unemployment) and/or personally (divorce or other accidents), it should be remembered that it is easier to terminate a lease than to sell a house/apartment. Also, if the owner does not want to sell and suddenly has to face urgent and significant expenses, he could be forced to go into debt to meet his additional expenses, which would make his financial situation even more tense.

2.6 The rental value

2.6.1 What is the rental value?

The rental value is a fictitious income. The latter is determined based on the potential annual revenues that a property would generate to its owner if rented³⁸. Although fictitious in nature, this amount is considered a real income by fiscal authorities and is therefore subject to tax as it is then added to the owner's taxable income. According to Raiffeisen, this tax would concern 1.5 million owners in Switzerland.

2.6.2 Historical background

The implementation of this taxation goes back a long time ago. More precisely, it dates back to the beginning of the twentieth century, specifically to the year 1915³⁹.

At the time, the objective of this "federal crisis contribution"⁶ was to fulfil a very specific goal even if it has evolved since then. Indeed, this taxation came to life as an exceptional war tax; a crisis-time contribution that aimed at compensating the collapse of customs duties during the First World War³⁹. Furthermore, given the particularly unstable geopolitical climate prevailing in Europe, the implementation of this tax also aimed at increasing state revenues so that it could invest in military protection measures, which were, at the time, at the core of political and societal debates. Although it was abolished soon after, it was quickly reintroduced by the Federal Council in 1933 to rebalance its budget, heavily undermined by the global financial crisis of 1929³⁹, commonly called "The Great Recession".

The problem? It was supposed to last until 1938. Since then, it has been adopted and extended indefinitely (its anchoring in tax law dates back to 1940⁶). It is still relevant today without being the result of any constitutional basis³⁹.

³⁸ CREDIT SUISSE, « *Valeur locative : ce que vous devez savoir* », published on April 12th 2018, consulted on March 15th 2019

³⁹ TOUTIMMO, « *La valeur locative, un impôt à supprimer* », Olivier Rigot, published on March 18th 2019, consulted on April 3rd 2019

However, rather than simply removing it, it has instead been given a social role aimed at establishing a balance, a kind of tax fairness between tenants, who pay a rent and owners who, in essence, don't. It is therefore not surprising to see that the informal nature of this tax has often been decried and questioned. Since 1999, various initiatives have unsuccessfully attempted to remove this tax³⁹, although the situation may be evolving now. In addition, apart from this social role, this tax also aims at preventing speculation on the Swiss Real Estate market and therefore avoid any potential housing bubble.

2.6.3 Parallel tax deductions

To counter the tax burden induced by the rental value while staying in line with Federal Law where property access is legally encouraged⁴⁰, real estate owners have been offered the opportunity to deduct various expenses from their income tax burden:

- The passive interests related to the mortgage debt up to CHF 50'000⁴
- The various necessary maintenance costs to be borne by the owner⁴
- All costs related to “ecological” renovation investments as well as those related to the restoration of historical monuments are also tax deductible⁴

2.6.4 Controversies

As previously explained, this tax has regularly been the subject of much controversy. Whether it is his supporters or his detractors, everyone makes a pitch either by praising its social and solidarity side, or by denouncing its unfair and discriminatory character towards home owners. Among the main controversies, we find:

- A relative compensation: It should be noted that the weight this tax places on the property owners' tax burden is closely correlated to the level of mortgage interest rates. Indeed, for a long time, they were at a much higher level (around 5%), which means that the possibility offered to the real estate owners to deduct the interest on the debt neutralized the tax burden from a fiscal point of view.

⁴⁰ CONFEDERATION SUISSE, « 843 - *Loi Fédérale encourageant la construction et l'accèsion à la propriété de logements* », consulted on May 15th 2019

Everyone was therefore satisfied. However, over the last few years, interest rates have decreased significantly. As a result, the deductible interests inherent to the mortgage debt are not sufficient to offset the rental value tax burden. In other words, this fiscal gift is no longer compensatory and therefore has the sole effect of inflating the tax bill of the property owner by significantly increasing its taxable income.

- Legal contradictions: For some people, this tax is simply not in compliance with the current legislation. In fact, the encouragement of property ownership and construction is a principle enshrined in the federal law (RS 843 Federal Law of 4 October 1974⁴⁰). Indeed, this article of law "aims to encourage the construction of housing and the equipment of land for this purpose, to lower the cost of housing and to facilitate the acquisition of ownership of apartments and family homes⁴⁰". This contradiction causes a large number of owners as well as property owner associations to express their incomprehension about this legal uncertainty by questioning the legitimacy of the rental value.

The legitimacy of social reasoning: The social aspect of this tax is often questioned by various landowner associations. These put forward the argument of the opportunity cost (the cost that the immobilization of property-invested capital induces). Indeed, the latter does not yield anything. In other words, the potential returns this capital could bring to an owner if he had not invested it in his property and that he might have intended for another use should, according to them, be part of the equation. In this sense, associations highlight the fact that tenants do not have to face these opportunity costs, thus creating a situation of inequity, contrary to the principles of fairness and equality on which this tax is (should be) based. Indeed, it should be recalled that "the equal treatment of all taxpayers" is a principle which is rooted in the Swiss Federal Constitution (Article 8 cst.)⁴.

In addition to this aspect, these same associations also point out that access to property is not a gift and that its acquisition is only possible, for many, thanks to a financial sacrifice made through many years of savings.

It is therefore because of these controversial aspects that various initiatives have been proposed to put an end to the taxation of the rental value. Although its abolition has also repeatedly been demanded by Parliament interventions, it has always failed at the polls. Indeed, since 1999, the imposition of the rental value has been put to the vote four times without ever meeting the necessary majority⁴. One of the last popular initiatives voted on this issue dates back to September 23, 2012, when the population had to vote for the "security of housing in retirement". This initiative proposed to revoke the rental value for owners of principal residences (a dwelling in which the owner lives) who have reached retirement age while jointly cancelling the possibility of deducting passive interest on the remaining mortgage debt. The ultimate goal of this initiative was therefore to lighten the tax burden for this financially vulnerable part of the population and thus guarantee them a decent standard of living, despite the decline in income resulting from retirement. Apparently, this initiative did not convince much since it was rejected by 52.6% of voters, which represents 13.5 cantons out of a total of 26⁴. However, as will be seen later on, the debate has come back at the forefront. It would seem its magnitude increases over time since during the last attempt in 2016 aiming at abolishing it, the Swiss association of landowners gathered more than 145,000 signatures in the space of four months for a petition sent to the Federal Council⁴¹ a dimension rarely seen before.

2.6.5 The tax liability on the rental value

The rental value of a property is added to the income of its owner, provided that he actually lives in the said residence (principal residence). Also, according to the case law of the Swiss Federal Court, "when the owner holds the property at his disposal, even without living there permanently, he is also subject to this imposition. Indeed, the Federal Court assumes that the owner derives an economic advantage from the permanent availability of the property in question⁴".

In this sense, the legislation in force states that "the possession of secondary residences, holiday apartments and other buildings that are not inhabited all year (the owner keeps them voluntarily at his entire disposal), therefore also entails full liability to the rental value, regardless of the duration of their effective occupation⁴".

⁴¹ LE TEMPS, « *Le PDC Genevois veut forcer Berne à abolir la valeur locative* », David Haeberli, published on January 24th 2018, consulted on April 3rd 2019

In contrast, full taxation does not prevail when “the permanent use of the property is made impossible for objective reasons (no heating, temporary access only, etc.). In these circumstances, the rental value is considered only for the period during which it was practically possible to make use of the property⁴”. In other words, in the case where such a residence is rented temporarily, the rental value will be composed proportionally and pro rata temporis. The only case where rental value is not subject to taxation is the case where “it is proved that a residence is involuntary held vacant (no tenant has been found)⁴”.

2.6.6 How is the rental value calculated?

According to the case law of the Swiss Federal Court, “the value of the personal use of housing must correspond to the rent that a third party should pay in the same circumstances for a dwelling of the same kind and having the same characteristics (comparable situation, same age, number of rooms and fittings)⁴”. In other words, the rental value is calculated on market prices for comparable housing characteristics and is then added back to its owner's income. This basis of this calculation, also called comparative method, is the most frequently used which is why we will focus on this one.

It is important to note that each canton uses its own calculation methods to determine the rental value inherent to a property. In Geneva for example, the cantonal tax administration provides a document called “rental value determination questionnaire” which is put at the disposal of owners. As soon as a person reaches this status, he will be asked to fill out the said document. After filling all the necessary required data thanks to the guide that comes with it (annex n°6), the property owner will be provided with the rental value that corresponds to its property characteristics, as each of them is attributed a different coefficient. For illustrative purposes, a simulation has been run for a 120m² modern apartment located in Geneva (please refer to annex n°7). Finally, as can be seen below, the guide in question also provides a simplified indicative cantonal scale (Geneva) to determine the rental value according to the surface of a property. Although it is only provided for indicative purposes, it is usually close to the reality.

Figure 22: simplified indicative cantonal scale

m ²	CHF	m ²	CHF	m ²	CHF	m ²	CHF	m ²	CHF	m ²	CHF	m ²	CHF	m ²	CHF	m ²	CHF
20	4'867	75	16'796	130	27'302	185	37'202	240	46'121	295	54'059	350	61'015	405	66'990	460	71'984
21	5'110	76	16'998	131	27'490	186	37'373	241	46'274	296	54'194	351	61'133	406	67'090	461	72'066
22	5'354	77	17'200	132	27'679	187	37'544	242	46'427	297	54'329	352	61'250	407	67'189	462	72'148
23	5'597	78	17'402	133	27'867	188	37'714	243	46'579	298	54'464	353	61'367	408	67'288	463	72'229
24	5'840	79	17'603	134	28'055	189	37'884	244	46'731	299	54'598	354	61'483	409	67'387	464	72'309
25	6'084	80	17'805	135	28'242	190	38'053	245	46'883	300	54'732	355	61'599	410	67'485	465	72'390
26	6'327	81	17'995	136	28'429	191	38'223	246	47'035	301	54'865	356	61'715	411	67'583	466	72'470
27	6'570	82	18'185	137	28'616	192	38'392	247	47'186	302	54'999	357	61'830	412	67'681	467	72'550
28	6'814	83	18'375	138	28'803	193	38'560	248	47'337	303	55'132	358	61'945	413	67'778	468	72'629
29	7'057	84	18'564	139	28'989	194	38'729	249	47'487	304	55'264	359	62'060	414	67'875	469	72'708
30	7'300	85	18'754	140	29'175	195	38'897	250	47'637	305	55'397	360	62'175	415	67'971	470	72'787
31	7'544	86	18'944	141	29'360	196	39'064	251	47'787	306	55'529	361	62'289	416	68'068	471	72'865
32	7'787	87	19'134	142	29'545	197	39'232	252	47'937	307	55'660	362	62'403	417	68'164	472	72'944
33	8'030	88	19'323	143	29'730	198	39'399	253	48'086	308	55'792	363	62'516	418	68'259	473	73'021
34	8'274	89	19'513	144	29'915	199	39'565	254	48'235	309	55'923	364	62'629	419	68'355	474	73'099
35	8'517	90	19'703	145	30'099	200	39'732	255	48'383	310	56'053	365	62'742	420	68'450	475	73'176
36	8'760	91	19'893	146	30'283	201	39'898	256	48'531	311	56'184	366	62'855	421	68'544	476	73'253
37	9'004	92	20'082	147	30'467	202	40'064	257	48'679	312	56'314	367	62'967	422	68'639	477	73'329
38	9'247	93	20'272	148	30'650	203	40'229	258	48'827	313	56'444	368	63'079	423	68'733	478	73'406
39	9'490	94	20'462	149	30'833	204	40'394	259	48'974	314	56'573	369	63'190	424	68'827	479	73'482
40	9'734	95	20'652	150	31'015	205	40'559	260	49'121	315	56'702	370	63'302	425	68'920	480	73'557
41	9'936	96	20'842	151	31'198	206	40'723	261	49'268	316	56'831	371	63'413	426	69'013	481	73'632
42	10'137	97	21'031	152	31'380	207	40'887	262	49'414	317	56'959	372	63'523	427	69'106	482	73'707
43	10'339	98	21'221	153	31'561	208	41'051	263	49'560	318	57'087	373	63'633	428	69'198	483	73'782
44	10'541	99	21'411	154	31'742	209	41'215	264	49'705	319	57'215	374	63'743	429	69'290	484	73'856
45	10'743	100	21'601	155	31'923	210	41'378	265	49'851	320	57'343	375	63'853	430	69'382	485	73'930
46	10'944	101	21'790	156	32'104	211	41'541	266	49'996	321	57'470	376	63'962	431	69'474	486	74'004
47	11'146	102	21'980	157	32'284	212	41'703	267	50'140	322	57'596	377	64'071	432	69'565	487	74'077
48	11'348	103	22'170	158	32'464	213	41'865	268	50'285	323	57'723	378	64'180	433	69'655	488	74'150
49	11'550	104	22'360	159	32'644	214	42'027	269	50'429	324	57'849	379	64'288	434	69'746	489	74'222
50	11'752	105	22'550	160	32'823	215	42'189	270	50'572	325	57'975	380	64'396	435	69'836	490	74'295
51	11'953	106	22'739	161	33'003	216	42'350	271	50'716	326	58'100	381	64'504	436	69'926	491	74'367
52	12'155	107	22'929	162	33'181	217	42'511	272	50'859	327	58'226	382	64'611	437	70'015	492	74'438
53	12'357	108	23'119	163	33'360	218	42'671	273	51'001	328	58'350	383	64'718	438	70'105	493	74'510
54	12'559	109	23'309	164	33'538	219	42'831	274	51'144	329	58'475	384	64'825	439	70'193	494	74'581
55	12'761	110	23'498	165	33'715	220	42'991	275	51'286	330	58'599	385	64'931	440	70'282	495	74'651
56	12'962	111	23'688	166	33'893	221	43'151	276	51'428	331	58'723	386	65'037	441	70'370	496	74'722
57	13'164	112	23'878	167	34'070	222	43'310	277	51'569	332	58'847	387	65'143	442	70'458	497	74'792
58	13'366	113	24'068	168	34'247	223	43'469	278	51'710	333	58'970	388	65'248	443	70'546	498	74'862
59	13'568	114	24'258	169	34'423	224	43'628	279	51'851	334	59'093	389	65'353	444	70'633	499	74'931
60	13'769	115	24'447	170	34'599	225	43'786	280	51'991	335	59'215	390	65'458	445	70'720	500	75'000
61	13'971	116	24'637	171	34'775	226	43'944	281	52'131	336	59'338	391	65'563	446	70'806		
62	14'173	117	24'827	172	34'950	227	44'101	282	52'271	337	59'460	392	65'667	447	70'893		
63	14'375	118	25'017	173	35'126	228	44'259	283	52'411	338	59'581	393	65'771	448	70'979		
64	14'577	119	25'206	174	35'300	229	44'416	284	52'550	339	59'703	394	65'874	449	71'064		
65	14'778	120	25'396	175	35'475	230	44'572	285	52'689	340	59'823	395	65'977	450	71'149		
66	14'980	121	25'588	176	35'649	231	44'729	286	52'827	341	59'944	396	66'080	451	71'234		
67	15'182	122	25'780	177	35'823	232	44'885	287	52'965	342	60'064	397	66'182	452	71'319		
68	15'384	123	25'971	178	35'996	233	45'040	288	53'103	343	60'184	398	66'285	453	71'403		
69	15'586	124	26'162	179	36'170	234	45'196	289	53'241	344	60'304	399	66'386	454	71'487		
70	15'787	125	26'353	180	36'343	235	45'351	290	53'378	345	60'423	400	66'488	455	71'571		
71	15'989	126	26'543	181	36'515	236	45'505	291	53'515	346	60'542	401	66'589	456	71'654		
72	16'191	127	26'733	182	36'687	237	45'660	292	53'651	347	60'661	402	66'690	457	71'737		
73	16'393	128	26'923	183	36'859	238	45'814	293	53'787	348	60'780	403	66'790	458	71'820		
74	16'594	129	27'113	184	37'031	239	45'968	294	53'923	349	60'898	404	66'891	459	71'902		

plus de 500 m²:
CHF 150.- par m²
supplémentaire

Source: Geneva Cantonal Tax Administration

Towards a removal of the rental value coupled with the abrogation of parallel tax deductions: What is at stake?

2.6.7 Fiscal simulations

In order to gain a concrete idea of the weight that the rental value places on the owner's fiscal invoices, it is interesting to illustrate it through practical tax simulations.

Note: The tax simulations as well as the below related scenarios were exclusively imagined and conducted by Credit Suisse³⁸.

Scenario 1: Young family (mother, father, 2 children)

- Taxable income of CHF 150'000
- Old detached house purchased in Uster for CHF 1'200'000 (assumption: purchase price = land value and value at time of construction)
- Mortgage of CHF 960'000 (80% of the purchase price)
- Mortgage interest rate of 1.5%
- High maintenance costs because it is an old house

→ Rental value = 3.5% of land value at time of construction = CHF 63'000

- mortgage interest expense = CHF 14'400
- maintenance costs (actual) = 40'000 CHF
- Which gives an additional taxable income of 8'600 CHF

Result:

→ Income tax without rental value: CHF 24'744

→ Income tax including rental value and deductions: CHF 27'478

Variation in case of interest rate hikes:

Let's assume that the interest rate of the mortgage goes back to 4% (which was the level of the interest rate for a 15-year mortgage in 2010), the mortgage interest charge would increase to CHF 38'400. In this case, the income tax (including rental value and deductions) of the young family would fall to CHF 20'127³⁸.

Towards a removal of the rental value coupled with the abrogation of parallel tax deductions: What is at stake?

Scenario 2: retired couple

- Taxable income of CHF 110'000
- Property purchased in Uster worth CHF 880'000 (assumption: value = land value and current value)
- Mortgage of CHF 528'000 (60% of the value)
- Mortgage interest rate of 1.5%
- Average maintenance costs

→ Rental value = 4.25% of the value of the land at the time of construction = CHF 37'400

- mortgage interest charge = CHF 7'920
- maintenance fee (flat rate) = CHF 7'480
- which gives an additional taxable income of CHF 22'000

Result:

→ Income tax without rental value: CHF 14'464

→ Income tax, including rental value and deductions: CHF 19'904

Variation in case of rate increase:

Let's assume that the interest rate of the mortgage goes back to 4% (which was the level of the interest rate for a 15-year mortgage in 2010), the mortgage interest charge would increase to CHF 21'120. In this case, the income tax (including rental value and deductions) of the retired couple would fall to CHF 16'504³⁸.

2.7 The Law Bill

Being particularly unpopular with property owners and regularly at the center of national debates but having so far always been refused at the polls, the abolition of the taxation of the rental value is again on the negotiating table.

Last August, the State Council's Committee on the Economy and Royalties (CER-CE) instructed its secretariat and the administration to draw up a preliminary draft to this effect by the first quarter of 2019⁶ (annex 8). However, it should be noted that even if this project aiming at the abolition of the rental value should see the light of day, it is unlikely to materialize for a few years. In addition to the necessary agreement of the two chambers of parliament on the text of the law, there is much to fear that it will once again cross the obstacle of a possible referendum. This is the reason why different experts are counting on a legal implementation that should not take place before 2023⁴².

Although the details surrounding this currently debated law bill are not yet clear, the broad outlines of the latter are nevertheless well defined. In order to “aim for fiscal neutrality⁴³” the elimination of the taxation of the rental value would be coupled with the abolition of parallel tax deductions of mortgage interests, maintenance costs, historical monument restoration costs and investment costs for environmental purposes³, knowing that this last point could lead to a constitutional misalignment. Indeed, even if the decision to abolish these environmental-related investment deductions would fall to the cantons in their soul and conscience, Switzerland has recently officially committed to a so-called green strategy. Indeed, on May 21, 2017, the Swiss people accepted (through a federal vote) the revised law on energy called "Energy Strategy 2050". The latter aims to reduce energy consumption, improve energy efficiency and promote renewable energy⁸ (in other words, nuclear abandonment). In this sense, an impossibility of deducting any investment for the renovation of buildings on an environmental basis would run counter to this law and thus betray the democratic principle that surrounds it.

⁴² 24 HEURES, « *Valeur locative abolie : les gagnants et les perdants* », Christine Talos, published on August 8th 2018, consulted on April 3rd 2019.

