



8% residential tax...

...because fairness is worth paying for

A compromise on rental value?

Federal parliament, 19.09.2018




Presentation by Stefan and Edwin Drack in the Wandelhalle



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The agendas of parliamentarians are overflowing. And yet it happens that they can occasionally take time for the worries of concerned citizens. Many thanks to the National Councillors Beat Flach (AG) and Thomas Hardegger (ZH), to whom we were permitted to introduce the 8% housing tax model.

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Comparison of tax models

<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  <p>Initiative of the Council of States</p> </div> <div style="text-align: center;">  <p>Referendum by the tenants?</p> </div> </div>	<p>Rental value taxation</p> <p>A majority wants to abolish this model</p> <p>4'000 CHF tax* per year</p>
	<p>8% residential tax</p> <p>This model takes tenants into account</p> <p>1'600 CHF tax* per year</p>
	<p>Abolition of rental value...</p> <p>...in the interest of homeowners</p> <p>0 CHF tax*</p>

* Size for homeowners without debts

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The 8% residential tax is a counterproposal to the rental value abolition. Here, too, the current rental value taxation is replaced, but with regard to the interests of the tenants.

The abolition of rental value is unfair. Tenants and responsible homeowners reject the one-sided tax exemption. This tax reform is likely to fail and the unpopular rental value taxation will remain in force.



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Sensible questions about rental value

What is the ideal composition of tax revenues in the future?

Is there a good reason to exempt housing from taxes? Sustainability?

How does housing and economic capacity hang together? (Constitution 127.2)

Should housing be exempt from taxes after all?
Does this tax exemption also apply to tenants?
(Constitution 108.2 and 108.4)

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These questions relate to the intention of the Council of States Economic Commission to exempt homeowners from taxes on housing. See the Council of States initiative 17,400.



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Tax justice through equal treatment

Approx. 2 million households of tenants:

Annual tax revenue of approx. 2.6 billion CHF

$$2'066'000 * 1'322.- * 12 * 8\% = 2'600'000'000 \text{ CHF per year}$$

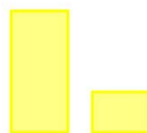


BfS for 2016 / magnitude

Approx. 2 million households of homeowners:

Annual tax revenue of approx. 1.3 billion CHF

$$1'000'000 * 16'000.- * 8\% = 1'300'000'000 \text{ CHF per year}$$



SRF, 10. Sept. 2018

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BfS (Bundesamt für Statistik) = Federal Statistical Office

The fact that tenants and homeowners contribute a similar amount to the tax revenue is particularly evident in the case of private rentals. The taxable income is then:

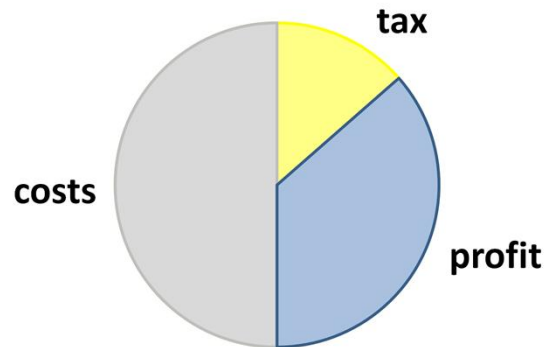
Wage + rental value + rental income - various deductions. Finally, the same tax rate applies to the rental value and the rental income.



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The landlord's account



$$\text{costs} + \text{profit} + \text{taxes} = \text{rent}$$

Conclusion: If rental income were also exempt from taxes, rents could be reduced by approx. 8% with the same profit for the landlord.

