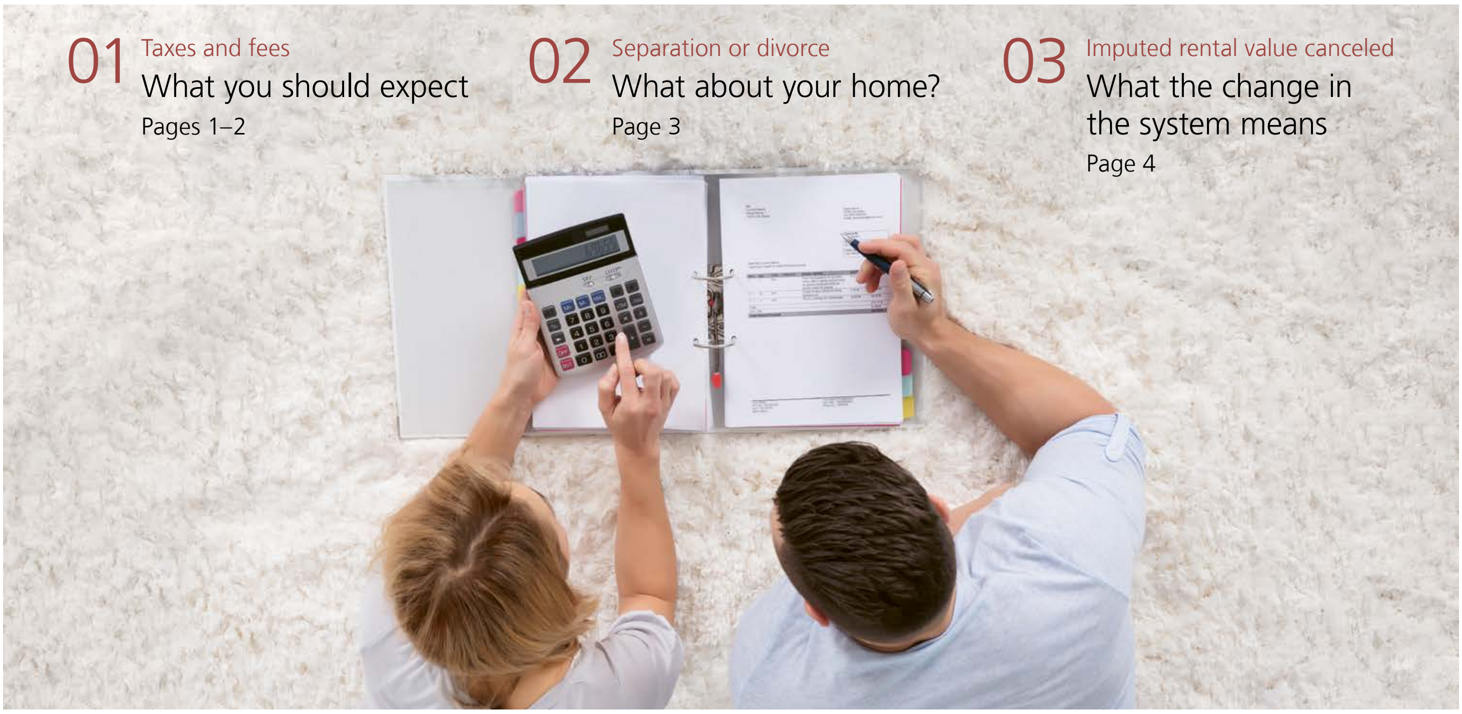
Newsletter on home ownership Spring 2019, Issue 1

UBS immo news



Home ownership and taxes

Someone buying and moving into a home should carefully plan for taxes and extra fees on top of the purchase price. From acquisition through residency until an eventual sale: taxes will be owed time and again.

In most cantons, the very fact that a property changes owners is itself already subject to a property transfer tax. As a rule of thumb, you should budget from 1 to 3 percent of the purchase price. The buyer must come up with a portion of the costs, and the buyer and seller share a portion – and this varies from canton to canton. The federal government and cantons such as Zurich or Schwyz (see table) do not charge a property transfer tax.