⁴³ LE COURRIER, « *Valeur locative : vraie révolution en vue?* », Philippe Bach, published on August 22nd 2018, consulted on April 5th 2019

Another crucial point provided in the CER-CE initiative is that this measure would only concern owners of principal residences (a property in which the owner himself lives). In other words, secondary homes (an owned property in which the owner does not live) would not be impacted and the owners would continue to be governed by the current fiscal system. This distinctive aspect is addressed "for the sake of the mountain cantons could face dramatic tax losses⁹". Indeed, such remote places do not benefit from a very dynamic economic landscape. As a result, their economic welfare mainly depends on revenues coming from tourism and real estate, through the purchase of secondary houses by wealthy individuals⁵.

Furthermore, another specificity regarding the deduction of passive interest for housing for personal use³ (principal residence) is that the reform could provide a special status for first-time property buyers. The latter could benefit from a retention of tax deductions related to mortgage interests while enjoying the abolition of the rental value, since the encouragement to the accession of the property is a principle rooted in the Swiss constitution⁴⁰. In this respect, a new owner (an individual contracting a mortgage for the first time) could keep deducting up to CHF 5'000 of passive interest charges for the first year whereas for a couple, these deductions could go up to CHF 10'000⁴⁴. This amount would take a degressive form, which means that the deductible amount would decrease from year to year up to a maximum of ten consecutive years⁴⁵.

Thus, we can see that the reform initiative includes precepts aimed at maintaining a neutrality aspect, both from a tax perspective (between tenants and landlords as well as for the Confederation's tax revenues) and from a constitutional point of view (so that it does not hinder access to property).

In this sense, the initiators recommend that the reform must be thought "in such a way that the new regime is as far as possible, assuming an average interest rate calculated over the long term, with no effect on tax revenues, that it does not create disparities between tenants and homeowners contrary to constitutional law requirements and that it encourages home ownership in accordance with the constitutional provisions in force³".

⁴⁴ ASSEMBLEE FEDERALE – LE PARLEMENT SUISSE, « *Conférence de presse cer-e: propriété immobilière - plusieurs variantes pour supprimer la valeur locative* », published on February 15th 2019, consulted on May 5th 2019

⁴⁵ LE MATIN, « *Valeur locative abolie : les gagnants et les perdants* », Christine Talos, published on August 8th 2018, consulted on April 3rd 2019

Finally, through the new fiscal legislation, the Economics Committee of the Council of States pursues a “hidden” objective. As explained by its president, Mr. Pirmin Bischof, the goal is to “curb the high debt ratio of private households [...] it's time to end the private household indebtedness drive (ed. the current system does not encourage repayment of debt) which is at an all-time high in Europe¹¹”. However, it should be specified that although the reform project presented above related to the taxation of main dwellings seems to be the most probable and the most logical one, certain methods of application of this reform remain on the other hand rather vague concerning the deductibility of mortgage interest.

Indeed, it is not yet clear if the latter would lose total deductibility. Rather than taking a decision, the Federal Council has submitted several alternatives on this subject, although all are stricter than the law in force.

Alternative 1: “The simplest and most logical would be to completely abolish the deduction of private passive interest, said the chairman of the commission. This variant would provide CHF 670 million more revenue for the Confederation and CHF 1.4 billion for the cantons for a mortgage rate of 3.5%⁴⁴”.

Alternative 2: “Another option is to limit deductions for mortgage interest up to the taxable return on real estate wealth⁴⁴”.

Alternative 3: “The third option would add a boost to dividends (additional deduction of 50,000 francs if someone owns at least 10% of the share capital or capital stock of a corporation or cooperative Society)⁴⁴”.

Alternatives 4 and 5: “The last two options do not distinguish between real estate and movable assets: one provides that passive interest would be deductible up to 80% of the taxable income of the fortune, the other up to This last variant would bring another 30 million francs a year to the Confederation for a mortgage rate of 3.5%⁴⁴”.

2.8 Chronology of the rental value

Figure 23: Overview of the political chronology related to the rental value

DATE	EVENT
FEBRUARY 2 ND 1999	THE POPULAR INITIATIVE "HOUSING FOR ALL" IS REJECTED BY 58.7% OF THE VOTES
MARCH 11 TH 2012	THE ELECTORATE REJECTS THE INITIATIVE ON HOME SAVINGS, BY 55.8% OF THE VOTES
JUNE 17 TH 2012	HEV SCHWEIZ'S "ACCESS TO HOME OWNERSHIP THROUGH SAVINGS" INITIATIVE IS REJECTED AT 52.5%
SEPTEMBER 23 RD 2012	HEV SCHWEIZ'S POPULAR INITIATIVE "RETIREMENT HOUSING SECURITY" IS REJECTED AT 52.6%
MARCH 13 TH 2013	NATIONAL COUNCILOR HANS EGLOFF SUBMITS THE FOLLOWING MOTION: "SECURITY OF HOUSING, IRREVOCABLE RIGHT OF OPTION AS TO THE RENTAL VALUE"
NOVEMBER 10 TH 2016	HEV SCHWEIZ SUBMITS HIS PETITION "ABOLISH THE RENTAL VALUE", WITH 145,000 SIGNATURES COLLECTED, TO THE BERN'S FEDERAL ASSEMBLY
FEBRUARY 2 ND 2017	THE CER-CE SUBMITS A PARLIAMENTARY INITIATIVE CALLED "TAXATION OF HOUSING; CHANGE OF SYSTEM »
AUGUST 14 TH 2017	THE CER-CE APPROVES THE INITIATIVE
JANUARY 16 TH 2019	THE CER-CE IS IN FAVOR OF THE PRELIMINARY DRAFT
FEBRUARY 15 TH 2019	THE CER-CE VALIDATES THE PRELIMINARY DRAFT AND TRIGGERS THE CONSULTATION PROCEDURE
APRIL 5 TH 2019	THE CONSULTATION PROCEDURE BEGINS AND LASTS UNTIL JULY 12, 2019

Source: Raiffeisen

For information purposes, it should be noted that the consultation procedure “refers to the preliminary phase of the legislative process, during which the Confederation's initiatives are examined for accuracy, applicability and popular acceptance. The cantons, the parties present in the Federal Assembly, the umbrella organizations of municipalities, towns and mountain regions, the sectoral organizations of the economy, as well as other interested parties may submit their comments. Moreover, all those who are not invited in particular to the consultation can express themselves on a bill⁴⁶”.

⁴⁶ RAIFFEISEN, « *La suppression de la valeur locative entre en procédure de consultation* », Pius Shärli, consulted on May 15th 2019.

3. Analysis

Sounding opinions, understanding the stakes of this law, analyzing its ins and outs and estimating its potential impacts. All these aspects are decisive when analyzing a legal change and even more when the latter is deeply rooted in customs. We will therefore begin this analysis from a general perspective to try to sound out different opinions towards the rental value and the law bill. Following this, we will go into a more concrete analysis to understand the potential impacts that it could have on different stakeholders if it were to be implemented. To achieve these, three distinct sources were mainly used:

1. The existing literature through various press articles for which this reform gives much to talk about.
2. The various reports / official consultations on the topic of the rental value.
3. In an attempt to measure the various potential impacts related to the possible acceptance of this bill, various interviews were conducted. Among the different people interviewed, we find:
 - Mr. Gérald Magnin: Mortgage Advisor at Credit Suisse Bank with more than thirty years of experience in the field
 - Mr. Nicolas Depetris: Economist and teacher at the Haute Ecole de Gestion de Genève
 - Mr. Fabien Mangilli: Director of Legal Affairs of the Geneva State Chancellery
 - Mr. Damien Roch: Fiscalist at Multifiduciaire Genève SA
 - Ms. Rosa Valverde: property owner in Geneva

3.1 General perspective

Note: the expression of several points of view, as contradictory as they are, pursues an important objective; to maintain analytical neutrality in order to allow each reader to form his own opinion by fostering critical thinking.

What do people think about the rental value and the related reform?

Mrs. Rosa Valverde, property owner in Geneva, talks about what she feels to be an unfair and immense tax burden. She relates without restraint all the aspects that in her view make rental value lead to more negative collateral effects than the equitable ones that are theoretically supposed to result from it, although she also defends them: “My feeling and my personal opinion is that it's a camouflaged tax. They are imposing a tax on an income that does not exist. It is supposed that when you own a property, you save a rent. Well that's true, but it's also because for a very long time you've made an enormous effort to economize to reach the minimum amount required as capital intake to contract a mortgage. Then of course, it's a bit of a perverse system. I personally belong to the middle class, I have had to make a great economic effort during many years to save in order to become an owner, knowing that the conditions of the bank are already very restrictive. In that sense, it seems to me very unfair that the tax administration considers that what you manage to save in a rent thanks to your efforts is taken away from you through a tax on an income that doesn't even exist. In addition, there is another thing, that fictitious income is added to your salary, so at the time of making the tax declaration, the tax scale in which you are located rises a lot. I know people who have gone from a tax rate of 17% to 23% just for owning a flat. In other words, not only is it a camouflaged tax on an income you did not make, but it also raises your overall tax rate.

On another hand, the problem is that people, in order to compensate for the weight this fictitious income puts on the tax bill, make the choice of not amortizing their mortgage debt. They usually don't amortize more than 1% or 2% per year so many families keep a huge debt load. Now they are very low, but if interest rates go up, the bill ends up being huge. I, who have lived in Switzerland for many years, have experienced interest rates of up to 10%⁴⁷.”

⁴⁷ PERSONAL INTERVIEW OF MRS. ROSA VALVERDE, performed on May 9th 2019

Then, Ms. Valverde explains the drawbacks of having a high level of indebtedness when approaching retirement age. She explains that “when you reach retirement time, you have a very big problem. It's a problem because when you retire, you must have repaid a very important part of the debt because otherwise, certain banks do not allow you to renew the mortgage loan. And if nobody accepts to renew it, you have to sell your property. It depends on the banks, but some ask you to have repaid up to 60% of your debt in order to renew the loan contract if you are close to retirement. For a middle-class family, it's a brutal expense. Between the taxes you pay and the health insurance, if you still have to repay the debt, this represents an impressive burden. Besides, I think that if they suppress the rental value, it would allow many middle-class people to have access to private property. It is very sad to have to spend your whole life throwing money out the window to rent your flat and never have anything of your own⁴⁷”.

The owner now refers to the second main impact of keeping high levels of indebtedness as she warns that “it's a very serious economic problem. The immense debt that households have represents more than 120% of the GDP if I am not mistaken, it is a barbarity. How can we allow the debt of private households to be so high? If there is a financial crash, these people will end up in the streets. We are the only country in the world that tolerates this system. It is such an absurd thing! I mean, let's be clear, I understand perfectly well that the tax administration wants to be solidary and supportive by treating people equally, but why should I have to pay taxes on an income that is not even real? I do not get it and I do not see at which point this represents a principle of solidarity and fairness⁴⁷”.

Finally, the owner comes to illustrate what she considers to be an unfair and inequitable measure by taking a concrete life example: “If I find myself in an economically difficult situation tomorrow, I am not in the same conditions of equality as a tenant. That is to say that because I am an owner, I will never be able to ask for complementary social assistance like that of the "Hospice Général". In contrast, if a tenant needs a complementary social benefit or needs to go to a retirement home without having a lot of money, that person will die without having paid the outstanding debt they have towards the retirement home. However, because I own an apartment, if I give it to my son as an inheritance, they would take the apartment to pay the debt of the retirement home with the money they would recover with the sale of the apartment. In definitive, owning a home is very nice but it has many, many drawbacks today.

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Of course, the system reform they are planning to implement would make the tax burden almost exclusively dependent on interest rates. But it would make at least conceivable for a person to amortize its debt without putting their financial situation in jeopardy. To sum up, from my point of view it seems to me to be an unfair tax, camouflaged and also very perverse. My son, for example, is paying CHF 3'200 for a four-room flat. He would like to buy a flat, but this rental value makes it not interesting financially speaking⁴⁷.

Mr. Reiner Eichenberger, professor of Economics at the University of Fribourg: According to him, "tenants are considerably favored by the existing system⁴⁸". The abolition of the rental value "does not constitute an unjustified improvement of the situation of property owners⁴⁸". Also, he added that even if "the rental value of a property is substantively justified, it should be calculated differently and thus should be much lower than current estimates⁴⁸". For its part, UBS also seems to share the same vision since it describes a current system which is "far from optimal⁴⁸" and even goes so far as to qualify the method of estimating the rental value as "arbitrary⁴⁸".

Mr. Marius Brühlhart, professor of Economics at the HEC Lausanne: Unlike his profession homologue, he thinks that the current legal situation benefits the property owners since "the amount of the rental value does not usually exceed 60 to 70% of the market value of a property⁴⁸" even if he recognizes that "economically, there are good reasons to look for a neutral tax system in terms of access to property⁴⁸". Finally, he also emphasizes that "the task is not easy⁴⁸" and that "the simplest solution may not be the most coherent⁴⁸".

Mr. Olivier Feller, Secretary General of the Fédération Romande Immobilière (FRI): As we can imagine, this tax on the rental value is in the sights of real estate representatives and Mr. Feller does not hide himself as he raises the fact that "it is the only tax that must be paid on an income that does not exist and that does not correspond to any concrete financial income. It is hurting many homeowners, including those who are nearing retirement age and whose income is expected to further decline.⁴⁹".

⁴⁸ LE TEMPS, « *La réforme qui fâchera les locataires* », Emmanuel Garessus, published on November 25th 2018, consulted on April 23rd 2019

⁴⁹ LE TEMPS, « *Olivier feller : La valeur locative fait souffrir de nombreux propriétaires* », Bernard Wuthrich, published on August 28th 2018, consulted on April 23rd 2019.

In this sense, Mr. Feller thinks that "the general direction (ed. of the proposed tax reform) is good⁴⁹". Moreover, he also refers to the high levels of indebtedness of Swiss households as he recognizes that "the idea is interesting because it would encourage owners to amortize their debt¹²", nevertheless remaining suspicious; "I do not know if this idea will seduce the banks¹²".

Mr. Carlo Sommaruga, President of the Swiss Tenants Association (ASLOCA): For its part, although he is not against the approach proposed by the fiscal reform, he remains dubious about some of its aspects. "We are ready to support a system change provided that it is comprehensive, that does not result in fiscal losses (ed. for the State) and that respects an equal treatment between owners and tenants; we are critical about the possibilities of maintaining certain tax deductions¹²".

Mr. Fredy Hasenmaile, Head of Real Estate Analysis at Credit Suisse: According to him, "the rental value is not as negative as the owners think⁴⁵". In this sense, he emphasizes that "the challenge of the rental value is to achieve a balance between tenants and owners. These two markets are an asset to the national economy, so it is necessary to act with circumspection if we want to change the system⁴⁵".

Mr. Pascal Broulis, Chief Financial Officer of the Canton of Vaud and Minister of PLR (Parti Libéral Radical): As for him, the removal of this tax would be a very bad idea since he stresses that "the elimination of the tax on the rental value would bring down the entire arsenal of real estate taxation. That is why I am totally opposed to its deletion⁵⁰". He therefore strongly supports the current legislation by adding that the owners "can deduct the maintenance costs, which also promotes the work of the builders. The real estate heritage is well maintained, which increases its value over time and is reflected by the transfer duties in the event of sale. The deduction of mortgage interest is also favorable to homeowners⁵⁰". Then he questions, dubiously and legitimately, "is it really a good idea to remove this deduction at a time where the rates are so low that we are not immune to a rise?⁵⁰"

According to Mr. Roch, Swiss tax specialist, the rental value "is a tax that is justified because it allows to have a fiscal equity between tenants who pay rent and owners who

⁵⁰ LE TEMPS, « Pascal Broulis : *L'impôt sur la valeur locative est un bon impôt* », Yelmarc Roulet, published on August 30th 2017, consulted on April 23rd 2019

derive an income from it⁵¹". When the question is put to him concerning the immobilization of the capital induced by the access to the property, Mr. Roch thinks that "it is the price to pay to have the independence to live in one's home⁵¹". Moreover, regarding the legal reform, Mr. Roch sees a certain risk: "The risk is that if we come back to mortgage interest rates that rank between 3.5% - 4%, it could be very dangerous for some people. The rental value has the advantage of being stable whereas with this reform, the finances of indebted households would depend on market conditions⁵¹".

Finally, Mr. Mangili, Director of Legal Affairs of the Geneva State Chancellery states that "this is a fictitious income that has been implemented for reasons of equity between tenants and landlords. It is true that from a purely fiscal point of view, taxing a fictitious income remains a somewhat odd thing. This tax is supposed to be neutral from a fiscal point of view, so in the end, wouldn't it be better to abolish it while preventing any parallel tax deduction? The concern is that this tax has a dynamic effect since its impact is correlated with the interest rates environment. It is therefore not as stable as rents could be. So in the end, the equity aspect promoted by this tax varies according to the market. Concretely, the current system deserves to be rethought, provided that it remains fiscally neutral and fair. The State, by virtue of its function, must be impartial and cannot favour landlords over tenants. In this sense, the equitable aspect of the reform must take precedence over any other aspect⁵²".

Why is the rental value coming back to the center of debates?

According to Mr. Magnin, mortgage advisor at Credit Suisse, "this is a problem that comes back periodically. From a political point of view there are two aspects. First, there is the so-called "left-wing" perspective, which advocates a measure of equity whereby landlords should be taxed on the rental value to compensate for the fact that, unlike tenants, they do not have to pay any rent and benefit from fiscal optimization opportunities. Then there is the so-called "right-wing" vision that insists on the inegalitarian aspect of this measure by insisting on the heavy tax burden that this taxation imposes on property owners, which is much more important than the mere payment of a

⁵¹ PERSONAL INTERVIEW OF MR. ROCH, performed on May 21st 2019

⁵² PERSONAL INTERVIEW OF MR. MANGILI, performed on May 9th 2019.

rent. In addition, parties such as the Liberal Radical Party (PLR) in Geneva point to the factor related to the immobilization of invested assets, which represents a far from negligible opportunity cost⁵³.

That said, the banker states that according to him, the primary reason for the rental value to come back to the front of the scene “is largely tied to the interest rate period we have been going through for quite some time now. In fact, when the interest rate environment is low as we know it today, the burden represented by the imposition on the rental value takes on significant fiscal dimensions, which means that the various deductions granted are not sufficient to compensate this tax⁵³” as it would be the case in a high interest rate environment. “Today, honestly, from what I can see through my professional activity, this rental value is rather against the owner. If I take the example of my property (an apartment located near Nyon), my rental value is around CHF 17'000 per year⁵³”.

Then Mr. Magnin continues by explaining that given the current context, “neutralizing this tax is almost impossible even with significant indebtedness. One of the potential solutions could be to perform substantial investments (ed. maintenance works) on a periodic basis to lower the tax burden, but this inevitably leads to immobilizing more capital⁵³”. In conclusion, the reason why this initiative returns to the center of the debate is “strictly related to the current level of interest rates⁵³” while knowing that for “the majority of owners, a significant portion of whom are old and retired, the costs inherent to the taxation of the rental value represents a huge burden that cannot be offset, no matter the parallel granted deductions⁵³”.

⁵³ PERSONAL INTERVIEW OF MR. MAGNIN, performed on the April 17th 2019

3.2 The potential impacts

Although it is extremely difficult to quantify the magnitude of the impacts inherent to the potential implementation of this law bill, one thing is certain: there will be an impact. Indeed, the mortgage sector touches several major socio-economic actors. This is why it is not only decisive to identify these, but also to try to understand the interconnectedness that relies between them. In doing so, it will nevertheless be possible to draw a concrete idea of the different potential impacts that this reform might have.

3.2.1 Potential impact on property owners

The determining factor for defining whether the impact will be positive or not "depends mainly on the level of interest rates, which is precisely what defines the situation⁵³". In this sense, Mr. Magnin insists on the fact that "we must understand that we are talking about the potential impact as of today and in the current environment. In ten years, the situation may have changed. But in my opinion this reform will have a beneficial impact for most homeowners⁵³".