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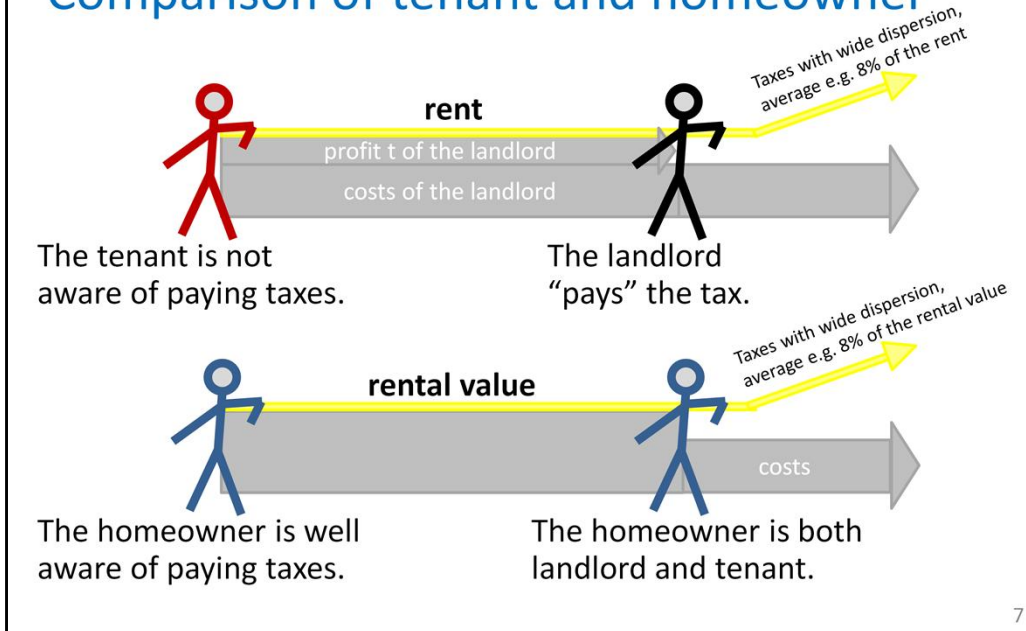
Thought game on Initiative 17.400: If you exempt homeowners from taxes on living, why shouldn't you also be able to exempt tenants from taxes on living? Without taxes on rental income, landlords could lower their rents. With 70,000 vacant apartments in Switzerland, it is advantageous to be able to offer an apartment at a lower price.



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Comparison of tenant and homeowner



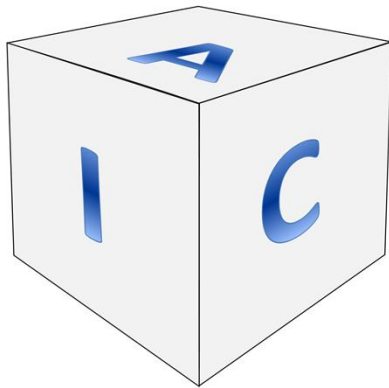
The differences between tenants and homeowners are smaller than is generally assumed. Although a homeowner pays his taxes directly and the tenant indirectly via the landlord, the contribution to the state is roughly the same.



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Housing has three tax aspects



Asset

Value of the property

Income

Rental value or rent

Consumption

(today tax-free)

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The presentation is based on economics. There the imputed rental value is understood as income in kind. In order for the layman to understand the rental value as well, it can be represented as a fictitious income, i.e. rental value = income that a homeowner would have if he or she rented out his or her apartment.



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Housing seen as consumption

Definition of consumption **in the economic sense**: Private consumption includes all purchases of goods and services by private households.

In the family budget, housing is usually the largest consumer item, both for tenants and for homeowners.

The homeowner makes the object of consumption available to himself. He is a service provider and consumer in one person.

When comparing apartment rent and car rental (VAT), it is easy to see how similar housing is to other forms of consumption.

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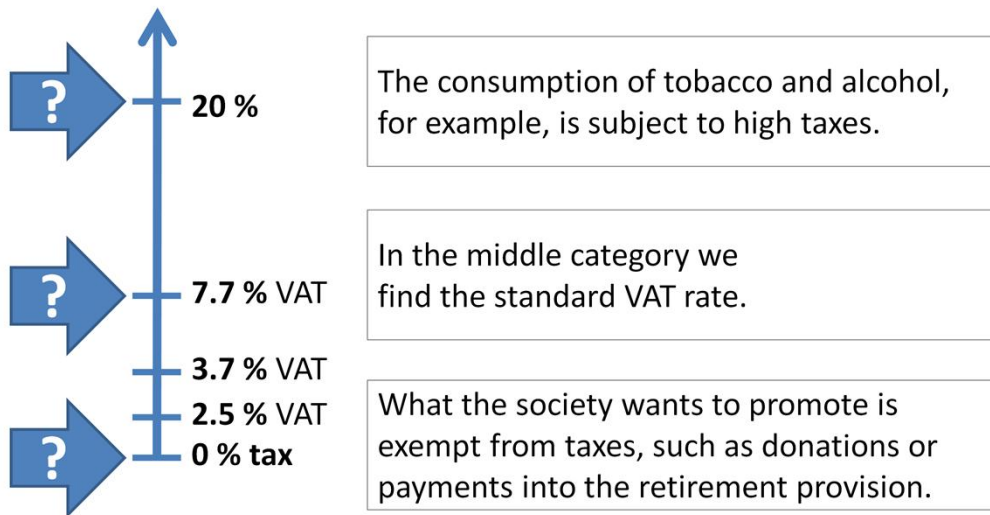
The 8% residential tax no longer wants to tax the rental value as income, but as consumption. This has the great advantage that a moderate tax rate is sufficient and that tax rates of 20% and more are no longer necessary.