Notarial and land registry fees also differ widely. Though they are not taxes as ordinarily understood, these costs can also have an impact. By way of example, let's look at the notarization of a deed of sale for a home valued at 700,000 Swiss francs. In many cantons, for example Zurich, Schwyz or Thurgau, this will involve a charge of a few hundred francs. In Bern, Ticino or in some cantons of Western Switzerland, the same transaction can cost from 2,500 to 3,500 francs; in an extreme case, notarization can cost up to six times more.

Taxes on the purchase of property

The same applies to drafting a *Schuldbrief* (Swiss mortgage certificate), which you will need to secure a mortgage. Issuing a *Schuldbrief* worth more than 500,000 francs costs 750 francs in the canton of Schwyz, including VAT. In the canton of Bern, on the other hand, a notary will charge roughly 1,300 francs, in line with the cantonal schedule of fees, not including VAT. Not to be forgotten are any taxes on lump-sum payments, which would apply if you use pension assets in the purchase (pension fund or pillar 3a). For example, taxes of roughly 4 to 10 percent apply when you withdraw 250,000 francs. In an extreme case when you make a purchase, after adding up all positions, you could incur tens of thousands of francs in taxes and ancillary costs.

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Editorial

Dear reader,

"Can I afford to buy a house?" For many Swiss nationals, this is one of life's key questions. In this issue of UBS immo news, we ask a different question: "How high are the taxes and fees that are payable on home ownership?"

As a private homeowner, you'll become acquainted with a host of taxes and fees when you buy, own and perhaps sell your home. Property transfer taxes, notarial and registry land fees, property and capital gains taxes, etc. But you'll look in vain for a nationwide overview, a rule of thumb or a uniform tariff. This is why you should clearly identify all potential charges before you buy or build your dream house.

You can find more tips on page 3: How should you proceed if your mortgage must be readjusted for unforeseeable reasons? For example, in the event of separation or divorce?

We hope you find the articles in this issue informative.

Roger von Mentlen

Head Personal Banking

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Taxes on the sale of property

Depending on the circumstances, proceeds from the sale of a property could be higher than the purchase price. All cantons levy a capital gains tax on the difference arising from such a sale. Also the capital gains tax on the sale varies a great deal by canton. How much tax is charged depends on how long the property was owned – the greater the profits and shorter the time of ownership, the higher the taxes. You can deduct all value-enhancing investments throughout the entire length of ownership, as well as property transfer costs, brokerage and notarial fees. For this reason, you should safely store all records of incidental expenses and investments over at least the past 20 years.

We recommend that you clarify all fees, tax implications and any potential tax breaks in advance. Capital gains taxes can be deferred in all cantons if the seller becomes a homeowner again within a reasonable period of time. Summary: To keep taxation reasonably moderate, seek out advice and look more deeply into the tax consequences of owning a home yourself.

Taxes on ownership

According to current regulations, homeowners in Switzerland must pay tax on the imputed rental value as income. The Federal Court has stipulated that this must come to at least 60 percent of the market value. Property taxes are also owed on the real estate. Some cantons also charge a separate property tax (see table). This usually falls between 0.1 and 3 per mil of the taxable value of the property.

Tax deductions

In contrast, homeowners can take some tax deductions when completing their tax return.

- You can fully deduct **mortgage interest** from taxable income, though this is limited to at most 50,000 francs more than a taxpayer's gross investment income.
- In most cases, it pays to take advantage of **indirect amortization.** The second mortgage will not be amortized directly. Rather, your repayments go into a pillar 3a account held by the bank and they are pledged. The deduction of interest on debt is held to the same amount.
- All expenditures that contribute to **maintaining and preserving** the value of the property (repairs, paintwork, maintenance activities in and around the house, etc.).
- All recurring incidental costs and insurance premiums associated with the property.

Value-enhancing expenditures are not deductible – with one important exception: Investments related to energy savings, such as energy-saving windows, retrofitting to a heat pump with geothermal probe, etc. are generally fully deductible from taxable income. For more details, consult your canton's guidelines and factsheets.