From a general point of view, he states that it is very likely that one of the main impacts in case of acceptance of the bill "will concern the amortization method. Today, we have this first-rank mortgage which remains very often ad eternum. The major factor that encourages the borrower not to amortize is this famous rental value, since he seeks to mitigate it thanks to parallel tax deductions. If I take my case as an example, I have a rental value of CHF 17'000. If I do not have any debt, it is CHF 17'000 more taxable income. If we consider a marginal rate of imposition between 25 and 30%, the corresponding tax is equals to CHF 4'675, hence the importance of maintaining a high indebtedness in order to compensate with the passive interest deductions of my income⁵³".

What is certain is that in the event of a possible implementation of this reform, "the landscape as we know it today will certainly change. Given that borrowers would no longer have an incentive in keeping their debt, they will probably seek to write it off more quickly.

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By doing so, they could guard against any adverse effects implied by a potential raise of interest rates and the consequences that this would entail at the moment the renegotiation / extension of the mortgage⁵³. This is why "indebted homeowners with sufficient savings will be the most benefited⁵³", since they would be better able to reduce their debt by amortizing their loan without putting their financial situation at risk.

Among the other potential beneficiaries of this reform, we also find people with limited financial means, as explained by Mr. Eichenberger: "The main winners of the reform are the people who could not access the property and who, with the removal of the rental value, will be able to realize their dream⁴⁸".

For its part, as key beneficiaries of the reform, Mr. Roch points out to the "owners who have purchased relatively new properties at a considerably low fixed mortgage interest rate will be at ease for a moment⁵¹". Moreover, Mr. Roch argues that "thanks to the savings that they have been able to put aside (no maintenance work to be done and savings linked to the elimination of the tax on the rental value), they will be able to face a possible rise in interest rates at the time of the renegotiation of their mortgage and will have, in theory, sufficient financial means to amortize, even substantially, their debt⁵¹".

Furthermore, "the owners of properties who have considerably repaid their debt and who have a large share of their assets invested in their property will be better off as their tax burden will significantly decrease⁴⁸", as states Mr. Donato Scognamiglio, CEO and partner of CIFI, a consulting firm active in the Swiss real estate market. However, he also warns that "if interest rates raise, people will refuse to reform the system. The need for change is indeed fuelled by an extremely low interest rate environment coupled with a high rental value taxation⁴⁸". Sharing a similar vision, UBS stipulates that "if the interest rate were to rise above 2.5%, the owners would be harmed (ed. by the reform)⁴⁷". Finally, the Big Bank also draws attention on the potential losers of this fiscal change by pointing the "owners of old properties about to be renovated⁴⁸". Indeed, as a reminder, maintenance costs that were previously deductible will no longer be.

However, it should be noted that for the existing indebted real estate owners, the reform should not have immediate effects since the current interest rates level makes that, from a purely fiscal perspective, the mortgage interest charge should come to a much lesser extent, replace the one previously represented by the rental value.

Considering your personal situation, if the rental value was abolished, would your tax situation change dramatically?

To this question, Mrs. Rosa Valverde, property owner in Geneva, is categorical and leaves no room for doubt: "Absolutely, absolutely, of course! And what's more, I believe that it's not just about me, there are many people who would at least partially repay their debt if it was not for the rental value. I repeat myself but for the moment it is still the only way to try to reduce the tax burden that this tax represents⁴⁷".

What about retirees or people approaching retirement age?

This is a part of the population which is particularly vulnerable as they usually have a relatively limited financial leeway, knowing that this is led to further decline in view of the financing problems faced by the AVS. As Mr. Magnin says, "if we look at the medium-long term and expect a reasonably low rate environment, we will reach a phase where retirement-related income is likely to fall significantly. Indeed, because of the rates, the pension funds must also continually adjust their rents down, contrary to the rental value that does not decline. In my opinion, it is therefore retirees, or people close to retirement age, who will be the most benefited by this measure. Firstly, because their tax burden will decrease significantly and secondly because they are often people who have accumulated a significant fortune during their life and that they will, therefore, be able to repay their mortgage more quickly in order to reduce the remaining tax burden, which is that of mortgage interests⁵³". Also, coming back to Mr. Scognamiglio's, his statements seem to confirm it; "the owners of properties who have considerably repaid their debt and who have a large share of their assets invested in their property⁴⁸" will be better off. This is a situation in which retirees tend to find themselves and therefore supports the view that this category of the population will be positively impacted.

In conclusion, we can predict that this population segment will be amply benefited for two main reasons. Either because they have accumulated a considerable wealth throughout their lives, which would allow them to amortize the remaining debt quickly in order to lighten their tax bill. Or because they have already considerably depreciated their property over the past years, so that the remaining charge load is bearable since they will have gotten rid of a significant tax burden and impossible to compensate, the rental value.

Towards a removal of the rental value coupled with the abrogation of parallel tax deductions: What is at stake?

3.2.1.1 Fiscal simulation

Note: The tax simulation are inspired by the ones provided by DL MoneyPark, a real estate finance consulting company⁵⁴. This simulation is intended to somehow illustrate the fiscal impact resulting from the elimination of the rental value.

Scenario: Müller family

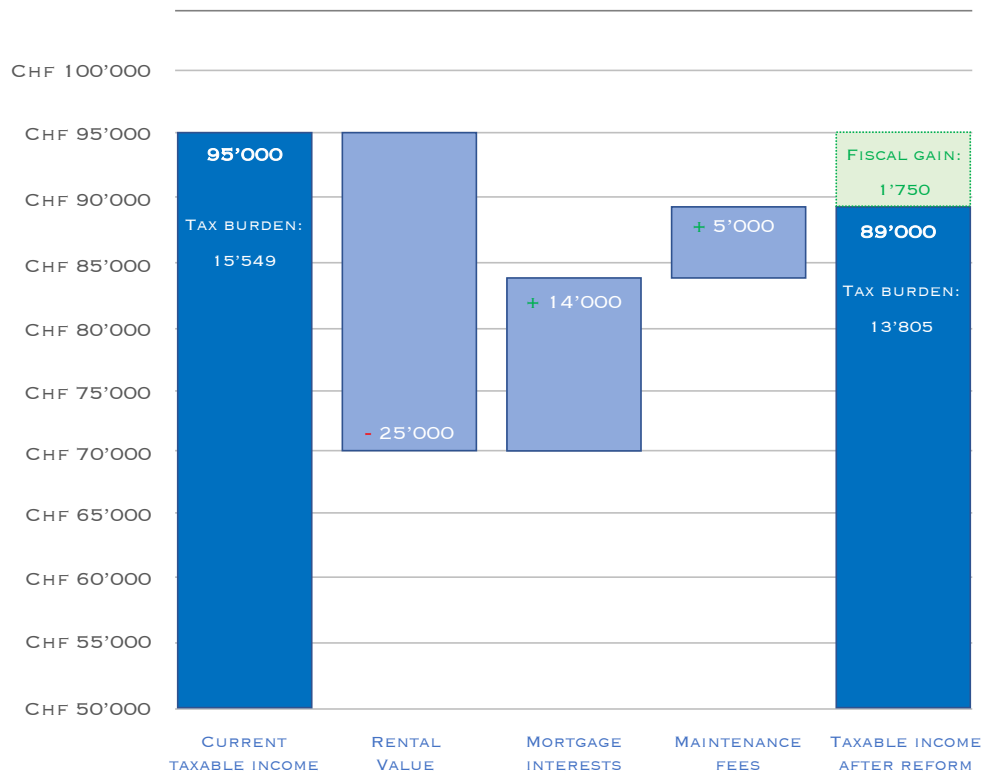
Scenario: The Müller family has realized its dream to access property by investing in a beautiful individual house near to Geneva. The condition of the property is particularly new since its date of construction is around the year 2000. Mr. Alain Müller, 45 years old, is a computer scientist while his wife, Sylvie, 43 years old, works part-time as a saleswoman for a multinational marketing company. The couple has two young teenagers who are still going to school, namely Noah and Olivier.

When it came to financing their life-project, the Müller family has been up for a high mortgage coupled with the pledge of their pension fund. In doing so, the family makes sure to have enough liquidities aside to supplement the income related to their lucrative activities as well as for refurbishing their property. In definitive, thanks to this financing solution, the Swiss family can project itself in a safe and financially affordable environment.

However, it is important to specify that having already contracted a mortgage in the past, they could not benefit from the special status reserved for first-time homeowners, which is why their mortgage interest charge is not deductible from their taxable income.

⁵⁴ DL MONEYPARK, « *Suppression de la valeur locative : scénarios, répercussions et exemples de calcul* », DL, published on November 2018, consulted on April 3rd 2019

Figure 24: Graphical representation of fiscal impact for the Müller Family



SOURCE: AUTHOR & DL MONEYPARK

Result: As we can see, with the elimination of the rental value, the Müller family can expect a reduction in the tax bill equivalent to CHF 1'750 per year⁵⁴. If they would have had access to the first property ownership status, the savings resulting from the abolition of the rental value would have been far more significant.

Recommendations: If the Müller family were to receive an inheritance or manages to make significant savings, a partial amortization of the mortgage could be considered. Nevertheless, the family could also invest this additional savings in a 3rd pillar tax-deductible account (indirect amortization). If this were the case, by paying CHF 10'000 on their third pillar, their taxable income would amount to CHF 79'000 (instead of CHF 89'000) and would result in a tax cut equivalent to CHF 2'664. In comparison, a direct amortization of CHF 10'000 would only lead to a decrease in mortgage interest charges of CHF 150 per year (considering a fixed rate of 1.5% over a period of ten years)⁵⁴.

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3.2.2 Potential impact on banking sector

According to Mr. Magnin, “for the banks, this reform is not particularly pleasing. Banks like business. That does not mean that we are not going to make mortgages anymore, but it is clear that, if this initiative passes, the attractive aspect of keeping a debt will no longer be an argument of choice, fiscally speaking. In this sense, the person who has enough cash will prefer to eliminate (amortize) his debt faster to reduce the tax burden related to mortgage interest, which would no longer be deductible. In any case, in my opinion, even if it is extremely difficult to quantify the extent to which such a measure is likely to have an impact on banks' mortgage activity, there is no doubt that it will have an impact⁵³”.

Most likely, people with large mortgages will therefore change their amortization method, but “I doubt that this bill would make relinquishing access to property, at least not in a period of relatively low interest rates⁵³”. At the end of the day, “everything is a question of opportunity costs, and when it comes to a project of life as important as that of becoming a property owner, the chances are high that the dream to access it is greater than the relatively low inherent mortgage interest expense. On the other hand, in the event of a significant rise in the level of rates, it is quite possible that a significant part of the population will abandon the idea of going into debt⁵³”.

Mr. Fredy Hasenmaile also seems to go in this direction even if he shows less optimism. According to him, “an atrophy of the mortgage market would also be expected and the risks for lenders could be increased. This is also why banks do not see this legal evolution from a good eye. At present, competition is already tough in this market³⁷”.

On this aspect, Mr. Roch also refers to the fact that “at the moment, the banks are very favorable to the idea of lending money, since keeping it in their accounts is very expensive for them⁵¹ (ed. in reference to the negative interest rates charged by the National Bank on the money deposits within its institution)”.

As for the Bilan newspaper, it underlines that “the big losers could be the regional and cantonal credit institutions, as well as those forming part of the network of the Raiffeisen

banking cooperative⁵⁵". The famous US rating agency Moody's also seems to share this feeling since it predicts that "banks active in this segment are about to experience difficult times if the regulatory changes are applied as planned⁵⁵".

However, Mr. Mathias Külpmann, Senior Vice President at Moody's specified that "large banks such as UBS and Credit Suisse should be less affected because of their diversification⁵⁵".

For MoneyPark, the impact on this sector is subdivided into two time-horizons. In the short / medium term, the real estate consulting firm believes that "a larger number of existing mortgages will be (partly) amortized. Lending institutions will feel it in terms of the volume of mortgages in their accounts⁵⁴". In contrast, over a longer term, the mortgage broker expects a "more attractive homeownership situation, which means that one can potentially predict a demand for higher housing properties and therefore an increased need for financing⁵⁴".

That said, from a general perspective, UBS economists confirm that "the Swiss real estate market remains an attractive context for financial institutions, despite the political proposals⁵⁵". Thus, this is one of the reasons why "US investment bank Goldman Sachs has indicated that it is considering the possibility of entering it⁵⁵". To summarize, there are two aspects to consider when predicting a possible impact on the banking sector:

- A decline in mortgage activity should be expected in the short term, even if the interest rate environment should not favourise it. However, once this period of transition has passed, mortgage activity should resume, becoming even more attractive than it is today. Moreover, as long as interest rates remain low, the emotional aspect of homeownership is likely to outweigh the costs it entails. Furthermore, adopting a similar vision, Mr. Roch also highlights the cultural aspect that hides behind the desire to access property. As he mentions, "a person who has always lived in his own property with his parents will surely want to continue the tradition by owning himself, as is the case with many families in Switzerland. these types of individuals will be willing to make a significant financial effort to achieve this⁵¹".

⁵⁵ BILAN, « *Le secteur hypothécaire Suisse va connaître des temps difficiles* », AWP, published on October 15th 2018, consulted on April 3rd 2019.

- As we have seen, almost everyone agrees that this tax reform will encourage indebted homeowners to amortize their property faster in order to free themselves of their mortgage debt. This will undoubtedly result in shorter mortgage contracts since they will be less likely to be prolonged through the renegotiation of these. The mortgage income that banks generate (through mortgage interest) over time through these debt extensions could therefore diminish and is likely to be felt, to a certain extent, on their balance sheet.

Finally, in connection with the first point, we must not forget that the reform project may provide a special status for first-time buyers. As things stand, they would continue to benefit from tax deductions from the mortgage interest charge, although on a declining basis. If this happens to be the case, homeownership could be praised in the sense that there would be no rental value anymore although deductions would be maintained; difficult to dream better. However, again and again, it is the environment of interest rates that will dictate the pulse.

Would a collapse be possible?

As Mr. Hasenmaile explains, "this would imply a sudden surge in interest rates, which is unlikely. The demand for housing would collapse first and the real estate market would be almost frozen. Real estate agencies and promoters would struggle to sell their properties and owners wishing to sell should make big compromises on prices³⁷". Also, when he is asked about how to guard against this eventuality, the real estate expert explains that "every buyer must assume that prices can reach the bottom of the wave. During such a phase, the owner must temporize. It is important to ensure that one will not be forced to sell when prices are at their lowest³⁷".

In this sense, he believes that "future buyers should maybe choose a smaller property right from the beginning to make sure they could honour their mortgage debt even in case of a hard blow³⁷" such as a divorce or a significant increase in interest rates. As we will have noted, although the expert remains rather discreet on the dramatic consequences that this case could bring to the banks, the recent financial crisis of 2008, however, brings us some clues.

Towards a removal of the rental value coupled with the abrogation of parallel tax deductions: What is at stake?

What measures could banks take to offset an eventual decline in their mortgage activity?

Mr. Magnin, as we could imagine, states that "it is very difficult to say because the real impact is extremely difficult to quantify / predict⁵³". Then he goes on by explaining that "given the current real estate prices, the number of people with sufficient capital to acquire a property is extremely low, a large minority⁵³". As of today, it is therefore "almost impossible to access property without going into debt. This is the reason why I do not think this reform will be damaging for the banking sector, and if it is, it would be to a lesser extent⁵³". Mr. Magnin is therefore reassuring that "in any case, this will not lead to a crisis⁵³". In addition, banks such as UBS and Credit Suisse have a very broad diversification of activities, meaning that if it turns out that the impact is greater than expected, these institutions would have the opportunity to "concentrate their priorities on other activities⁵³". Nevertheless, he recognizes the importance of mortgage activity for the banks who are active in Switzerland: "mortgage financing is an important activity in the sense that it is a way for banks to develop its clientele and to retain its customers but again, it is very difficult to predict the impact, if any, on the banks⁵³". Finally, he concluded by emphasizing the fact that in Switzerland, "there are almost no purely mortgage-oriented banks⁵³".

3.2.3 Potential impact on construction sector

As for the construction sector, Mr. Magnin thinks that "there will certainly be an impact but it will not necessarily be important because even if the maintenance costs are tax deductible, there is much to think that an owner who resides in his property would realize this work for a question of well-being and a priori not for fiscal reasons⁵³". However, he specifies that "if the bill also concerned so-called secondary properties (ed. those which are not inhabited by their owner), my answer would be very different. Since this is not the case, in my opinion, the impact on this sector would be low, if not marginal⁵³".

Mr. Donato Scognamiglio seems to be a little more pessimistic on the question: "The construction sector should be stimulated before the reform comes into effect. But afterwards, renovations will no longer be deductible. The losers will therefore be the craftsmen and the small and medium-sized companies that usually participate in these renovations⁴⁸".

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As for this aspect, Mr. Roch seems to share a similar pessimism: "Apart from this equity relationship between owners and tenants that would be modified, the motivation to carry out maintenance work on the housing would be almost zero, which suggests complicated times for our local artisans⁵¹". That is why the tax specialist warns that "homeowners may be tempted to turn to foreign companies to save on the cost of labor⁵¹".

For its part, MoneyPark, similarly to Mr. Scognamiglio, estimates that "many renovations planned or carried out over the medium term will be encouraged before tax deductibility is abolished. As a result, the building industry will benefit in the near future from an increased number of investments in renovation projects, which would in turn increase the value of properties⁵⁴". In this sense, the company considers as "unrealistic" the fear that maintenance works would no longer be performed in the long run. "We assume that the volume of renovations will be about the same as before the elimination of tax deductibility. Again, energy upgrades will remain deductible at the cantonal level, which, from an ecological point of view, is a really good news⁵⁴" the company rejoices.

As for him, when asked if removing the deductibility of maintenance costs will encourage homeowners to neglect their property, Mr. Feller shows confidence and optimism: "On the contrary, homeowners can invest in the maintenance of their property with the financial means saved through the disappearance of the rental value of their tax slip. I am therefore far from convinced that this reform will lead property owners to neglect their properties⁴⁹".

In conclusion, even if some opinions slightly diverge, we can bank that the construction sector, although it may suffer a slight setback during a possible transition period, will not suffer heavy losses in the long term.

3.2.4 Potential impact on the housing market

With regards to the housing market, Mr. Magnin shows a rather decided opinion. Assuming that "as all that concerns secondary housing market is not affected by this legal reform, it should not, in principle, have any impact on the housing market⁵³".

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However, for its part, MoneyPark thinks otherwise since it argues that "real estate prices should rise slightly in response to the project⁴⁸" before recalling that "many other factors influence prices⁴⁸". Indeed, this supposed increase in real estate prices would mainly be driven by the specific measures that could be reserved to people who acquire housing for the first time, as confirmed by the company: "The parallel maintenance of the deduction of mortgage interest as well as the removal of the rental value would make the real estate purchase even more attractive for the buyers of a first home and this could, in turn, drive prices upwards⁵⁶". This vision is also further corroborated by Fredy Hasenmaile, who explains that since "housing ownership would suddenly become more attractive, it would stimulate demand and increase prices, as long as the level of interest remains low³⁷".

UBS, similarly to Mr. Magnin's opinion, does not seem to be counting on a raise of housing prices; "we do not think, unlike others, that real estate prices will increase by 10% with the tax reform⁵⁷". The Bank thus refers to the remarks made by Marco Salvi, economist, on last March where he estimated that "if the rental value was to be removed, real estate would become an attractive asset class. That's why I expect real estate prices to increase by 10%⁵⁸". This estimate was also supported by a Credit Suisse real estate analyst, who said it was "possible", while specifying that "this increase would be spread over several years⁵⁸".

Finally, another factor to consider is the fact that, as UBS points out, "the price gap between new and old properties could be accentuated, given that renovations will no longer lead to tax savings⁵⁷".

In conclusion, as far as the housing market is concerned, it would therefore seem that any price increase would mainly be the result of the special status reserved for first-time buyers. In addition to this status, which, because of its attractiveness, could increase demand for housing and therefore prices, it would seem that the market in question should not be unduly affected.

⁵⁶ BANQUE MIGROS, « *Suppression de la valeur locative – quelles conséquences?* », Urs Aeberli, published on September 4th 2018, consulted on April 9th 2019.

⁵⁷ ALLNEWS, « *Effets contrastés de l'abolition de l'impôt sur la valeur locative* », AWP, published on October 4th 2018, consulted on April 9th 2019.

⁵⁸ 24 HEURES, « *Retirer la valeur locative ferait-il grimper les prix?* », Ivan Radja, published on October 26th 2018, consulted on April 9th 2019.

