Change of System in the Taxation of Homeownership: Implications of the Imputed Rental Value.

Noah Gsponer, September 2025

The imputed rental value has been one of the most controversial elements of the Swiss tax system for decades. It is intended to place homeowners on an equal footing with tenants by taxing a fictitious income, while allowing deductions for maintenance costs and mortgage interest. Now this system is to be abolished and replaced with a simplified solution. At the same time, the cantons would be given the option to introduce a property tax on second homes. A step that offers opportunities, but also comes with side effects.

The imputed rental value is rooted in the idea of fiscal equal treatment between tenants and owners. Despite longstanding criticism, it has established itself as an important source of revenue for the federal government and the cantons. Critics, however, point to its lack of realism: property prices, mortgage rates, and renovation costs have changed dramatically over the decades, while the system is increasingly perceived as bureaucratic and contradictory.

Reform Proposal

The proposal now up for a vote represents a true paradigm shift. The imputed rental value on primary and secondary residences in private assets is to be completely abolished. At the same time, the deduction options for owner-occupied residential property will be severely restricted. Maintenance costs, management expenses or insurance premiums can no longer be claimed for tax purposes. Exceptions only apply to work required for the preservation of historical monuments, and until 2050 depending on the canton for investments in energy efficiency and environmental measures. A new rule will also apply to mortgage interest: it may only be deducted in a restricted and proportional manner if rental income is generated in Switzerland.

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An example illustrates the new logic: If a household’s total assets amount to CHF 2.1 million and immovable assets in Switzerland not used for own residential purposes amount to CHF 800,000, the quota is 38.1 percent. Only this share of mortgage interest may be deducted in the future. Those who have so far benefited from full deductions must therefore expect a noticeable reduction. For investment properties, the new regulation means that they will lose attractiveness for private owners due to the limited deductibility, and such properties are therefore likely to be increasingly held by legal entities in the future in order to avoid tax disadvantages. At the same time, this new calculation method reinforces a trend that has been observed for around two decades: declining mortgage debt in relation to real estate assets, which was favored by rising equity requirements in the wake of Basel III.

"Investment properties will increasingly be held by legal entities."

In addition, a degressive special deduction is planned for first-time buyers to provide tax relief in the first few years after purchase. The imputed rental value will also be abolished for second homes, while the cantons will be given new authority to introduce a special property tax on predominantly self-occupied second homes. Overall, the abolition of the imputed rental value will thus not be carried out in isolation but embedded in a comprehensive new system of tax framework conditions.

Possible Impacts

A simplified model illustrates the effects. Until now, the formula was: income plus imputed rental value minus deductions equals taxable income. Owners whose deductions were regularly below the imputed rental value will experience significant relief, as no fictitious income will be imputed in the future. Conversely, the result will be negative if the loss of deduction possibilities weighs more heavily than the abolished imputed rental value. The level of interest rates plays a key role. With today's low mortgage rates, according to calculations by the Federal Tax Administration (ESTV), around 80 percent of homeowners will benefit from the reform. Under these assumptions, homeownership would become more attractive, which would increase demand and is likely to lead to rising property prices, especially in regions with high imputed rental values. However, if interest rates rise to around 3.5 percent, winners and losers will be roughly balanced.[1]

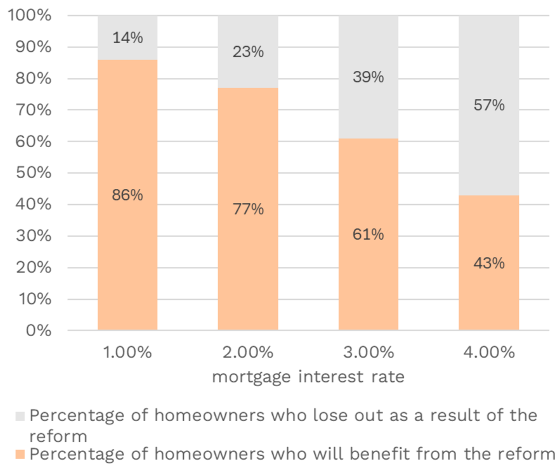

Fig. 1: 'Winners' and 'losers' among homeowners (source: ESTV)

Another frequently discussed issue concerns renovation activity, which could be impaired by the elimination of tax incentives. According to a survey by Wüest Partner, 22 percent of owners stated that tax deductions were decisive for them in making a renovation decision.[2]

[1] ESTV: Distribution effects of a reform of the taxation of imputed rental value: Impact of the parliamentary decision of 20 December 2024

[2] Wüest Partner: What can homeowners expect when the imputed rental value is abolished?