Property transfer taxes

	AG	AI	AR	BE	BL	BS	FR	GE	GL	GR	JU	LU	NE	NW	OW	SG	SH	SO	SZ	TG	TI	UR	VD	VS	ZG	ZH
with		●	●	●	●	●	●	●		●	●	●	●	●	●	●		●		●	●		●	●		
without									●								●		●			●			●	●
land registry fees	●																									

Property taxes

	AG	AI	AR	BE	BL	BS	FR	GE	GL	GR	JU	LU	NE	NW	OW	SG	SH	SO	SZ	TG	TI	UR	VD	VS	ZG	ZH
with		●		●			●	●		●	●					●				●	●		●	●		
without	●				●				●									●	●						●	●
minimal tax on properties*			●			●						●		●	●		●			●	●					

*Generally, the minimal tax only applies to legal entities

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Separation or divorce – and your home?

Unplanned events and misfortune sometimes frustrate our life plans. You should take certain precautions to prevent the single-family home or condominium from becoming a cause for concern.

Almost 40 percent of all marriages and partnerships without a marriage certificate fall apart. Emotionally, this often comes as a shock. Additionally, a separation raises many questions about money and joint property. Who can or wants to take over ownership of the home? Costs almost always go up when you have to run two different households. This raises the question of whether one of the two partners can finance the property alone. For example, if the partner who moves out makes alimony payments or if an (off-schedule) repayment of a portion of the mortgage is possible, perhaps with an advance against inheritance.

What happens to the mortgage?
If this is not possible, you will need to clarify what happens with your residential property. For example, who should be paid what share after a sale? This depends on many factors: the marital property regime (generally in accordance with the community of accrued gain), the equity capital contributed, etc. A divorce will usually involve a divorce decree, which regulates all essential questions. Things can be simplified if both partners have concluded a (marriage) contract and already agreed on certain rules for the worst case. This applies all the more to registered partnerships and cohabiting partners – here you're well-advised to draw up a contract that regulates the joint real estate holdings.

There are different options for the mortgage, depending on the individual circumstances:

- Transfer to a new property: If the original home is sold and one of the partners buys a new property, they could theoretically transfer the existing financial solution to the new property. Taking into account the circumstances of the new debtor, normal requirements such as affordability and adherence to mortgaging of at most 80 percent of the bank's appraised value should be clarified again.
- Change of the debtor: An existing mortgage – even a fixed-rate mortgage with a longer term – can be reassigned and continued. While both partners up to this point were jointly liable and acted as contractual partners, the contract will now be issued to one of the two partners, provided they satisfy the bank's criteria as sole debtor.
- Early termination: When a mortgage holder terminates a mortgage early, they normally have to pay the bank penalties. When the financing still has a remaining period to maturity of many years, the so-called prepayment penalty can be very high. In some cantons it can be deducted from taxable income as interest on debt.
- Transfer to a new owner: Depending on the case and on the life of the contract, one obvious solution after the sale of the property would be to continue the mortgage at the existing institution and transfer it to a new debtor.

Transfer of the mortgage to a third party
Naturally this will only work if both the buyer and the bank give their consent. The bank will thoroughly check the dossier, the same as if it were new business. The usual requirements such as financial affordability and adherence to lending guidelines must be satisfied in any event. Whether the buyer of a property takes over an existing mortgage depends on the interest conditions and to a large extent on the negotiations related to the transfer of ownership. If the financing was concluded for a longer period of time at a higher interest rate than the current one, the buyer will calculate any additional costs into their purchase offer.

Get advice
The optimal solution in a specific case depends on numerous factors: financial affordability, the current value of the property, remaining life, costs, tax consequences, provisions in the loan agreement, etc. What is important is that you reach out to the bank as early as possible. Thanks to their experience, a client advisor can be a great help. If the bank is only informed right before the date of the divorce, any questions will need to be clarified under time pressure – and it's then often too late for a sound overall analysis. In practice, a separated couple may also find it helpful to talk over options with their inner circle – such as parents or close friends. ●

Matthias Holzhey, CIO Swiss Real Estate Investments

What does elimination of the imputed rental value mean?