3.2.5 Potential impact on the Government

If this initiative comes to be implemented, the Government could suffer significant losses of fiscal revenues ...

For his part, Mr. Magnin leaves little room for doubt: "Oh yes! And I think that's what holds back a lot (ed. regarding the previous attempts to abolish this tax). If this law passes, the winners would be the owners, not necessarily all, but a large majority of them. On the other hand, the most wronged would inevitably be the cantons, the confederation and the communes. Currently, the charge related to the taxation of the rental value is particularly high compared to the possible deduction of mortgage interest, which is a significant income for the government as a whole, but especially for large cities like Zurich, Bern, Geneva, Lausanne, etc.⁵³".

Just like Mr. Magnin, The UBS bank also predicts heavy income impacts as it expects a "loss of tax revenue equivalent to 2.5 billion Swiss Francs for the Confederation, the cantons and municipalities, at the current mortgage rate of 1.5%⁴⁸". On the other hand, the tax authorities are much more moderate since they estimate a shortfall of "700 million swiss francs⁴⁸". As we can see, the opinions diverge, and not only a little. For his part, without entering into quantitative evaluations, Mr. Roch is adamant since he believes that "in any case, the state has more to lose than to win with this reform⁵¹".

Another person that highlights the negative tax incidence is Mr. Buchs, president of the Christian Democrat Party (PDC – Parti Démocrate Chrétien). "This tax generates a revenue of CHF 10 million a year to the State of Geneva⁴¹". However, he remains generally optimistic about the compensatory aspect that could result over a longer time horizon: "In the end, the canton will win. Citizens who will not be obliged to leave Geneva to become owners and start a family will actually represent additional taxpayers⁴¹".

In addition, people like Mr. Brülhart, Head of the Finance Department of the Canton of Vaud, prefers not to say too much, "the unknowns are still very numerous as to the impact of the project⁴⁸". According to him, "it is not certain that the reform will cause a plunge in State tax revenues since everything will depend on the details of the reform and its implementation⁴⁸".

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In parallel with the various previous declarations, it is necessary to provide some clarification as to the context of the current fiscal environment. On last May 19th, Swiss citizens were asked to vote on another tax reform, commonly known as RFFA (*Réforme Fiscale et Financement de l'AVS*). In synthesis, this reform had two parallel objectives: to strengthen the AVS (Swiss pension scheme) and to establish a corporate tax system that is competitive while remaining in line with international requirements, and it is mainly this last point that is of particular interest to us. Indeed, the latter would entail the abolition of cantonal tax privileges granted to companies mainly operating at an international level, since they are in contradiction with the tax harmonisation promoted by the European Union and the international law. The fact is that “between 2012 and 2014, companies benefiting from a special tax status contributed an average of around CHF 3.6 billion to the Swiss Confederation. This amount is roughly equivalent to half of the federal revenues coming from income taxation. In the same years, companies with special tax status generated average revenues for the cantons and municipalities estimated at CHF 2.1 billion, or about one-fifth of the annual income tax revenues of the cantons and municipalities⁵⁹”.

As it happens, the population accepted this revision of the federal law on tax reform and the financing of the AVS “by 66.4% of the votes⁵⁹”. This means that in the future, the same tax rules will apply to all companies, whether they are large international groups or SME's.

Without getting into all the details and controversies that this bill has generated, what is certain is that these fiscal reforms are bringing a profound shift of the current tax system. Although the unknowns arising from the implementation of the said reform remain to be filled, it is legitimate to believe that, coupled with the abolition of the rental value, these will undoubtedly lead to a significant mutation in the State's tax revenues framework. In this sense, it is undeniably going to require the State to think proactively about measures that could be implemented to compensate for any disruptions caused by these reforms.

⁵⁹ CONFEDERATION SUISSE - DEPARTEMENT FEDERAL DES FINANCES, « *Réforme fiscale et financement de l'AVS (RFFA)* » published on May 20th 2019, consulted on July 3rd 2019

What measures could be implemented to compensate this potential shortfall?

According to Mr. Magnin, “they (ed. the tax authorities) could for example increase the transfer duties, wealth tax, and even implement other taxes⁵³”. If we take the example of the canton of Geneva, “they intended to change their tax calculation methods in order to significantly increase the fiscal value of properties and thus raise their revenues on the wealth tax.

In the same vein, they also mentioned the possibility of greatly increasing the tax on rental values for all properties, including secondary residences, even if they quickly retracted given the outcry that these measures have generated⁵³. We can therefore see that the range of solutions is broad, although the room for maneuver is often narrow when it comes to sensitive topics such as tax rates. In any case, Mr. Magnin is formal, it will be necessary for the state and the cantons to “find new sources of income⁵³”.

Mr. Scognamiglio follows this same reasoning and even designates those who could potentially bear the costs as he explains that “the shortfall could be filled by other measures, which may affect the middle class, and therefore the tenants first⁴⁸”. Still on the same line, MoneyPark, for its part, argues that “an increase in the wealth tax could be a possibility⁴⁸”.

In parallel, in order to be able to anticipate the situation proactively, the national councillor, Mr. Beat Flach, has filed an “interpellation enquiry” to the Federal Council. An interpellation is a kind of officially informal document, through which any member of the state can ask questions related to the politics of the moment in order to obtain an official response from the federal council. Here are some excerpts:

Question by Mr. Flach: *“How much did the annual income from the tax on the rental value of principal residences for the years 2013 to 2017 amount to?” What was the sum of the rental values for each of these years?¹⁰”*

Federal Council response: “The data used to estimate the financial consequences of taxation of rental value and private rentals come from the cantons of Berne and Thurgau. They concern the 2010 tax period and have been extrapolated to Switzerland using numerous assumptions. On the basis of this data, the sum of the rental values, (ie the amount without deductions for properties), is estimated at around CHF 25 billion per

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year. [...] If, for the sake of simplicity, it is estimated that the owners of their homes claim passive interest solely related to the financing of their housing or the properties they rent, it is possible to estimate at around CHF 2.5 billion the total income tax from the taxation of the rental value and private rentals for the three levels of Government (Confederation, cantons and municipalities) and for an interest rate level of around 1.5%. Of this amount, some CHF 1.8 billion go to the cantons and communes¹⁰.

Question by Mr. Flach: *“How would the elimination of the taxation of rental value influence the gap between the rich and the poor as well as the generational contract, a mechanism that must ensure the financial balance between the generations?”¹⁰*

Federal Council response: “If the level of mortgage interest rates stabilizes durably between 3 and 4 percent, a change in the rental value system should have little impact on tax revenues. As a result, no unfavorable allocation effects for low-income tenants should be expected. Independently of this, distributive effects could be felt between the generations: generally, pensioner households (ed. retired individuals) have paid off all or most of the mortgage on their housing, while young households that have acquired housing depend on more debt financing. Targeted support measures, such as a deduction for first home ownership, would mitigate any intergenerational distribution effects¹⁰”.

Questions by Mr. Flach: *“A) Is the Federal Council also of the opinion that such a “housing tax” could replace the taxation of the rental value? B) Could the Federal Council then imagine that all forms of housing should be taxed at a single rate? This would mean, while essentially keeping the same lease contracts, to impose the “consumption” of the dwelling to a single rate tax, for example 8 per cent, on rental income. In compensation, rental income would be exempt from current taxes. C) How could such a “housing tax” be introduced¹⁰”*

Federal Council Response: “In the past, the Federal Council has always been open to the idea of reforming the taxation of home ownership, provided that the proposed solutions are equitable and financeable. To date, a new project to eliminate the imposition of rental value has been launched under the direction of the Committee on the Economy and Royalties of the Council of States.

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Proponents of collecting an 8 % housing tax on rental value and rental income follow a different conceptual approach. As a tax imposing the "consumption" of housing on the basis of a single proportional rate, the housing tax is close to VAT. At present, however, neither rents for residential buildings nor the rental value of owner-occupied dwellings are subject to VAT¹⁰.

Also, "the author of the intervention (ed. Mr. Flach) does not specify whether the housing tax should also be introduced at the federal level. If the tax principles in place today were not replaced by other tax measures at the federal level, the current level of interest rates would be expected to result in a substantial shortfall. If the current taxation of the rental value of owner-occupied housing and private and institutional rental income were maintained at the federal level, the "consumption" of housing would not be taxed in the same way at different levels of government. This would therefore create an imbalance in this area between the Confederation, on the one hand, and the cantons and communes, on the other. If, on the other hand, a new housing tax were also collected at the federal level and, in so doing, horizontal and vertical harmonisation would be guaranteed, the Constitution would have to be amended. This would also be the case if the Confederation delegated the task of collecting a housing tax to the cantons.¹⁰".

With regards to this potential fiscal alternative, Mr. Mangili, Director of Legal Affairs of the Geneva State Chancellery also seem to ratify the solution of the housing tax: "Given the current level of rents, being an owner is a privilege. Considering a tax such as a housing tax could therefore be a solution in order not only to compensate for any potential tax losses resulting from the abolition of the rental value, but also to preserve this principle of equity which is essential for the proper functioning of the real estate market⁵²".

In this sense, some may question the interest of replacing the rental value with another equivalent tax. The fact is that although the latter is indeed similar in its form (its amount is calculated on the characteristics inherent to the property, just like the rental value), the housing tax provides a more equitable aspect in its substance. Indeed, it turns out that unlike the rental value, it takes into account the contributor's financial situation and adapts to it. These are the main reasons why this alternative could be interesting. On the one hand, it would allow the State to compensate for any potential tax losses resulting from the fiscal reform. On the other hand, it would not impose an unbearable tax burden on people with limited incomes, unlike the one that the rental value induces for pensioners for example.

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3.2.6 Potential impact on the Swiss economy

A reduction of the systemic risk

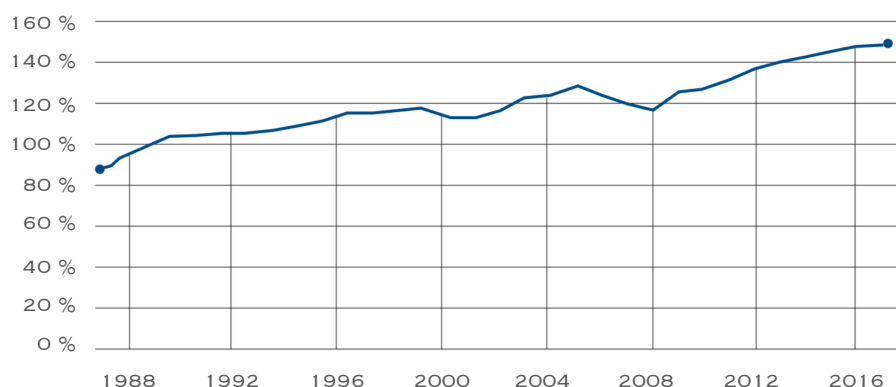
Currently, as we have seen, in Switzerland, a homeowner almost never pays off his mortgage in full. It is mainly due to the fact that keeping a high indebtedness is the only way to offset, at least partially, the burden represented by the taxation on the rental value. Therefore, in essence, the current fiscal system encourages the maintenance of high indebtedness levels, which leads to a highly undesirable aspect that is similar to that of a time bomb. In the event of a sudden rise in interest rates, the resulting systemic risk effect could have dramatic consequences for the health of the Swiss national economy. And it is not just anyone who says so, since it was the FINMA who sounded the alarm.

Indeed, the financial regulator has recently published a report underlining its concern about the overheating risk that the Swiss real estate market is facing, induced by a low interest rate environment and the consequent indebtedness of families that result from it. Here is an excerpt from the report in question, entitled "the mortgage market is the focus of FINMA's attention":

"For a number of years, the Swiss mortgage market has been an important issue for FINMA. Low interest rates, immigration and even fiscal incentives are all factors contributing to the increase in mortgage demand. The volume of loans granted by banks and insurance companies as well as the real estate prices continue to rise¹³". As can be seen in the below graph, the level of mortgage debt in Switzerland relative to the gross domestic product "is one of the highest in the world¹³".

In this sense, the FINMA points warns that "problems in the mortgage market can, as the experience of past crises has shown, have a quick impact on banks and on the entire real economy. This is why it is particularly important for FINMA that mortgages are granted for the sake of sustainability¹³".

Figure 25: Mortgage volume as% of GDP



Source: FINMA – BNS/OFS

Mr. Olivier Feller also seems to share this concern. When asked if this fiscal reform is likely to reduce the size of the Swiss mortgage debt, he is adamant: "I hope this factor will weigh on the debate ahead. The current tax system is causing homeowners to incur an artificially high level of debt in order to neutralize the taxation of this fictitious rental income. I am surprised that those who criticize the size of the debt of the Confederation, which is about 100 billion, are comfortable with an overall household debt estimated at 740 billion. This is a risk for homeowners who could not cope with a real estate crisis or a rapid rise in interest rates⁴⁸". We could therefore legitimately think that, the mortgage amortization incentive resulting from the tax reform, would mechanically reduce this systemic risk to acceptable levels. It is in any case on this direction that MoneyPark is banking as the company stated that "tendentially, the debt ratio of households should however decrease⁴⁸".

However, other people like Mr. Magnin think that the current system is already doing its best to prevent such disastrous scenario: "We have to know that banks are very regulated, especially in the mortgage sector⁵³". In this sense, he explains that "everything is done so that the borrower can support a significant rise in mortgage interest rates in the short-to-medium term. The criteria for setting up property financing solutions are increasingly restrictive, so it is legitimate to assume that such a regulated market is unlikely to collapse after a reasonable shock⁵³". Indeed, the criteria to which Mr. Magnin refers are the following:

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- 5% theoretical interest rate when calculating the borrower's debt capacity
- 1% of the price of the property as hypothetical annual maintenance charges
- The total expenses related to the financing cannot exceed 33% of the gross annual income of the borrower
- Minimum 10% of the mandatory capital contribution intake (20%) must come from personal savings while there was no restriction before.
- The second-rank debt must be amortized within 15 years against 20 before.
- Any waiver granted to a client for valid and duly justified reasons must be announced to FINMA while knowing that there is a threshold of exemptions not to be exceeded. Each of these thresholds, based on percentages of mortgages granted, varies according to each lending institution depending on the score they obtained during FINMA's crash tests.

These criteria have been tightened between 2012 and 2014 under FINMA's advice in order to slow down this race to property made possible by (or because of) the rate environment we are experiencing. This strict regulation means that accessing property is already highly regulated in order to prevent any abuse and thus to prevent households with limited financial incomes from getting into a perilous situation leading, by domino effect, to put the bank and the economy at risk of default. That is why, according to the Credit Suisse mortgage advisor, "even in the case of a significant rise in interest rates to 7%, people with significant mortgage debt should be able to "tighten their belts" without this being a major risk for their solvency⁵³". In addition, "in the event an individual faces a punctual perilous financial situation, there are always solutions that can be found in agreement with the bank in order to reduce the amount of amortization. This is one of the many good aspects of regulation in a real estate market such as the Swiss one⁵³".

Of course, as specified by Mr. Magnin, some borrower profiles are riskier than others. Indeed, "the person who has been granted a mortgage financing up to 80%, in which he has injected all its savings and that reached the maximum debt capacity (ed. 33% of its annual gross income are destined for its mortgage) could possibly not support a rise in interest rates beyond 5%⁵³". However, as of today, in addition to the increasingly restrictive regulation imposed by FINMA on the granting of mortgage loans, it should be noted that "many banks have taken the lead and often go beyond these measures.

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Credit Suisse, for example, asks customers with the ambition to buy a property in certain geographical areas where prices rise to a level that is higher than the Swiss average, to amortize their second-ranking debt within 10 years, against the 15 advocated by the FINMA regulation. In this sense, many mortgage loan applications from clients who have passed the test in the past would not pass it today. The so-called "limit" financing dossiers no longer pass the test⁵³". This proactive aspect as regards to the regulation in force thus seems to greatly mitigate the risks inherent in the potential insolvency of this category of so-called "risky" borrowers.

For his part, Mr. Broulis has an opinion similar to that of Mr. Magnin because to this question he answers that "Switzerland has a very high mortgage debt ratio in international comparison, but the value of real estate is also higher. However, the risk for the bank is minimal since the requirements on equity contributions have been tightened⁵⁰".

An economic booster

Apart from systemic risk, there are two other opposing views on the impact that could result from a quicker amortization of household's contracted mortgages. In this respect, some people emphasize the beneficial aspect that this reform could have on the economy. The "forced" amortization of the debt by the owners would make that these amounts would be reinjected into the economy through the banking system.

However, Mr. Magnin does not seem convinced about it: "The impact would not be particularly positive for the economy in general. As of today, companies have no problem when it comes to borrowing to finance their business growth. There is enough liquidity on the market so there is no additional need for it. On the contrary, this liquidity has a cost related to the negative interest rates proposed by the National Bank. So having a surplus of liquidity would lead to a negative impact because it could result in an increase of the credits granted, whereas the legislation aims to limit them. In any case, in the given case, it is difficult to speak of a purely positive impact⁵³".

An economic brake

Others, on the other hand, have suggested the opposite effect. They argue that if amounts predestined for day to day consumption are used to amortize the mortgage, the decline in consumption inherent to this phenomenon could affect economic growth. According to Mr. Magnin, "it is possible that with this new legislation, a certain category of people would rather decide to pay off their debt than buy a new car⁵³". However, he does not predict any potentially harmful effects since this would only concern "households that are particularly limited from a financial point of view⁵³".

3.3 Predictions on the law bill

Do you think this law bill will be adopted?

Faced with this question, Mr. Magnin seems dubious: "I cannot say for sure if it will pass the milestone of a vote or not. However, what is certain is that compared to previous times where it has been debated, it is more likely to pass now because all conditions are met. On the other hand, if it does not pass, it will be buried for a long time⁵³"

Mr Roch is also perplexed as to its adoption as he believes that "it will not go by. I think that too many tenants (the majority of the population) will find it unfair and will therefore vote against it. It will also depend a lot on how the reform will be presented by the competent authorities⁵¹".

Unlike the two previous opinions, the chances of adoption are seen to as "good to very good⁴⁸" by the mortgage broker MoneyPark.

Similarly optimistic, the Swiss Radio Television (RTS) thinks that this reform has "good chances to succeed for the first time⁶⁰" because on the one hand, "the real estate owners are delighted⁶⁰" and on the other hand, "the Swiss Association of Tenants (ASLOCA) will not vetoed it, as long as it is balanced (ed it maintains fiscal neutrality between owners and tenants)⁶⁰".

According to Fredy Hasenmaile, the probability of seeing this initiative passing the step of the polls "is 60%, a record over the last ten years. Things have changed since the Swiss landowners' association finally accepted the fact that it "cannot have the cake and eat it too" by persisting in wanting to maintain the deduction of mortgage interests³⁷". The real estate expert of Credit Suisse, however, remains cautious on his forecast as he warns that "the case is not closed yet. The taxation of the rental value represents a high source of income for the cantons and we do not yet know how to compensate for this shortfall. We must therefore expect opposition from the project³⁷".

⁶⁰ RTS, « *La suisse pourrait abandonner l'impôt sur la valeur locative* », Thibaut Schaller, published on August 22nd 2018, consulted on April 9th 2019.

Finally, Mrs. Alexandra Perina-Werz, Politics Manager at Raiffeisen Switzerland also gave its predictions: "Unlike the previous projects on the elimination of rental value discussed in Parliament, the first results we have available seem fairly equitable. But we know that the devil is in the details. In addition, there is no written law yet. It is therefore premature to have a definitive idea⁶¹". In that sense, she warns that we must nevertheless be patient. "If the deliberations are conducted efficiently and no referendum is launched, the rental value could fall on January 1, 2021, but this date must be taken with caution. Given the previous episodes concerning the rental value debates, I would rather bet on a longer process and, if necessary, a referendum⁶¹". The tone is given.

What are the factors that could defeat this fiscal reform project?

Switzerland being a country governed by direct democracy, it is likely that this change of jurisdiction, if approved, will once again face the reverse of a referendum. Otherwise, as Mr. Magnin points out, "cantonal, communal finance organizations and the state as a whole could manage to slow down the positive evolution of this initiative since they are the ones who have the most to lose, and therefore us, indirectly⁵³". For his part, Fredy Hasenmaile thinks that "the decisive question will be whether the Swiss Parliament will leave the door open for the maintenance of tax deductions. The building sector will surely fight to preserve the deduction of maintenance costs. It is likely the people who will decide at the polls³⁷".