In the short term, increased investment activity is therefore to be expected, as work will be carried out before the reform comes into force. However, it remains questionable whether renovation activity will actually decline as sharply afterwards as is often assumed in the media. Many renovations are essential anyway, whether for value preservation, compliance with energy requirements or to ensure bank financing. In addition, market value and rentability often influence the decision more than tax considerations.

Hyrock is an independent mortgage and real estate expert for discerning private and institutional clients in Switzerland with offices in Zurich, Schindellegi and Geneva. In 2024, Hyrock realized a total of over CHF 1,031 million in financing solutions for its clients with an average loan amount of CHF 6.4 million per transaction. CHF 618 million of these were mezzanine and bridge loans. www.hyrock.ch

Conclusion

The abolition of the imputed rental value would not be a technical detail, but the break with a long tradition of Swiss tax policy. Many homeowners could be noticeably relieved in the current low interest rate environment. The new model promises simplification and the dismantling of a system that has long been criticized as bureaucratic and contradictory. However, it remains unclear how the cantons will exercise their new authority to levy a property tax and to what extent owners will adjust their investment and renovation behavior. Possible effects include rising property prices, particularly in regions with high imputed rental values, differences in valuation between modern and older properties and new cantonal disparities.

This raises the fundamental question of whether it is really the state's task to ensure tax equality between tenants and owners. Likewise, simplicity should take precedence over complexity in tax policy. In this sense, the system change appears to be a consistent step and would be welcomed by us.

Scenario	Before	After
Imputed rental value (owner-occupied primary and secondary residences)	Subject to income tax	No longer applicable
Maintenance and administration of owner-occupied properties	Deductible (actual/flat rate)	No longer deductible. Exceptions: preservation of historical monuments and energy/environmental investments (see below)
Maintenance etc. for rented/leased properties (private assets)	Deductible (actual/flat rate)	**Still deductible.** Flat-rate deduction remains possible
Mortgage interest – general private debt interest deduction	Deductible up to the amount of taxable investment income + CHF 50,000	**Proportional restriction**: now only deductible in proportion to the value of non-owner-occupied real estate located in Switzerland in relation to total assets
Special deduction for mortgage interest – first-time buyers (owner-occupied)	No special deduction	**New temporary deduction**: CHF 10,000 (married couples) or CHF 5,000 (others) in the first year, then −10% annually for up to 10 years; only if not already included in the proportional deduction. Transition: also applies to purchases made up to 10 years **before** the entry into force for the remaining period
Energy/environmental investments in owner-occupied properties	**Deductible** (federal government & cantons), since 2020 with a 2-year catch-up right	**Federal government**: **no** longer **deductible. Cantons**: may allow such deductions **until 2050 at the latest**; including 2-year catch-up right
Monument preservation work (mandatory/agreed)	Deductible (rules vary by level)	**Still deductible** (DBG explicit; StHG allows cantonal deductions)
Second properties (predominantly owner-occupied)	Imputed rental value taxable; no special property tax	**No imputed rental value. New: cantonal property tax possible** (without debt deduction). Details at cantonal level
Mixed-use properties (partly owner-occupied, partly rented out)	Maintenance/debt interest deductible on a pro rata basis; imputed rental value on owner-occupied part	No imputed rental value on owner-occupied part; deductions (maintenance, interest) only for the rented part and within the scope of the new rules

Fig. 2: Tax changes resulting from the system change
(Source: Federal Act on the Reform of Homeownership Taxation)