On 20 August 2018, the Economic Commission of the Council of States (Ständerat) established the following benchmarks:

- The imputed rental value will be canceled for the primary residence. Second residences are not affected by the system change – out of consideration for the mountain cantons, which fear large tax shortfalls.
- In turn, the costs of maintaining and renovating a property will no longer be tax deductible.
- At the federal level, energy saving and environmental deductions will no longer be permitted. The cantons may continue to allow for such deductions in their tax legislation.
- The tax deduction of interest on debt for owner-occupied property will be abolished. Debt interest deductions of the order of 80 or 100 percent of other investment income (e.g. rental income from a second property, income from securities) will be retained.
- Interest on debt for first-time buyers will remain deductible for a limited period – roughly 10 years. The deduction will be capped and phased out linearly to zero.

Tax burden depending on the loan-to-value ratio and the mortgage interest rate

Mortgage interest rate (in %) Loan-to-value (in %)

	80	70	60	50	40	30	20	10	0
1.00%	1300	1600	1800	2000	2300	2500	2700	2900	3200
1.25%	800	1100	1500	1800	2000	2300	2600	2900	3200
1.50%	300	700	1000	1500	1800	2200	2500	2800	3200
1.75%	–200	200	700	1100	1600	2000	2400	2800	3200
2.00%	–700	–200	300	800	1300	1800	2300	2700	3200
2.25%	–1100	–600	0	500	1000	1700	2200	2700	3200
2.50%	–1600	–1000	–400	200	800	1500	2000	2600	3200
2.75%	–2000	–1400	–800	–100	600	1300	1900	2500	3200
3.00%	–2400	–1800	–1100	–400	300	1000	1800	2500	3200
3.25%	–2900	–2100	–1500	–700	100	900	1700	2400	3200
3.50%	–3400	–2600	–1800	–1000	–200	700	1600	2400	3200
3.75%	–3900	–3000	–2100	–1300	–400	500	1500	2300	3200
4.00%	–4300	–3400	–2400	–1600	–700	300	1300	2300	3200

Source: UBS; according to case example 3, median of all cantons, rounded in CHF per year

Who wins, who loses?
The abolition of imputed rental value taxation is more or less advantageous depending on the loan-to-value ratio, location and a property's need for renovation.

- At current average low mortgage interest rates of 1.5 percent, tax deductions are limited. Though homeowners may already be disadvantaged at a 2.5 percent interest rate.
- The lower the loan-to-value ratio, the more the home owner profits.
- Since tax savings can no longer be achieved though renovations, the prices for old buildings could come under pressure.
- New buyers benefit, since their tax deductions are initially still low. The price differences between new and already existing homes will therefore increase.
- The lower the imputed rental value set by a canton, the less beneficial the elimination.

Four concrete cases
1. **Pensioners** will disproportionately benefit. For one, the loan-to-value ratio is below average; what's more, renovations are often protracted, meaning upkeep costs are lower. Cantonal range of tax savings: 1,000 to 3,800 francs annually.

2. For **buyers of new residences with a short-term time horizon**, in the current system, tax deductions on mortgage interest and standard deductions for upkeep cannot offset the imputed rental value despite a higher loan-to-value ratio. Cantonal range of tax savings: 850 to 2,800 francs per year.

3. For **buyers of new residences with a long-term time horizon**, the tax savings fluctuate between 0 and 1,500 francs annually, considering actual deductions – even if they only result in extensive renovations and tax savings after 25 years.

4. **Owners of old buildings** should not experience any tax savings over the long term, even for an impending renovation. The additional tax burden resulting from the change in the system: 300 to 900 francs per year.

In a nutshell: efficient and comprehensible
The current system is not optimal and discontent among home owners is palpable. From an economic perspective, the treatment of homeownership as a consumer good and the elimination of imputed rental value and deductions for maintenance and debt interest appear to be efficient and sustainable solutions. We do not share the fear that property prices will increase at a low double-digit rate because of the change in the system. Developments in property prices depend on various factors. The system change will come into effect at the earliest by 2022. ●

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