Also, Mr. Olivier Feller highlights the conservative opinions of some right-wing political parties. He explains that they "are attached to it (ed. the current system) because a whole business has developed around mortgage debt. Instead of inciting you to write off your debt, the lender, a bank or an insurance company, will offer you to depreciate through a third pillar⁴⁹". He also added that "we need a certain fiscal neutrality, otherwise the project will have no chance of being supported by a majority in parliament and in the population. This is why, in compensation, we will have to live with the total elimination of the deduction of maintenance costs and, at the federal level, the expenses related to environmental energy works⁴⁹".

⁶¹ RAIFFEISEN, « *La suppression de la valeur locative prend de l'ampleur* », published on September 11th 2018, consulted on April 9th 2019.

Other comments?

As Mr. Sommaruga, president of the Swiss Tenants Association (ASLOCA) very intelligently pointed out in his article published in the newspaper Le Courrier last August, "what will happen during the next economic crisis? The temptation will then be strong to revive the economy via a help to the stone - because, as the saying goes, when the real estate works, everything works - by giving back the owners some of their old tax deductions, while keeping in parallel the abolition of the rental value⁴³ⁿ."

3.4 Summary: Winners & Losers

Having a general idea of the different impacts that this tax legislation change may have on its socio-economic stakeholders, the present section aims to concretely summarize the potential winners and losers of this fiscal reform.

3.4.1 Potential winners

Homeowners as a whole, depending on their mortgage interest rates: In a situation where interest rates are particularly low as of today, the deductible mortgage interest burden is just as important. At the same time, the tax on the rental value is therefore heavy since it is by no means compensable. In this case, an abolition of the rental value is therefore particularly advantageous. On the other hand, if the rates were to rise to high levels (above 4%), their tax burden would increase considerably since, with the introduction of the reform, they will no longer be able to deduct the mortgage interests. In this happens, there is a good chance that this could wake up the nostalgia of some owners thinking about the current system.

Retired homeowners who have already substantially depreciated their property: Generally subject to restrictive income levels, the rental value represents a particularly important tax burden for this segment of the population. Indeed, there is a good chance that retirees have already substantially amortized their property. As a result, the remaining deductible mortgage expense is far from offsetting the rental value tax, which does not diminish with the years and whose taxation has steadily increased. So far, we can therefore consider that this category of the population has been punished for reducing their debt over their lifetime.

This is why the fiscal reform would have a particularly positive impact for pensioners being in this case, since it would significantly alleviate their financial situation. On the other hand, we must remain cautious since the properties acquired by the elderly are often old. This is why in case of need of major renovations, the reform of the system could have a boomerang effect. It is therefore preferable that they proactively plan any maintenance work carefully so as not to suffer setbacks.

First-time homeowners: As we have seen, it is highly likely that a special status will be reserved for the first purchasers. These could benefit from the abolition of the rental value while continuing to enjoy the possibility of deducting their mortgage interest. That is why they would therefore be particularly benefited by this reform, regardless of the level of interest rates.

Owners with new properties: In the category of winners, we also find owners who have acquired relatively new properties. Indeed, not having an urgent need to undertake any renovation work, knowing that these would no longer be deductible, they would also be particularly benefited by the reform.

Owners with comfortable savings: Thanks to their accumulated savings, they would have the opportunity to pay off their debt faster by making advance amortization payments, thus reducing their debt load and the related mortgage interest charge. Ultimately, the reform would therefore have an advantage for this category of owners; no rental value anymore and a tax burden related to passive interest that is "low", as long as the rates environment remain as such. They would consequently remain masters of their tax burden since its dimension would only depend on their willingness to reduce their existing debt.

Switzerland: As previously observed, the mortgage debt contracted by Swiss households is among the highest in the world. As indebted households are exposed to the vagaries of interest rate trends, it is fairly legitimate to imagine that given the abolition of the diverse tax reductions advocated by the reform, those will tend to amortize their debt quicker as they would not have any incentive to keep it at high levels anymore. As a result, household's debt should be reduced over time, thereby reducing the systemic risk that the current fiscal system generates to the country. We can therefore consider that Switzerland would gain in stability, to the delight of the FINMA. However, it is still too early to predict the social opportunity cost relationship inherent to faster debt repayments. Could this lead to a substantial reduction in consumption? Given the difficulty of assessing such subjective aspects, only time will tell.

3.4.2 Potential losers

The State: Obviously, abolishing a lucrative tax inevitably leads to equally significant losses for the state. At the same time, mortgage interests that are no longer deductible should be able to offset, at least slightly, the tax losses incurred. Again, it will be the level of interest rates that will determine the magnitude of this offsetting effect; the higher they will be, the more income they will generate. However, the interpellation Mr. Flach has solicited from the Federal Council gives some clues as to the various measures that could be taken by the State to compensate for this potential shortfall. In this sense, a housing tax could be introduced. In parallel, Mr. Magnin also highlighted other taxes that could be increased, such as the wealth tax. In any case, one thing is certain, the state will have to think about new fiscal compensation measures.

Young property owners: If a special status is not provided for them, this category of owners may have to tighten their belts. Having generally not had enough time to amortize their mortgage debt, their interest-related tax burden is therefore particularly high. If it can no longer be deducted, it may weigh heavily on the young household's economic balance. However, it is worth recalling again that the measure of the heaviness of the impact is strictly correlated with the level of interest rates. As long as they remain low, the change of situation related to the implementation of the new law will be reasonable. In the opposite case, a high level of rates linked to the impossibility of deducting them may lead to a burden that would be difficult to tolerate for this owners' segment.

The banking industry: Opinions are rather mixed as to the impact this reform could have on this particularly key sector of the Swiss economy. Although it is difficult to predict any decline in mortgage activity as such, it is reasonable to assume that households will seek to reduce their debt faster than before. In doing so, it automatically implies that they will avoid renewing their mortgage contracts over time. The revenues that the bank was securing over time in a sustainable manner may therefore suffer a substantial decrease.

Finally, it should be noted that the impact will be likely to vary depending on the concerned institutions. Local financing organizations, relying heavily on their mortgage business, are likely to experience difficult times, contrary to big banks, which, thanks to their diversified activities, should be able to hedge against such an effect.

The construction sector: Since the reform would also make it impossible to deduct property maintenance costs, there is a strong risk that homeowners may become reluctant to carry them out. However, the effects can be subdivided into two periods. Many experts believe that the sector is likely to face an increasing demand before the reform takes shape. However, when implemented, it is probable that some reticence will emerge. In order to enjoy a more affordable workforce, property owners could also be tempted to solicit foreign construction companies. Nevertheless, in the long run, some experts believe that the demand should return to levels we are currently experiencing, the reason being that the fact of renovating one's property is above all a question of well-being.

Finally, a last aspect to consider is also the attractiveness of owning a property in comparison with renting one. If it turns out that this reform leads to an "explosion" of the demand for property, there is strong reason to think that the construction sector still has a bright future ahead of him.

Owners with old properties: As can be expected, the planned reform is detrimental to all homeowners with old properties that show high renovation/maintenance needs. It is therefore essential that concerned homeowners quickly ask themselves the question so that they can plan carefully these renovations before they are no longer deductible.

3.5 Interest rates evolution forecast

Having been (very) often repeated throughout this research, interest rates levels play a preponderant role in measuring the effects that tax reform would have on a sector as important as that of real estate. That is why a forecast of their evolution is an important element of analysis in order to be able to make projections on the effects that the bill could have in the short, medium and long term.

How do you think interest rates will evolve?

Mr. Depetris, renowned economist, begins by answering in a humorous tone by stating "if I knew that I would be able to beat the market⁶²", before continuing more seriously: "At the moment, they are historically low. If this is the case, it is for a number of reasons. The first is that the economy is not growing as fast as before so Central Banks need to keep low interest rates to stimulate the economy. The second is related to Europe's economic environment. These are mature economies. Except in the case of deep structural changes, these economies are not going to be growing 5 or 10% per year in a near future⁶²". In that respect, the economist explains that "the interest rate levels that we face today are also a signal indicating that capital is not as productive as it used to be, this is why in countries called emerging (ed. in terms of market maturity) face much higher interest rate environments⁶²".

That said, the economist draws the attention on the current development of some technologies, which could change this rather gloomy trend of economic growth. It is therefore on this subject that he goes on by explaining that "we are entering a period of strong technological change; digitalization, artificial intelligence etc. The question to ask is therefore how productive this technological revolution will be in the future, but we don't know it yet. Will digitalization represent a game changer? Probably. Will it lead to huge increases in productivity output? It is too soon to say. If it turns out that this revolution comes to change the game by implying that in five or ten years the economy will be growing at a pace of 5-6% just because of this technological shift, the demand for funds (ed. investment) would grow substantially, probably resulting in higher interest rates⁶²".

⁶² PERSONAL INTERVIEW OF MR. NICOLAS DEPETRIS, performed on April 5th 2019

However, Mr. Depetris recalls that it is "very difficult to predict how the economy will evolve in 5 or 10 years" because he explains that although it is "rather easy to predict in a stable economic environment it is not the case today⁶²". To illustrate it, he takes the example of the weather. "Predicting the weather in a city like Sevilla (ed. in Spain) is easy, it's sunny, but predicting the weather in Geneva is more complicated⁶²". However, he reminds that at the end of the day, economy is "cyclical, every now and then there are some game changers such as the industrial revolution that allowed us to enter in a period of high economic growth. Will we see that again with digitalization? We will see⁶²".

When the question is asked about how it is possible that with all technology we already have today productivity remains so low, he answered "well, it might be due to the fact that we are currently in a transition period where technology needs to adapt. We can take the example of huge companies such as the car makers that used to be big players in the past are now trying to adapt their technologies to catch a new growth cycle⁶²".

A part from this, he states that "we are also witnessing a geographical shift of productivity. The technology advancement that used to be reserved for Western countries is now mainly coming from Asia⁶²". Finally, he ends up by taking the African example; "they are now experiencing what Europe experienced in the 50's, they are at the beginning of the maturity curve, which explains the growth that such regions are facing and the resulting high interest rates⁶²".

To summarize Mr. Depetris' interview, we learned that productivity needs structure. That is why increasing productivity takes time because deep structural changes do not happen in one day. As a result, the environment as we know it today should not face dramatic changes in the short and medium term even if some variations might happen.

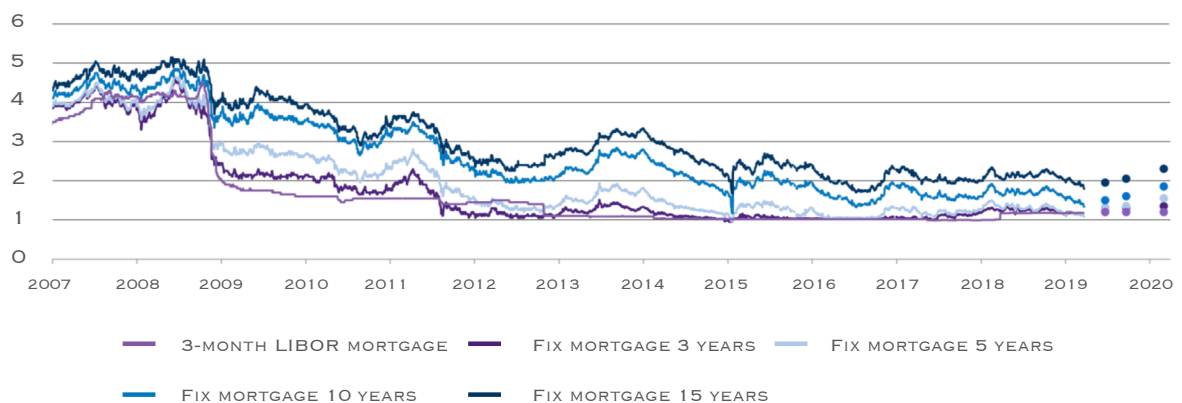
For his part, when asked about a potential increase of interest rates on a short/medium term basis, Mr. Magnin thinks that "this will not be the case. First, with regard to short-term rates, the Swiss National Bank has already confirmed that it does not intend to change its interest rate policy until the end of 2020. As long as interest rates for deposits remain negative, short-term mortgage interest rates will remain unchanged. In contrast, longer-term mortgage rates tend to fluctuate more significantly⁵³". Indeed, it should be remembered that in the case of a fixed rate mortgage, the time horizon represents a risk factor. In other words, the longer the maturity, the greater the risk to witness an evolution of the interest rate environment as well as the borrower's financial situation.

“If we look at the yearly curve of 10 years fixed mortgage interest rates, they rose by 0.5%, to finally regain their level. The total fluctuation results in 1%⁵³”. However, in general, although an increase of 0.5 to 1% may prove to be significant, it should be noted that given the rates we have experienced in the past, an increase of such magnitude does not represent an environment change per se, at it would still be considered as low⁵³”.

The opinion of a banking giant

For its part, Credit Suisse Bank has recently published a report (March 2019) in which it announces its forecasts regarding the evolution of mortgage interest rates. The bank is also banking on a particularly stable environment, although slight gradual changes may occur in the near future, as can be seen in the two next illustrative figures. In its report, to justify and explain this rate environment which remains particularly low, the bank designates a "growing economic uncertainty⁶³". In this respect, Credit Suisse stated that they are not “expecting the first hike in key interest rates to come until 2021 at the earliest” and that it “will depend on economic developments in the Euro zone⁶³”, as pointed out by Mr. Depetris.






Figure 26: Mortgage interest rate evolution and forecast for new mortgages (in %)



Source: Credit Suisse

⁶³ CREDIT SUISSE, « *Mortgage interest rate forecast* », published on Quarter 2, 2019, consulted on May 5th 2019

Figure 27: Mortgage interest rate forecast according to Credit Suisse

	INTEREST RATE	FORECASTS FOR			TREND
	01.04.2019	3 MTH	6 MTH	12 MTH	12 MTH
3-MONTH LIBOR MORTGAGE	1.18%	1.18%	1.18%	1.18%	
FIX MORTGAGE – 3 YEARS	1.10%	1.30%	1.30%	1.35%	
FIX MORTGAGE – 5 YEARS	1.10%	1.30%	1.35%	1.55%	
FIX MORTGAGE – 10 YEARS	1.31%	1.50%	1.60%	1.85%	
FIX MORTGAGE – 15 YEARS	1.76%	1.95%	2.05%	2.30%	

THE INTEREST RATES LISTED ARE INDICATIVE VALUES AND APPLY TO TOP-QUALITY RESIDENTIAL PROPERTY AND BORROWERS WITH IMPECCABLE CREDITWORTHINESS

Source: Credit Suisse

Finally, here are some concrete aspects that may explain the rate environment in which we currently find ourselves, as reported by Credit Suisse:

- Swiss economic growth is expected to slack to 1.5% in 2019⁶³
- Growth stimuli from abroad will weaken⁶³
- US trade disputes with Europe & China⁶³
- EU political uncertainty (Brexit)⁶³
- More pronounced global economic risks⁶³
- Inflation remains low⁶³
- Medium-term inflationary trend is unproblematic according to SNB⁶³
- CHF development is the focus of SNB's monetary policy⁶³

4. Discussion

Through this initiative promoting the abolition of the rental value for primary residences, the Committee has a primary objective: to reduce the owners' tax bill, which is undermined by a rental value whose weight tends to increase in an interest rate environment such as we know it today. At the same time, the current level of household debt, which has reached worrying highs, also demonstrates the need to rethink the current fiscal system, which amply favours it because of its peculiarities.

Although it is particularly aimed at landlords, the reform initiative explicitly mentions the importance of being designed in such a way as to guarantee not only a certain fiscal neutrality for the government, but also the safeguarding of an equitable framework between landlords and tenants. As underlined by the opinion of several experts through this study, it is this last point that is likely to decide the existential future of this reform. Indeed, the main reason why previous initiatives have consistently failed at the polls is that in addition to the removal of the rental value, they did not provide for any or few compensatory measures linked to tax deductions. It is therefore this particularly neutral and fair framework that would influence its chances of success. In view of the favourable forecasted outcomes with regards to its acceptance, it is therefore justified to question the potential impacts that this bill could have on its main stakeholders, and the study shows that several points deserve to be highlighted.

As for property owners, this thesis shows, as was conceivable, that the majority of them would be particularly favoured by this reform. At the same time, it also demonstrates the dynamic nature of this outcome. Indeed, it should not be forgotten that if the agitation caused by the rental value is periodic, it is mainly due to the fact that it is closely correlated with the interest rate environment.

However, the new fiscal framework advocated by the tabled initiative does not seem to include this aspect in its equation. Both the current system and the potential post-reform system favour the dynamic aspect linked to this tax burden. It is therefore legitimate to ask the question whether it would not be more worthwhile to take this into account. Indeed, this raises some interrogations.

What would happen in the event of a possible return to an environment of interest rates considered normal⁶⁴ ? Couldn't this lead, in the long run, to awakening the owners' nostalgia for the current system? Is it therefore appropriate to predict a perpetual return of rental value to the heart of public debate?

Moreover, if we consider Mr. Eichenberger's statement according to which "the main winners of the reform are the people who could not access the property and who, with the removal of the rental value, will be able to realize their dream⁴⁷", it appears that this could become problematic in the near future for several reasons. First, people with limited financial means are often forced to incur significant indebtedness. In parallel, they are not the most likely to be able to reduce it quickly. As a result, holding their debt for a long time would make them more vulnerable in the event of a changing market environment. In turn, this aspect would be in conflict with one of the indirect objectives of the reform, which is to reduce the growing debt of Swiss households. It would therefore be interesting to continue this study in order to identify further alternative tax systems apart from the ones already in discussion.

Another interesting aspect raised by this study relates to the effect that reform could have on the Government. Although the initiative aims at a legal text leading to a neutral tax regime, the different views expressed by experts show a certain ambiguity on the subject. While most of them expect significant tax revenue losses, others stress the importance of addressing compensatory alternatives as soon as possible, all the more so with the parallel reform of the RFFA, already adopted by the Swiss electorate.

Also, there is a parallel aspect of this reform has not been addressed by the experts. As we have seen, although housing maintenance costs would no longer be deductible, those related to green energy renovations would be maintained at the cantonal level. The question is therefore whether this will entail additional administrative constraints for the State. Indeed, how will the tax authorities ensure that the costs deducted by homeowners actually relate to energy optimization? What is certain is that if they were held responsible for auditing it, they could be very costly and complex to conduct.

Finally, the last point that should be raised is a factor that concerns us all, housing prices. As it happens, these are determined by such a simple and complex mechanism at the same time, that of supply and demand.

⁶⁴ Around 4%

Simple because it is a purely intuitive economic mechanism, and complex because its determinants are not only composed of objective factors, such as demographics, average incomes, etc., but also of subjective factors, such as the economic behaviour inherent to each individual. Mentioned regularly throughout this study, the emotional aspect behind home ownership is an intangible element that nevertheless has a real influence role. In this sense, the status reserved for first-time homeowners coupled with a very favourable rate environment means that it would make possible for many families wishing to become homeowners to take the plunge by reasoning according to the famous diction "it is now or never". If this were to happen, we could see a surge in demand for property, which would result in a substantial increase in prices, knowing that they are already heavily fuelled by the current demographic situation, characterized by constant population growth.

At the same time, retirees, who will constitute an increasingly part of the population and whose incomes are declining year after year, have limited financial leeway. Would they be able to bear any housing price increase? Also in the same vein, the growing middle class is struggling to emancipate itself financially. The rise of the cost of living means that a reduction in their purchasing power resulting from an increase in housing expenses could ultimately constitute a factor of economic decline linked to a generalized reduced consumption.

All these factors once again demonstrate the complexity inherent in the interconnection between the various socio-economic actors and prove that, as we all already know, that the evil is in the details.

5. Conclusion

Reactions to this tax reform are diverse. That said, they do provide a concrete idea of where the stakes lie if the initiative is to be implemented.

For their part and as could be expected, owners of principal properties are delighted. They would overall benefit from the reform since their tax bills would be reduced. Retired homeowners, those with sufficient savings and first-time homeowners - assuming they are granted a special status - would be the most favoured segments, but legislators should never forget that in the event of an upward trend in rates, the scenarios could be reversed, and may even wake up a certain nostalgia about the rental value. As a significant stakeholder, the banking system is also at risk of facing two major changes. The first would be linked to the behavioural evolution of its borrowers towards their debt. With the reform, homeowners would have an incentive to amortize their mortgage in order to reduce the new tax burden represented by related interests. In doing so, it could lead to a decrease in revenues for banks in the long run. The second change would be related to a possible slowdown in mortgage activity. Even if expert opinions differ widely on the impact on this market, they all agree that if this were to be the case, local banks, which are heavily involved in this market, would be the most affected although they are aware that any aid to first-time buyers could nevertheless mitigate this eventuality. For their part, the two giants namely UBS and Credit Suisse should emerge unscathed because of their diversification and size. They should therefore be able to continue to capitalize on their liquidities serenely during this period of negative deposit rates.

For its part, the construction sector may also have to demonstrate its adaptation skills given that the reform may have an impact on it through collateral effects. While some predict a normalisation of demand in the long run, others are a little more pessimistic and point to the temptation that would arise from the use of foreign labour. In view of the predictions made, there is therefore a strong indication that the sector is likely to face a more or less turbulent transition period. As for the housing market, the analyses of the sector experts show equally contrasting visions even if one of them seems to stand out. If the reform, fuelled by the current interest rate environment, were to substantially increase demand for owned housing, it could result in higher house prices in the geographical areas concerned. Not to mention the possible assistance to first-time homeowners, which could potentially further increase housing demand.

With regards to the Government, the study clearly distinguishes two main aspects. The first is that like any tax, its disappearance results in a loss of tax revenue. Although the initiative aims to achieve a tax-neutral reform, several experts expect losses to be more or less heavy. According to UBS, the Confederation, cantons and municipalities could lose CHF 2.5 billion overall. Faced with these alarmist opinions, some politicians have already set to work to find measures to compensate for this possible loss. Among the range of solutions considered, it is possible that some will end up impacting the middle class. However, from another perspective, the government as a whole could also benefit from this change in the legal landscape. The very high level of debt experienced by Swiss households is one of its major concerns because of the systemic risk it entails. The new measures, which favour mortgage debt amortization, might therefore succeed in strengthening the national economy by mitigating this risk. Finally, from a legal implementation point of view, the reform advocates a differentiation between housing maintenance work, which would no longer be deductible, and work related to energy saving, whose deductibility should be maintained. As a result, this distinction could lead to an administrative and financial headache. Indeed, it is difficult to imagine how the tax authorities could carry out inspections in order to avoid any abuse without resulting in increased public expenses.

Finally, as far as my own opinion is concerned, I am intimately convinced that a more efficient fiscal framework can be achieved with this reform. Taxing a fictitious income is contrary to any logic and it is therefore necessary to optimise this aspect sooner or later. That said, such a framework cannot, in my opinion, be envisaged without the implementation of an alternative taxation system such as the that of the housing tax so that the Swiss fiscal legislation preserves its predominant aspect of neutrality, both for the government (in terms of tax revenues), for tenants (in terms of impartiality), as well as for property owners (in terms of equity). Regularly back at the centre of the debates but never having so far succeeded in overcoming the ballot boxes, it would seem that for the first time, all the conditions are met to achieve a successful outcome as per the reform. However, caution should be exercised in making predictions. Even if the Swiss Tenants' Association (ASLOCA) has not torpedoed the initiative, it is possible that the tenants, who represent a majority among the voters, do not see it favourably. This new legislation could indeed be perceived as an additional support to property owners, knowing that they (the tenants) have to face ever-increasing rents, driven by a growing demand for housing and an offer that struggles to keep the pace up.

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Appendix 1: UBS fixed rate mortgage



For marketing purposes

No surprises

With a **UBS Fixed-Rate Mortgage** you are protected against rising interest rates

With a **UBS Fixed-Rate Mortgage**, calculating your costs is easy and you know how much interest you have to plan for. The principal, term and interest rate for the entire period of the loan are fixed in advance. This is a particular advantage if you expect interest rates to rise.

The idea

The UBS Fixed-Rate Mortgage is based on the idea of covering your financing needs for your real estate at a clearly calculable fixed rate of interest.

Secure cost planning thanks to a fixed rate of interest

Building or buying real estate is a significant investment and a long-term financial commitment. With the UBS Fixed-Rate Mortgage, we offer you a solution for your real estate financing needs that lets you calculate your expenses in advance. The principal, interest rate and any amortization payments due are fixed from the outset, generally for a term of between one and seven years. This means that calculating your costs is easy throughout this period, and you are protected from any increases in interest rates, although it also means that you won't benefit from any interest rate reductions either. When the contract expires, the general level of interest rates may be higher than the interest rate you have been paying for your UBS Fixed-Rate Mortgage. You would then have to reckon with higher interest payments for the subsequent financing. We therefore recommend combining various different terms in order to diversify your interest rate risk.

How the UBS Fixed-Rate Mortgage works

After the loan documents have been signed and all contractual terms and conditions have been met, we will disburse the UBS Fixed-Rate Mortgage on the date you have chosen for the payout. The amount, term and interest rate for the entire period of the loan are fixed in advance. We will transfer the amount paid out to your UBS Current Account or in accordance with your instructions. Interest and amortization payments are debited directly to your UBS Current Account on a quarterly basis. At the expiry of the agreed term the UBS Fixed-Rate Mortgage lapses.

UBS Switzerland AG
P.O. Box
8098 Zurich

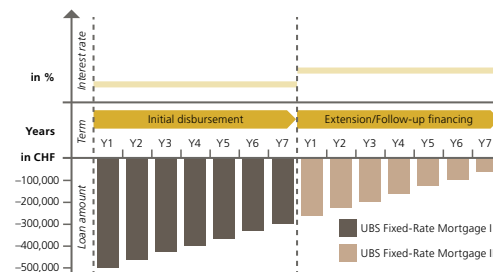


Chart is for illustrative purposes only

You can opt to fix the interest rate of your mortgage up to twelve months in advance of the loan disbursement by paying an additional interest fee. The earlier you want to fix your rate, the higher this additional interest fee will usually be.

Conditions

Currency	CHF
Interest rate	Fixed for the entire term, interest rate on request
Credit commission	None
Term	1-7 years, longer terms on request
Amortization payments	In accordance with the contractual terms may be made without incurring a charge
Regular termination	The UBS Fixed-Rate Mortgage lapses after the expiry of the agreed term without the need for notice of termination

What you need to know

- Long-term capital and interest rate commitment
- Clear calculation basis due to a fixed rate of interest throughout the entire term
- Option to fix the interest rate in advance

For all your questions

ubs.com/sme

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Appendix 2: UBS LIBOR mortgage



For marketing purposes

Money-market-like interest rates

The **UBS Libor Mortgage** offers you a flexible and attractive solution for financing real estate

If you like to track the financial markets and can cope with short-term interest rate fluctuations, the **UBS Libor Mortgage** lets you benefit from attractive interest rates based on the money market. If you expect interest rates to remain stable or fall, a **UBS Libor Mortgage** makes even more sense.

Variable costs thanks to market-oriented interest rates
Building or buying real estate is a significant investment and a long-term financial commitment. The **UBS Libor Mortgage** offers you a flexible and attractive solution for financing real estate. The interest rate charged on the mortgage is based on the CHF Libor rate¹ for terms of three, six, or twelve months plus a margin. In a normal interest rate environment, financing over short-term fixed interest rate periods is cheaper than long-term financing. However, this situation may change relatively quickly in response to fluctuations on the money market. That's why **UBS Libor Mortgages** are ideally suited for companies that actively track the money and capital markets.

Minimize your interest rate risk

You can protect yourself against rising interest rates by switching to a multi-year **UBS Fixed-Rate Mortgage** free of charge at the beginning of any new fixed-rate period.

How the **UBS Libor Mortgage** works

After the loan documents have been signed and all contractual terms and conditions have been met, we will disburse the **UBS Libor Mortgage** on the date you have chosen for the payout. The amount, term and interest margin for the entire period of the loan are fixed in advance. We will transfer the amount paid out to your **UBS Current Account** or in accordance with your instructions. Interest and amortization payments are debited directly to your **UBS Current Account** on a quarterly basis. At the end of the agreed term the **UBS Libor Mortgage** lapses.

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8098 Zurich

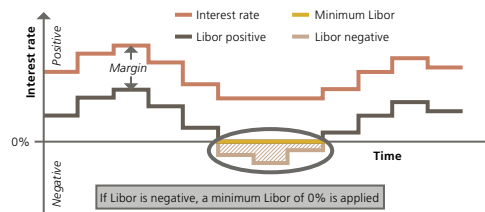


Chart is for illustrative purposes only

Conditions

Currency	CHF
Interest rate	Fixed for the chosen fixed-interest period, interest rate on request
Credit commission	None
Term	Contract term fixed for 3 years
Amortization payments	Fixed-interest periods of 3, 6, or 12 months In accordance with the contractual terms may be made free of charge
Regular termination	The UBS Libor Mortgage lapses after expiry of the agreed term without the need for notice of termination

What you need to know

- The interest rate is based on the money market
- You can minimize your interest rate risk by switching to a multi-year **UBS Fixed-Rate Mortgage**
- During the contractual term of three years you will have an agreed, binding fixed-interest margin

¹ Please note that the Libor used for calculating the interest rate can never be below zero.

For all your questions

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Appendix 3: UBS 3rd pillar A



For marketing purposes

Secure your future

The simple path to a financially secure retirement:
the **UBS Fisca account**

The UBS Fisca account is the simple pillar 3a solution for securing your financial future. You maintain your accustomed standard of living, save on taxes, and can also use your savings to buy a home, for example.

How the UBS Fisca account works

The UBS Fisca account is designed for anyone who is employed and required to pay AHV/IV contributions. You can save for retirement with no minimum obligation and benefit from a preferential interest rate. Account maintenance and an easy-to-read annual account statement are provided free of charge.

You decide on the amount of your contributions to your UBS Fisca account and when you want to make them. There are maximum limits, however, for the amount that you can pay in each year for a pillar 3a plan. Savers with a pension fund can save a statutory maximum of 6,826 Swiss francs. Savers without a pension fund can pay in a maximum of 20 percent of their net earned income (up to 34,128 Swiss francs) each year.

Tax savings

The UBS Fisca account helps you save on taxes. Your annual contribution can be deducted from your taxable income, and your retirement savings are not subject to wealth tax. The interest income is also tax-free. When your retirement savings are paid out, they will be taxed separately from your other income and at a reduced rate.

Withdrawal options

By law, you're not allowed to access the capital in your UBS Fisca account until five years before you reach the AHV retirement age.

However, you can make an early withdrawal

- if you want to finance your own home
- if you want to pay back your mortgage loan
- if you want to become self-employed
- if you permanently leave Switzerland
- if you buy into a pension fund
- if you receive a full Swiss disability insurance pension

You can also make partial withdrawals up to five years before you reach the AHV retirement age in the following cases: to buy into a pillar 2 pension fund, or to finance your home (every five years).

Example of tax savings with a UBS Fisca account

Taxable income		Total tax ¹		Your tax savings	
Without Fisca	With Fisca	Without Fisca	With Fisca	Without Fisca	With Fisca
CHF 80,000	CHF 73,174	CHF 11,969	CHF 10,216	CHF 1,752	
CHF 100,000	CHF 93,174	CHF 17,293	CHF 15,394	CHF 1,899	

Calculations based on the following assumption: employed person with pension fund, contribution of 6,826 Swiss francs, male, married, born in 1974, no children, resident in Olten in the canton of Solothurn, Protestant. Spouse: Protestant.
¹Federal, cantonal, municipal, church (tax rates for 2018).

Calculate your tax savings at:

ubs.com/fisca ► Calculate your retirement

Financing your own home

You can use your UBS Fisca account to finance your own home. If you wish to buy your own home or repay a mortgage loan, you can withdraw your savings early. Your savings can also be pledged to buy a home.

What's more, the annual contribution amount can be used for the indirect amortization of a mortgage loan. This makes the UBS Fisca account attractive to younger savers as well.

Key points

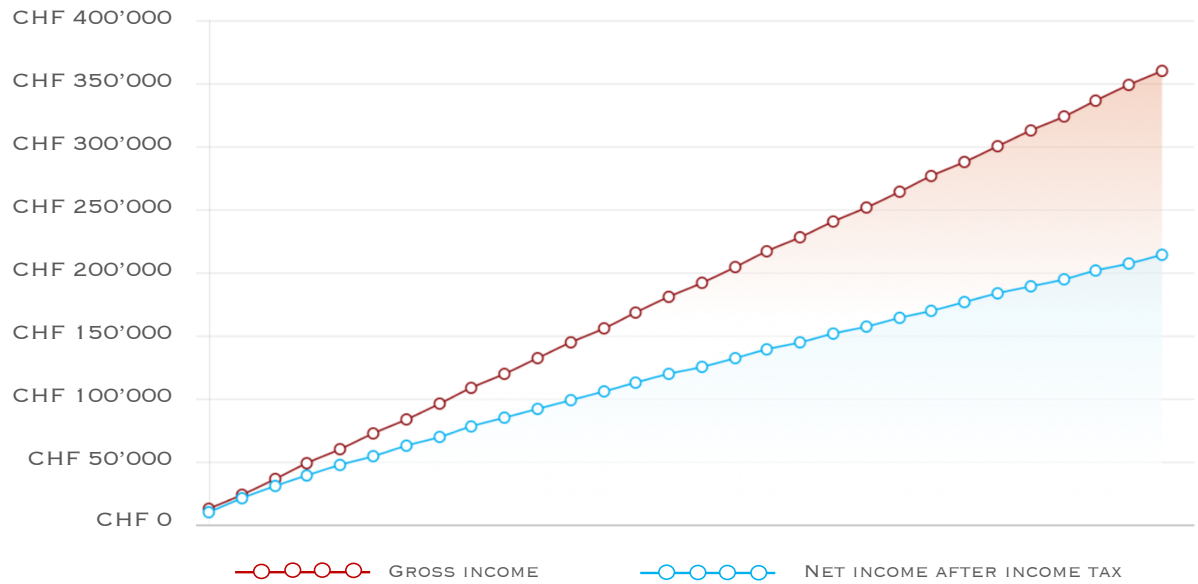
- Pillar 3a retirement savings account with a preferential interest rate
- Choose the amount of your savings contributions and when to pay them
- Tax savings
- Finance your home with your savings
- No minimum contributions
- Free account maintenance

Towards a removal of the rental value coupled with the abrogation of parallel tax deductions: What is at stake?

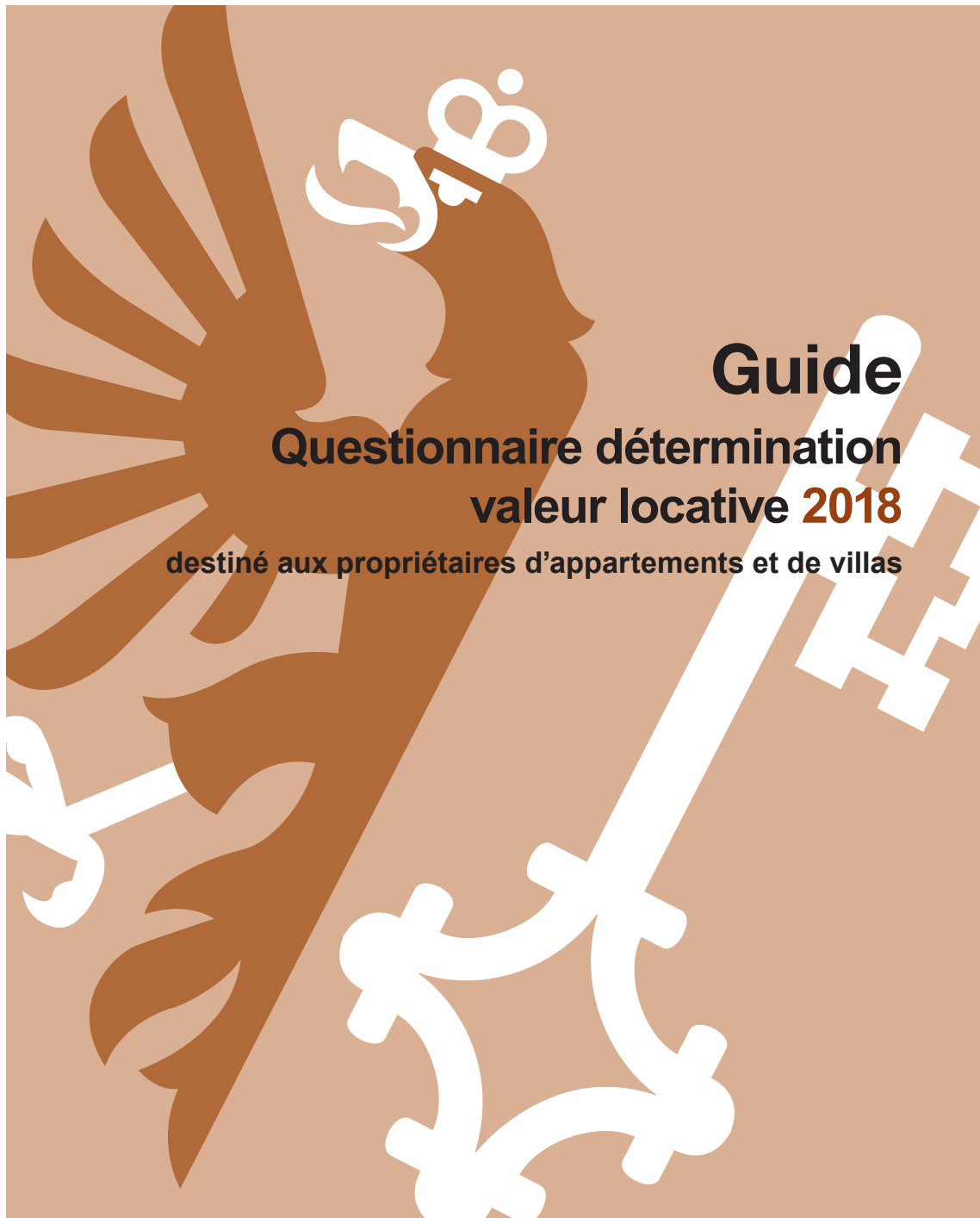
Appendix 4: Variation of income tax per canton

Région	Salaire Net	Impôt Moyen	Rang
Zoug	CHF 79'634	17.1%	1
Obwald	CHF 76'263	20.6%	2
Schwytz	CHF 76'241	20.6%	3
Appenzell Rhodes-Intérieures	CHF 76'266	20.6%	4
Uri	CHF 75'929	20.9%	5
Nidwald	CHF 75'613	21.2%	6
Zurich	CHF 75'033	21.8%	7
Glaris	CHF 74'303	22.6%	8
Grisons	CHF 74'116	22.8%	9
Argovie	CHF 74'050	22.9%	10
Lucerne	CHF 73'905	23.0%	11
Thurgovie	CHF 73'574	23.4%	12
App. Rhodes-Extérieures	CHF 72'920	24.0%	13
Schaffhouse	CHF 72'417	24.6%	14
Tessin	CHF 72'381	24.6%	15
Valais	CHF 72'022	25.0%	16
Soleure	CHF 71'167	25.9%	17
Saint-Gall	CHF 70'898	26.2%	18
Berne	CHF 70'646	26.4%	19
Bâle-Ville	CHF 70'430	26.6%	20
Genève	CHF 70'354	26.7%	21
Bâle-Campagne	CHF 70'321	26.8%	22
Fribourg	CHF 70'119	27.0%	23
Jura	CHF 70'075	27.0%	24
Vaud	CHF 69'252	27.9%	25
Neuchâtel	CHF 68'150	29.0%	26

Appendix 5: Overview of Geneva's income tax scale



Appendix 6: Rental value questionnaire guide



Le questionnaire détermination valeur locative 2018

La valeur locative d'un bien immobilier dont le contribuable se réserve l'usage en raison de son droit de propriété ou d'un droit de jouissance obtenu à titre gratuit fait partie de son revenu imposable.

Elle correspond à la somme que le propriétaire devrait verser pour louer un bien de même nature, ou encore au montant qu'il pourrait obtenir en louant son immeuble à un tiers.

La valeur locative est déterminée sur la base du

***Questionnaire de détermination valeur locative
destiné aux propriétaires d'appartements et de villas***

Celui-ci doit être rempli lors de l'année d'acquisition de l'immeuble par le nouveau propriétaire, ou lorsque l'immeuble subit des modifications pouvant influencer sur les coefficients du questionnaire (par exemple l'installation de fenêtres à double vitrage).

Le but de ce guide est de vous donner toutes les informations nécessaires pour vous permettre de remplir correctement ce questionnaire.

Si vous ne trouvez pas de réponse à vos questions dans le présent guide, nous vous invitons à contacter les collaboratrices et les collaborateurs du service immobilier au numéro de téléphone suivant : 022 327 58 89.

Votre Administration fiscale cantonale

Table des matières

1 Questionnaire de valeur locative

- 5 Données générales
- 5 Valeur locative de base
- 6 Type d'habitation
- 7 Aménagement de l'immeuble
- 7 Vétusté
- 7 Nuisances
- 8 Situation générale
- 8 Valeur locative brute
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- 10 Calcul détaillé (Villa)

3 Informations

- 13 Contacts avec l'Administration fiscale cantonale
- 13 Communes cadastrales
- 13 Table des abréviations
- 14 Barème de la valeur locative de base selon la surface habitable

Questionnaire de valeur locative

The image displays several overlapping forms for the 'Questionnaire de valeur locative 2018'. The forms are organized into sections:

- Section 1: Valeur locative de base** - Includes fields for 'N° de parcelle', 'N° de lotissement', 'N° de commune', and 'N° de quartier'. It contains sub-sections 1.1 (Caractéristiques générales), 1.2 (Caractéristiques de base), 1.3 (Caractéristiques de base), and 1.4 (Caractéristiques de base).
- Section 2: Type d'habitation** - Includes a table with columns for 'Type d'habitation', 'Surface habitable', and 'Surface totale'. It contains sub-sections 2.1 (Type d'habitation) and 2.2 (Type d'habitation).
- Section 3: Régime** - Includes a table with columns for 'Régime', 'Surface habitable', and 'Surface totale'. It contains sub-sections 3.1 (Régime) and 3.2 (Régime).
- Section 4: Régime de location** - Includes a table with columns for 'Régime de location', 'Surface habitable', and 'Surface totale'. It contains sub-sections 4.1 (Régime de location) and 4.2 (Régime de location).
- Section 5: Régime de location (après déduction des frais d'entretien)** - Includes a table with columns for 'Régime de location', 'Surface habitable', and 'Surface totale'. It contains sub-sections 5.1 (Régime de location) and 5.2 (Régime de location).
- Section 6: Régime de location (après déduction des frais d'entretien)** - Includes a table with columns for 'Régime de location', 'Surface habitable', and 'Surface totale'. It contains sub-sections 6.1 (Régime de location) and 6.2 (Régime de location).

Towards a removal of the rental value coupled with the abrogation of parallel tax deductions: What is at stake?

Données générales

Avant de commencer à remplir les champs nécessaires à la détermination de la valeur locative de votre logement, il est nécessaire que vous nous communiquiez les renseignements généraux suivants.

Nom et prénom

Nom et prénom du contribuable et du conjoint.

N° de contribuable

Votre numéro de contribuable figure sur votre déclaration fiscale, qui vous est envoyée chaque année au mois de janvier.

Situation

Indiquez le nom de la rue et le numéro où se situe votre logement.

Commune cadastrale

Indiquez le numéro de la commune cadastrale selon la liste des codes figurant en page 13.

N° de parcelle

Une parcelle est une portion de terrain, construite ou non, constituant une unité cadastrale. Ce terme est également employé pour désigner les différentes unités de terrain, distinguées par leurs limites et leur propriétaire.

Votre numéro de parcelle figure dans votre contrat d'achat (acte notarié). Vous pouvez également obtenir l'information auprès du Registre Foncier (www.ge.ch/registre_foncier, rubrique «Extraits du Registre Foncier»).

Année de construction

Elle correspond à l'année de fin de construction du logement et non pas à la date d'achat du logement si vous n'êtes pas le premier propriétaire.

1 Valeur locative de base

1.1 Surface habitable fiscalement déterminante

Pour fixer la surface habitable fiscalement déterminante de votre logement vous devez, d'une part, déterminer la surface habitable de votre logement et, d'autre part, indiquer le nombre de pièces que votre logement comporte.

Pour le type d'habitation «Appartement dans villa partiellement louée» (point 2 du questionnaire), vous devez indiquer la surface habitable concernant la partie que vous occupez, sans prendre en considération la surface louée.

1.1.1 Surface habitable

Afin de fixer la surface habitable de votre logement, vous avez le choix d'opter pour la méthode simplifiée, ou d'effectuer un calcul détaillé. Ce choix dépend toutefois du type d'immeuble que vous détenez.

1.1.1.1 Méthode simplifiée (valable uniquement pour les appartements PPE)

La méthode simplifiée est recommandée si vous possédez un **appartement en PPE** qui ne dispose pas de combles habitables ou de mansardes. Dans le cas contraire, nous vous conseillons de procéder à un calcul détaillé (voir point 1.1.1.2 ci-après).

La surface habitable de votre logement figure dans le contrat d'achat de votre appartement (acte notarié) ou dans le cahier de répartition de votre PPE. La surface des balcons, des terrasses, des caves, des locaux, des garages et des loggias ne doit pas être prise en compte.

Vous pouvez calculer une **déduction forfaitaire** pour murs extérieurs de 12% de la surface habitable.

Cette déduction forfaitaire est accordée car la surface habitable fiscalement déterminante doit se calculer **d'un mur à l'autre**, alors que la surface habitable qui figure dans un contrat d'achat ou dans un cahier de répartition tient compte de l'**épaisseur des murs**.

Exemple: 100 m² de surface (selon acte notarié ou cahier de répartition) ./. 12% (murs) = 88 m² de surface habitable.

1.1.1.2 Calcul détaillé

Le calcul détaillé de la surface habitable doit être effectué si vous possédez une villa ou un appartement PPE disposant de combles habitables ou de mansardes.

Afin de déterminer la surface habitable, il convient de définir quelles pièces doivent être mesurées et si la totalité de la surface doit être prise en compte. Si vous optez pour le calcul détaillé en lieu et place de la méthode simplifiée, nous vous remercions de bien vouloir **remplir le point 8 du questionnaire «Surface habitable selon plans»**.

Quelles sont les pièces à mesurer?

La surface des **pièces suivantes** doit être prise en compte à **100%**:

- pièces habitables (chambres, salon, salle à manger, etc.);
- cuisine;
- salles de bains et cabinets de toilette;
- hall, vestibules, dressing-room;
- vérandas fermées et chauffées;
- escaliers intérieurs;
- combles habitables et mansardes (surface où la distance du sol au toit est supérieure à 1.5 mètre).

La surface des **locaux en sous-sol** suivants doit également être prise en compte, mais **uniquement à hauteur de 50%**:

- bureau, atelier ou carnotzet comportant une fenêtre normale vers l'extérieur, une petite fenêtre placée sur la partie extrême de la pièce ou sans jour vers l'extérieur;
- salle de jeu avec ou sans jour à l'extérieur;
- sauna.

Ces locaux en sous-sol doivent bien entendu disposer de l'électricité pour pouvoir être pris en compte.

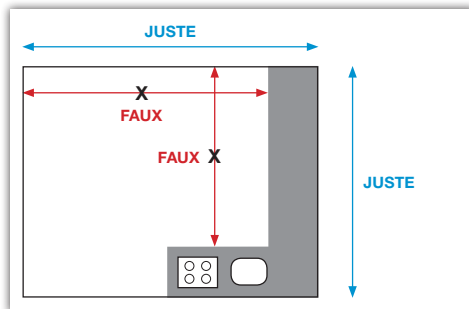
Bien que ces locaux en sous-sol ne soient pas considérés comme des pièces habitables selon l'article 76 de la loi sur les constructions et les installations diverses (LCI; RSG L 5 05), il convient néanmoins de les prendre en considération d'un point de vue fiscal. En effet, selon la jurisprudence du Tribunal Fédéral, "[...] les locaux doivent être pris en considération dans la mesure où ils ont une valeur locative pour eux-mêmes ou qu'ils augmentent celle de l'ensemble de l'immeuble. Le fait que leur usage est limité par leur configuration (il s'agit p. ex. de locaux en sous-sol, d'accès difficile, etc.) influe sur leur valeur locative, mais ne justifie pas de la supprimer s'ils ont une valeur sur le marché immobilier." (ATF 2c_469/2007 du 8 janvier 2008, consid. 3.1).

La surface des **pièces et endroits suivants ne doit pas être prise en compte** :

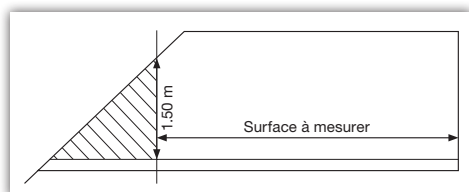
- galetas, cagibis et combles non habitables;
- balcons;
- terrasses et galeries;
- caves et autres locaux de service (buanderie, étendage, local technique);
- garages et remises;
- vérandas fermées et non chauffées.

Comment mesurer la surface habitable ?

Elle se calcule **d'un mur à l'autre** sans déduction de la surface occupée par les appareils ménagers, les sanitaires et les placards fixes.



Pour les **mansardes**, la surface habitable exacte correspond à la surface où la distance du sol au toit est supérieure à 1.50 mètre.



1.1.2 Nombre de pièces

Que vous ayez opté pour la méthode simplifiée ou pour le calcul détaillé, indiquez le nombre de pièces que compte votre logement.

Toutes les pièces pour lesquelles la surface habitable doit être prise en considération à 100% (voir point 1.1.1.2 ci-avant) comptent pour une pièce, y compris la cuisine, mais à l'exception des salles de bains et cabinets de toilette, des halls et des vestibules ainsi que des escaliers intérieurs. Si une pièce a une surface habitable exacte inférieure à 9 m², celle-ci compte pour une demi-pièce.

Les locaux en sous-sol pour lesquels la surface habitable doit être prise en considération à hauteur de 50% (voir point 1.1.1.2 ci-avant) comptent pour une demi-pièce.

Les pièces et endroits dont la surface habitable ne doit pas être prise en considération (voir point 1.1.1.2 ci-avant) ne comptent pas pour une pièce.

1.1.3 Surface habitable fiscalement déterminante

La surface habitable fiscalement déterminante correspond à la surface en m² la plus élevée entre celle du point 1.1.1 et celle du point 1.1.2 calculée en multipliant le nombre de pièces par 20 m².

En effet, la valeur locative de base (point 1.2) a été définie en fonction de la surface habitable du logement à la lumière des statistiques genevoises qui font apparaître un minimum de 20 m² par pièce.

1.2 Valeur locative de base d'après le barème 2007 selon la surface habitable

La valeur locative de base est calculée selon la surface habitable et en fonction du barème établi par notre administration (voir page 14).

Ce barème ressort de l'Information aux associations professionnelles n°5/2007 du 28 juin 2007, disponible sur notre site internet (www.ge.ch/impots). Il est applicable depuis la période fiscale 2007, aussi bien en matière d'impôt cantonal et communal qu'en matière d'impôt fédéral direct.

2 Type d'habitation

Le coefficient applicable est déterminé par rapport à la catégorie de l'immeuble.

Pour un appartement PPE, le nombre de millièmes figure dans votre contrat d'achat (acte notarié). Vous pouvez également obtenir l'information auprès du Registre Foncier (www.ge.ch/registre_foncier, rubrique "Extraits du Registre Foncier").

Pour une maison individuelle, le critère de plus ou moins 1'200 m² correspond à la surface totale de la parcelle (surface du terrain y compris la surface du bâtiment au sol).

3 Aménagement de l'immeuble

3.1 Points «aménagement»

Aménagements	Commentaires
Isolation (thermique)	Un immeuble peut être considéré comme bien isolé s'il a été construit dès les années 1980 ou s'il a subi des améliorations depuis les années 1980.
Fenêtres	Si une majorité de fenêtres possède un double vitrage, on considère que cela vaut 1 point. Au contraire, si moins de la moitié des fenêtres en sont munies, on considère que le simple vitrage est majoritaire, ce qui vaut 0 point.
Chauffage	Par chauffage central, on entend une source de chaleur comme le mazout, le gaz ou l'électricité, distribuée dans tout le logement, au moyen de tuyaux ou radiateurs avec système de régulation interne ou externe, par opposition à plusieurs sources de chaleurs obtenues par des fourneaux à bois ou à charbon, placés dans différentes pièces.
Eau chaude	Par chauffe-eau individuel, on entend un service d'eau chaude non centralisé consistant à avoir un chauffe-eau (cumulus) à chaque arrivée d'eau, soit au-dessus de l'évier de la cuisine, au-dessus de la baignoire, etc... Le service général d'eau chaude correspond à une source de chaleur provenant d'un bouilleur situé le plus souvent dans la chaufferie et distribuant l'eau chaude dans toutes les pièces.
Cuisine	On entend par bloc cuisine : bloc-évier avec armoire de rangement et cuisine équipée dans laquelle certains appareils électroménagers sont incorporés.
Sanitaires	La salle d'eau (avec douche) est considérée comme une salle de bains. Un jacuzzi intérieur est considéré comme une salle de bains.
Cheminée(s) d'agrément	Cheminée(s) ou poêle(s), en état de fonctionner.
Garage/parking intérieur	Parking extérieur, couvert ou non = pas de point.
Piscine	Piscine privée ou accès à une piscine en copropriété.
Tennis	Court de tennis privé ou accès à un court de tennis en copropriété.

3.2 Coefficient «aménagement»

Le coefficient applicable est déterminé par rapport à la catégorie de l'immeuble (appartements ou villas) et en fonction du nombre de points déterminés au chiffre 3.1.

4 Vétusté

Une rénovation lourde ou une transformation importante consiste en des travaux portant sur le gros-œuvre qui «rajeunissent» ou apportent une plus-value au bâtiment (transformations intérieures, réfection totale du toit et des façades, changement de la tuyauterie, etc.)

Les années de référence ne sont pas modifiées chaque année pour déterminer le coefficient de vétusté étant donné que la valeur locative de base est déterminée au moyen des données statistiques relatives aux loyers libres mensuels moyens des logements par m², époque de construction 1971-1980, fournies par l'Office cantonal de la statistique.

5 Nuisances

Les distances indiquées ci-dessous sont les distances du logement, et non de la parcelle, par rapport à la nuisance. Il doit s'agir véritablement d'une nuisance importante et non d'un désagrément occasionnel.

Nuisances	Commentaires
Aéroport	Les nouvelles valeurs limites d'exposition au bruit de l'aéroport Genève-Cointrin sont classées en trois catégories, de la plus éloignée à la plus proche de l'aéroport : <ul style="list-style-type: none"> • valeur d'alarme (VA); • valeur limite d'immissions (VLI); • valeur de planification (VP). L'aéroport d'Annemasse n'est pas considéré comme une source de nuisance. Si vous pensez que votre logement se situe dans une de ces zones, vous pouvez prendre contact avec notre service immobilier qui vous le confirmera.
Autoroute ou voie CFF	L'autoroute ou la voie CFF doit se trouver à moins de 100 mètres du logement et aucune protection phonique ne doit être prévue.
Station d'épuration, usine avec émanations	La station doit se trouver à moins de 1.5 kilomètre du logement. La liste de ces stations est la suivante (STEP) : Aïre Avully-Gennevay Camping Allondon Chancy Dardagny Epeisses Laconnex La Louvière Monniaz Nant d'Aisy Nant d'Avril Soral Veigy Vernier-Ouest Villette.

Stand de tir	<p>Le stand de tir doit se trouver à moins de 1.5 kilomètre du logement et sans obstacle naturel.</p> <p>Les stands de tir privés pour petits calibres et ceux de la police ne peuvent pas être pris en considération.</p> <p>A ce jour, les stands de tirs cantonaux suivants sont considérés comme sources de nuisances:</p> <ul style="list-style-type: none"> Jussy Veyrier Versoix St Georges Bernex Laconnex et Chancy <p>La place d'exercice d'Epeisses ne peut pas être prise en considération. Celle-ci est composée de ruines dans lesquelles les troupes de la protection aérienne s'entraînent en utilisant des munitions de marquage, des pétards et des fumigènes. Pour ces raisons, cette place d'exercice ne peut générer un bruit comparable à celui émanant d'un stand de tir où sont utilisées des munitions de guerre.</p>
Carrefour bruyant ou route à trafic intense	<p>Le carrefour bruyant ou la route à trafic intense doit se trouver à moins de 50 mètres du logement et aucune protection ne doit exister.</p>

6 Situation générale

La situation générale se détermine en fonction de l'ensoleillement et de la vue. Le coefficient 1.10 (vue sur le lac) doit être indiqué même si vous n'avez qu'une vue partielle du lac.

7 Valeur locative (avant déduction des frais d'entretien)

Les chiffres du barème 2007 de la valeur locative de base correspondent à un indice de base 100.

A compter de la période fiscale 2018, conformément au Règlement relatif à la valeur locative (RVL), une indexation des valeurs locatives doit être faite. L'indice utilisé pour le calcul de l'indexation est celui du tableau publié par l'office cantonal de la statistique intitulé «Evolution des loyers des logements non neufs, selon la nature du logement, depuis 1995», situation en mai de la période fiscale considérée. L'indice pris en considération est celui des logements à loyer libre.

Sur la base de ce qui précède, le taux d'indexation de la valeur locative a été fixé à **116.3%** pour la période fiscale 2018.

Signature(s)

Le questionnaire doit être daté et signé par le contribuable et son conjoint, le cas échéant. En signant le questionnaire, le contribuable et son conjoint attestent que les indications qui y figurent sont exactes et complètes.

Exemples

Méthode simplifiée (appartement PPE)

Appartement en PPE comportant deux chambres, un salon et une cuisine, soit quatre pièces (voir point 1.1.2, page 6).

Extrait d'un acte notarié:

DESIGNATION	DESCRIPTION	SURFACE	VALEUR DE LA PART
Feuillet 1234 N° 12			96/1000 ^{èmes}
3.04	appartement sis au 2 ^{ème} étage	130.20 m ²	
	- balcon nord	4.70 m ²	
	- balcon sud	7.10 m ²	
1.06	box	12.00 m ²	

Détermination de la surface habitable:

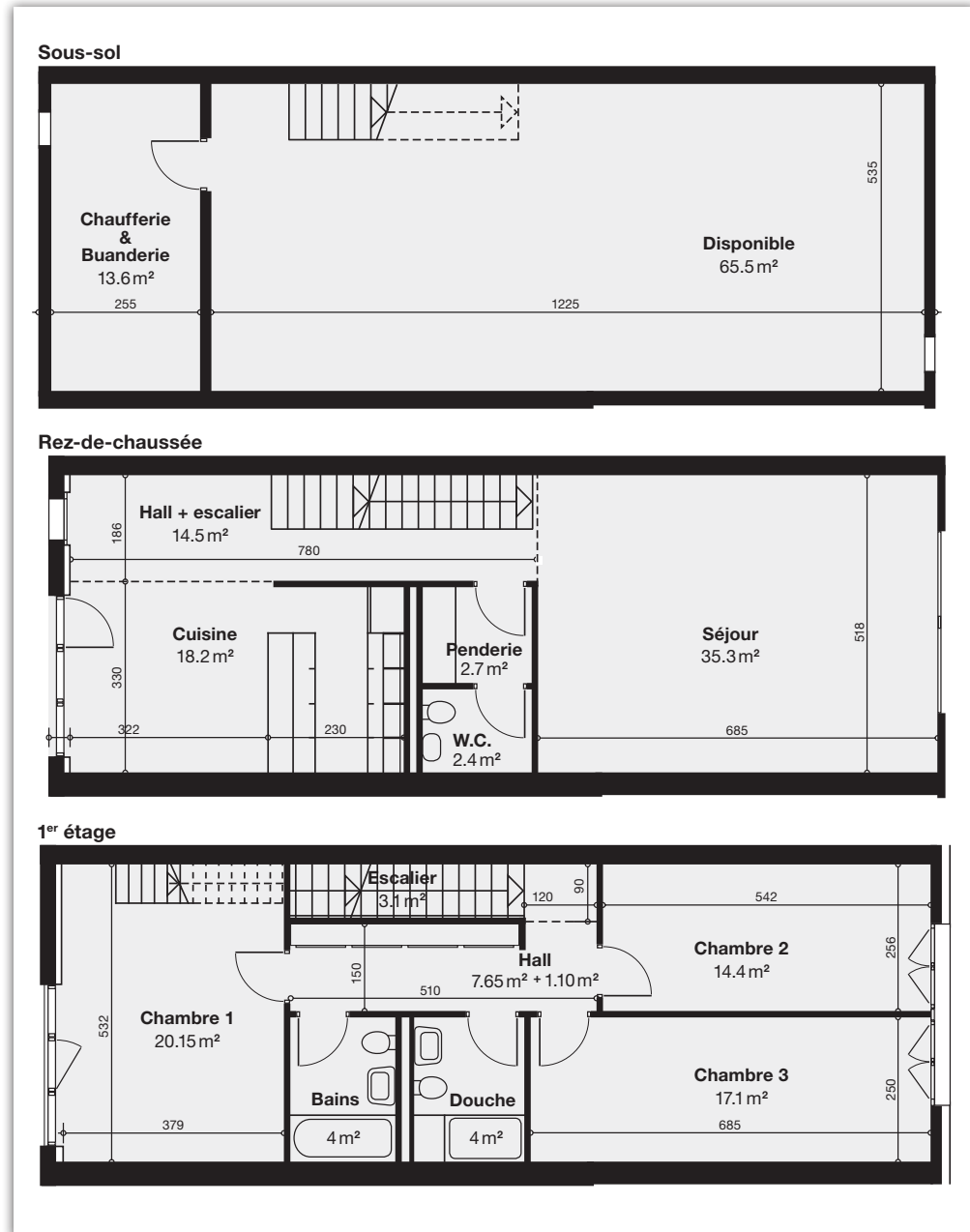
1	Valeur locative de base
1.1	Surface habitable fiscalement déterminante
1.1.1	Surface habitable
1.1.1.1	Méthode simplifiée (uniquement pour les appartements PPE)
	Surface habitable selon acte notarié ou cahier de répartition
	130 m ²
	./. Réduction forfaitaire pour murs x 12%
	16 m ²
	Surface habitable = 114 m ²
	ou
1.1.1.2	Calcul détaillé
	Surface habitable selon plans (remplir le point 8 et reporter le total des mètres carrés)
	80 m ²
1.1.2	Nombre de pièces
	4,0 pièces x 20 m ² = 80 m ²
1.1.3	Surface habitable fiscalement déterminante (surface en m ² la plus élevée entre 1.1.1 et 1.1.2)
	114 m ²

Les balcons et le box ne sont pas pris en compte pour la détermination de la surface habitable. Toutefois, il y a lieu d'indiquer le box dans le point «aménagement» (point 3.1) du questionnaire de valeur locative.

La surface habitable fiscalement déterminante correspond à 114 m², car la surface habitable est plus importante que le nombre de pièces multiplié par 20 m².

Calcul détaillé (Villa)

Extrait des plans de la villa:



Quels que soient les plans de votre villa, la méthode de calcul reste la même.

Sur la base de ce qui précède, le point 1.1 du questionnaire se remplit comme suit :

1 Valeur locative de base	
1.1 Surface habitable fiscalement déterminante	
1.1.1 Surface habitable	
1.1.1.1 Méthode simplifiée (uniquement pour les appartements PPE)	
Surface habitable selon acte notarié ou cahier de répartition	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> m ²
./. Réduction forfaitaire pour murs x 12% ./. m ²	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> m ²
Surface habitable =	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> m ²
ou	
1.1.1.2 Calcul détaillé	
Surface habitable selon plans (remplir le point 8 et reporter le total des mètres carrés)	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> m ²
1.1.2 Nombre de pièces <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> pièces x 20m ² =	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> m ²
1.1.3 Surface habitable fiscalement déterminante (surface en m ² la plus élevée entre 1.1.1 et 1.1.2)	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> m ²

La surface habitable fiscalement déterminante correspond à 177 m², car la surface habitable est plus importante que le nombre de pièces multiplié par 20 m².

Appendix 7: Rental value questionnaire simulation



République et canton de Genève
Département des finances
Administration fiscale cantonale



G-IM09L1

Questionnaire détermination valeur locative 2018 destiné aux propriétaires d'appartements et de villas

Important: utiliser les formulaires originaux, ne pas photocopier, écrire en noir, détacher vos caractères et porter un seul caractère par case.
Une version électronique avec aide au remplissage est disponible sur notre site www.ge.ch/lc/qvl

Nom et prénom

Contribuable Muller A N° de contribuable 111.11.1111

Conjoint Muller B

Situation (adresse)

Commune cadastrale Genève-Cité N° de parcelle Année de construction

1 Valeur locative de base

1.1 Surface habitable fiscalement déterminante

1.1.1 Surface habitable

1.1.1.1 Méthode simplifiée (uniquement pour les appartements PPE)

Surface habitable selon acte notarié ou cahier de répartition	120.00	m ²
./. Réduction forfaitaire pour murs x 12%	14.40	m ²
Surface habitable	= 105.00	m ²

ou

1.1.1.2 Calcul détaillé

Surface habitable selon plans (remplir le point 8 et reporter le total des mètres carrés)	0.00	m ²
---	------	----------------

1.1.2 Nombre de pièces pièces x 20m² = m²

1.1.3 Surface habitable fiscalement déterminante (surface en m² la plus élevée entre 1.1.1 et 1.1.2)

105.00

CHF

1.2 Valeur locative de base d'après le barème 2007 selon la surface habitable

22550

2 Type d'habitation

		Coefficient	
Appartement PPE	millièmes: %	<input checked="" type="radio"/>	= 0.80
Appartement PPE duplex, triplex ou en attique:	millièmes: %	<input type="radio"/>	= 0.85
Appartement dans villa partiellement louée		<input type="radio"/>	= 0.90
Maison jumelle ou en ordre contigu		<input type="radio"/>	= 0.95
Maison individuelle (moins de 1200 m ²)		<input type="radio"/>	= 1.00
Maison individuelle (1200 m ² et plus)		<input type="radio"/>	= 1.05
Coefficient «type d'habitation»		x 0.80	= 18040

CHF

A reporter en page 2

Towards a removal of the rental value coupled with the abrogation of parallel tax deductions: What is at stake?



G-IM09L2

Report de la page 1

CHF

18040

3 Aménagement de l'immeuble**3.1 Points «aménagement»**

isolation:	Mauvaise	<input type="radio"/> 0 pt	Sanitaires: Bain/douche et WC non séparés	<input type="radio"/> 0 pt
	Bonne	<input checked="" type="radio"/> 1 pt	Bain/douche et WC séparés	<input type="radio"/> 1 pt
			2 salles de bains et plus	<input type="radio"/> 2 pt
Fenêtres:	Simple vitrage	<input type="radio"/> 0 pt	Cheminée(s) d'agrément:	<input type="checkbox"/> 1 pt
	Double vitrage ou verre isolant	<input checked="" type="radio"/> 1 pt		
Chauffage:	Fourneaux	<input type="radio"/> 0 pt	Garage/parking intérieur: une place	<input checked="" type="radio"/> 1 pt
	Central	<input checked="" type="radio"/> 1 pt	plus d'une place	<input type="radio"/> 2 pt
Eau chaude:	Chauffe-eau individuel (cumulus)	<input type="radio"/> 0 pt	Piscine: Extérieure: moins de 25m²	<input type="radio"/> 1 pt
	Service général	<input type="radio"/> 1 pt	25m² et plus	<input type="radio"/> 2 pt
			Couverte ou intérieure	<input type="radio"/> 3 pt
			En copropriété	<input type="radio"/> 1 pt
Cuisine:	Sans bloc-cuisine	<input type="radio"/> 0 pt	Tennis: Privé	<input type="radio"/> 2 pt
	Avec bloc-cuisine	<input type="radio"/> 1 pt	En copropriété	<input type="radio"/> 1 pt

Total des points «aménagement» pts**3.2 Coefficient «aménagement»**

Appartements	<input checked="" type="checkbox"/> Villas	<input type="checkbox"/>	Coefficient
0 à 3 pts	0 à 3 pts		0.75 (très modeste)
4 à 5 pts	4 à 5 pts		0.90 (simple)
6 à 7 pts	6 à 9 pts		1.00 (standard)
8 à 9 pts	10 à 11 pts		1.10 (supérieur à la moyenne)
10 pts et plus	12 pts et plus		1.25 (luxueux)

Coefficient «aménagement» x = CHF**4 Vétusté**

Selon la date d'achèvement des travaux de construction:
(idem en cas de rénovation lourde ou de transformation importante)

- postérieure au 01.01.1981 = 1.10

- entre le 01.01.1971 et le 31.12.1980 = 1.00

- antérieure au 01.01.1971

a) état globalement satisfaisant = 0.90

b) des réparations importantes sont nécessaires = 0.80

Lesquelles?

c) bâtiment en très mauvais état (inhabitable) = 0.70

Préciser:

Coefficient «vétusté» x = CHF

A reporter en page 3

Towards a removal of the rental value coupled with the abrogation of parallel tax deductions: What is at stake?



G-IM09L3

Report de la page 2

CHF

21828

5 Nuisances

	Coefficient	
Normal	<input checked="" type="checkbox"/> = 1.00	
Aéroport: « Valeur d'alarme (VA) » (courbe rouge)	<input type="checkbox"/> = 0.70	
« Valeur limite d'immissions (VLI) » (courbe bleue)	<input type="checkbox"/> = 0.80	
« Valeur de planification (VP) » (courbe verte)	<input type="checkbox"/> = 0.90	
Autoroute ou voie CFF (moins de 100 mètres sans protection phonique)	<input type="checkbox"/> = 0.90	
Station d'épuration ou d'incinération, usine avec émanations (moins de 1.5 km)	<input type="checkbox"/> = 0.90	
Stand de tir (moins de 1.5 km sans obstacle naturel)	<input type="checkbox"/> = 0.90	
Carrefour bruyant ou route à trafic intense (moins de 50 mètres sans protection)	<input type="checkbox"/> = 0.95	
Coefficient « nuisances » (en cas de facteurs cumulés, multiplication des coefficients entre eux)	x 1.0000 =	21828

6 Situation générale

	Coefficient	
Mauvaise (peu de soleil et vue très limitée)	<input type="checkbox"/> = 0.90	
Normale	<input checked="" type="radio"/> = 1.00	
Bonne (bon ensoleillement, vue dégagée)	<input type="checkbox"/> = 1.05	
Vue sur le lac	<input type="checkbox"/> = 1.10	
Coefficient « situation »	x 1.00 =	21828

7 Valeur locative (avant déduction des frais d'entretien)

Valeur locative (avant déduction des frais d'entretien, base 100)		21828
Indexation	x 116.3 %	
Valeur locative (avant déduction des frais d'entretien)		25386

Observations:

Annexe(s):

J'atteste (nous attestons) que les indications figurant sur ce questionnaire sont exactes et complètes.

Lieu

Date

	Contribuable	Conjoint
Signature(s)		

Une expertise individuelle demeure réservée si le résultat de ce questionnaire ne correspond manifestement pas à la valeur du marché.

Appendix 8: Rental value initiative (CER-CE)



L'Assemblée fédérale – Le Parlement suisse
Curia Vista – Banque de données des objets parlementaires

17.400 Initiative parlementaire

Imposition du logement. Changement de système

Déposé par: Commission de l'économie et des redevances CE
Date de dépôt: 02.02.2017
Déposé au: Conseil des Etats
Etat des délibérations: Donné suite

Texte déposé

Conformément à l'article 160 alinéa 1 de la Constitution fédérale et à l'article 107 de la loi sur le Parlement, la Commission de l'économie et des redevances du Conseil des Etats dépose l'initiative parlementaire suivante:

Le régime de l'imposition du logement principal destiné à l'usage personnel (les résidences secondaires ne sont pas concernées) doit faire l'objet d'un changement de système qui supprime l'imposition de la valeur locative. A cet effet, il convient d'adapter les bases légales (LIFD, LHID) de telle sorte que le nouveau régime soit le plus possible, dans l'hypothèse d'un taux d'intérêt moyen calculé sur le long terme, sans effet sur les recettes fiscales, qu'il n'engendre pas de disparités entre locataires et propriétaires contrairement aux prescriptions de droit constitutionnel et qu'il encourage la propriété du logement conformément aux dispositions constitutionnelles en vigueur.

Chronologie

02.02.2017 Commission de l'économie et des redevances CE
Décision d'élaborer un projet d'acte
14.08.2017 Commission de l'économie et des redevances CN
Adhésion

Compétences

Commissions chargées de l'examen

Commission de l'économie et des redevances CE (CER-CE)
Commission de l'économie et des redevances CN (CER-CN)

Autorité compétente

Département des finances (DFF)

Informations complémentaires

Conseil prioritaire

Conseil des Etats

Synthèse message / rapport

Situation initiale

Communiqué de presse de la commission de l'économie et des redevances du Conseil des Etats du 15.02.2019

Dans le cadre de la mise oeuvre de l'initiative parlementaire 17.400 Imposition du logement. Changement de système, la commission a approuvé, lors de sa séance du 14 février, un avant-projet, qu'elle envoie en procédure de consultation.

Ci-dessous sont présentés les points principaux du projet:

- Pour les logements occupés par leurs propriétaires à leur domicile, la valeur locative sera supprimée aux niveaux fédéral et cantonal. Parallèlement, les frais d'entretien, les frais de remise en état, les primes d'assurances et les frais d'administration par des tiers (= frais d'acquisition) ne pourront plus être déduits.
- Au niveau fédéral, les déductions – motivées par des raisons extrafiscales – pour les investissements destinés à économiser l'énergie et à ménager l'environnement, les frais de restauration de monuments



31.05.2019

17.400 Initiative parlementaire

1/3



historiques et les frais de démolition seront supprimées; au niveau cantonal, ces déductions pourront être conservées dans la législation fiscale. Par exemple, dans le domaine de la restauration de monuments historiques, un petit canton possédant de nombreux bâtiments historiques pourra ainsi dûment tenir compte de ses particularités.

La commission reconnaît que le maintien des déductions des mesures destinées à économiser l'énergie et à ménager l'environnement dans la LHID peut entraîner des difficultés sur le plan administratif, vu que les autorités de taxation devront vérifier si les déductions demandées portent réellement sur des mesures destinées à économiser l'énergie et à ménager l'environnement ou si elles concernent plutôt des frais d'entretien non déductibles. Elle souhaite néanmoins laisser aux cantons le soin de décider s'ils autorisent ou non ces déductions.

Par contre, s'agissant des déductions de frais de restauration de monuments historiques, il ne faudra pas s'attendre à de nouveaux problèmes de délimitation, car les travaux entrepris à ce titre continueront d'être effectués sur la base de prescriptions légales et de décisions officielles.

– Les résidences secondaires seront exclues du changement de système. Leur valeur locative reste donc imposable, pour des raisons fiscales. Les revenus de logements loués ou affermés restent eux aussi imposables. Par conséquent, les frais d'entretien, les frais de remise en état, les primes d'assurance et les frais administratifs par des tiers seront toujours déductibles pour les résidences secondaires. Les déductions extrascales des investissements destinés à économiser l'énergie et à ménager l'environnement, des frais de restauration de monuments historiques et des frais de démolition seront par contre supprimées.

Un changement de système qui s'appliquerait aussi aux résidences secondaires entraînerait une diminution massive du substrat fiscal, donc des recettes fiscales, notamment dans les cantons de montagne. De plus, il est important de ne pas rendre à nouveau attractive la construction de résidences secondaires par une suppression de la valeur locative. Finalement, la péréquation financière intracantonale entre les communes d'un canton qui ont des nombres différents de résidences secondaires, d'une part, et la péréquation financière intercantonale, d'autre part, forment un système équilibré que la commission ne souhaite pas remettre en question.

– En ce qui concerne la déductibilité des intérêts passifs privés, la commission met en consultation plusieurs options : les options 1 et 2 prévoient que les intérêts seront déductibles à concurrence de respectivement 100 % et 80 % du rendement imposable de la fortune ; selon l'option 3, des déductions seront autorisées jusqu'à concurrence du rendement imposable de la fortune immobilière, avec une déduction supplémentaire de 50 000 francs si quelqu'un détient une participation d'au moins 10 % dans le capital-actions ou le capital social d'une société de capitaux ou d'une société coopérative; quant à l'option 4, elle prévoit la possibilité de déduire les intérêts passifs jusqu'à concurrence du rendement imposable de la fortune immobilière. La dernière option ne permettrait pas de déduire des intérêts passifs. Toutes les options sont sensiblement plus strictes que le droit en vigueur, où les intérêts passifs sont déductibles à concurrence du rendement de la fortune mobilière et immobilière, auquel s'ajoutent 50 000 francs.

– Une déduction pour première acquisition, dont la durée de validité et le montant seront limités, sera introduite pour l'acquisition d'un logement occupé par le propriétaire à son domicile. Cela devrait permettre en particulier aux jeunes personnes d'acquérir un logement plus facilement. Cette déduction pour première acquisition, d'un montant maximal de 10 000 francs pour les couples et de 5000 francs pour une personne seule la première année fiscale suivant l'acquisition du logement, devra être octroyée pendant dix ans, période durant laquelle elle devra diminuer de façon linéaire.

Délibérations

Communiqué de presse de la commission de l'économie et des redevances du Conseil des Etats du 05.04.2019

L'imposition de la valeur locative et les déductions des frais d'acquisition du revenu doivent être supprimées, au niveau fédéral comme au niveau cantonal, pour les logements destinés à l'usage personnel des propriétaires. Elles doivent cependant demeurer applicables aux résidences secondaires à usage personnel.

La Commission de l'économie et des redevances du Conseil des Etats considère que l'imposition de la valeur locative comme les déductions accordées pour les frais d'acquisition du revenu – soit les frais d'entretien, les frais de remise en état des immeubles nouvellement acquis, les primes d'assurances et les frais d'administration par des tiers – doivent être supprimées, au niveau fédéral et au niveau cantonal, pour les logements destinés à l'usage personnel des propriétaires à leur domicile. En revanche, elles doivent rester





applicables aux résidences secondaires à usage personnel. Les frais d'acquisition du revenu restent également déductibles pour les logements loués ou affermés. Les déductions – motivées par des raisons extra-fiscales – pour les investissements destinés à économiser l'énergie et à ménager l'environnement, les frais de restauration de monuments historiques et les frais de démolition seront quant à elles supprimées au niveau fédéral; elles pourront toutefois être conservées dans les législations fiscales cantonales.

En ce qui concerne la déductibilité des intérêts passifs privés, la commission met en consultation plusieurs propositions: les propositions 1 et 2 prévoient que les intérêts seront déductibles à concurrence de respectivement 80 % et 100 % du rendement imposable de la fortune; selon la proposition 3, des déductions seront autorisées jusqu'à concurrence du rendement imposable de la fortune immobilière, auquel s'ajoutent 50 000 francs en cas de détention de participations d'au moins 10 % au capital capital-actions ou au capital social d'une société de capitaux ou d'une société coopérative; la proposition 4 prévoit seulement l'application de déductions à concurrence du rendement imposable de la fortune immobilière; enfin, la proposition 5 exclut la déduction des intérêts passifs privés. Au niveau financier, si l'on considère le niveau actuel du taux d'intérêt hypothécaire moyen, chacune des propositions envisagées entraînerait une perte de recettes pour la Confédération, les cantons et les communes. Avec un taux de 3,5 % cependant, l'application des propositions 1 à 4 serait globalement neutre budgétairement, alors qu'une suppression des déductions, telle que le prévoit la proposition 5, générerait un surplus de recettes substantiel. Selon le niveau du taux hypothécaire moyen et la proposition choisie, la réforme pourrait donc être synonyme d'importantes recettes ou de pertes considérables pour la Confédération, les cantons et les communes. Toutes les propositions sont sensiblement plus strictes que le droit en vigueur. La commission entend, par ces différentes mesures, contribuer sensiblement à réduire l'endettement privé et, partant, à stabiliser la place financière.

Enfin, la commission veut introduire une déduction – plafonnée et limitée dans le temps – pour l'acquisition du premier logement principal. Cette mesure, qui profiterait tout particulièrement aux jeunes adultes, permettrait en outre de concrétiser le mandat constitutionnel de l'encouragement à l'accession à la propriété du logement et de s'y conformer.

Renseignements

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Liens

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