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What tax rate for residential consumption?



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Normal consumption is taxed at approx. 8%. Isn't it obvious to also tax residential consumption at 8%? Is there a better yardstick for residential consumption than the rental value?



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Residential tax and perception

The transition 1995 to VAT has changed our perception.
The created transparency is appreciated by the majority.

Homeowners: The 8% residential tax strengthens
homeowners' awareness of their prosperity.

Option rent: The 8% residential tax strengthens
transparency and the awareness of tenants that they are
making an important contribution to tax revenues.



Transparency, equal treatment and tax fairness

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It is clear to all of us that the state depends on a revenue. Knowing that the burden is evenly distributed among many shoulders gives a good feeling.



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What effects does the 8% residence tax have?

Unchanged tax revenue (flat tax of 6, 8,... 12%?)

Equal treatment of tenants and homeowners

Compensation in the sense of the generation contract

A brake on poverty disparities

Closing tax loopholes

Contribution to the infrastructure of the municipality & canton

System simplification, possibility of self-declaration

Incentive for the economical use of living space, etc.

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Flat-rate tax: The tax rate for a budget-neutral tax reform depends heavily on mortgage interest rates. If you look back 15 years, it should be about 4%, if you look back 5 years, about 10% would be correct. 8% is a compromise under the assumption that interest rates will remain low.



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Steady tax revenue

The tax revenue of the 8% residential tax is almost constant. It increases proportionally to the sum of all rental values.



By way of comparison, the tax revenue from rental value taxation is either positive or negative, depending on the mortgage interest rate.



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It is advantageous for communes and cantons if taxes are levied evenly. After all, their tasks and obligations are constant too.



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What happens at a very high interest rate?

Property value	800'000 CHF
Mortgage	400'000 CHF
Mortgage interest rate	6%
Rental value	20'000 CHF
Uniform tax on imputed rental value	8%
Burden of 6% interest	24'000 CHF/year
Tax burden due to flat tax	1'600 CHF/year

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The 8% residential tax is harmless compared to the enormous burden of high mortgage rates. At this point, it should be remembered that rents also increase as mortgage rates rise.



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Tax revenue and subsidy programmes

The current tax model of rental value taxation has the major disadvantage that tax collection and subsidy programmes are linked.

The 8% residential tax is largely decoupled from the promotion of home ownership, but generates funds, e.g. for targeted support homeowner who purchase their first home.

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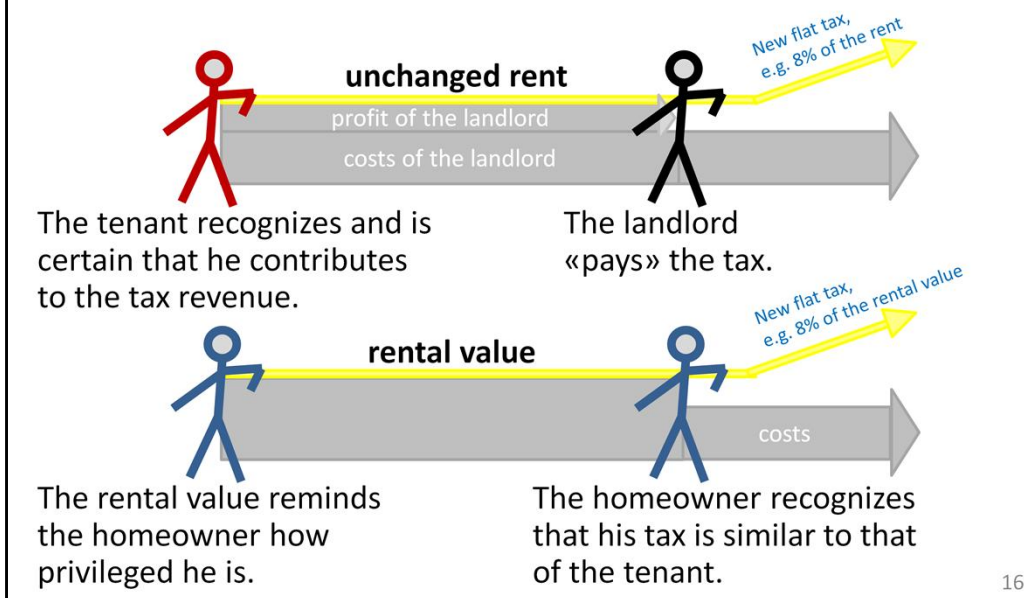
The Constitution provides for the federal government to advocate for cheaper housing, both for tenants and for homeowners. In particular, families, the elderly, the needy and the disabled shall be supported. (Article 108.4). Promotion is of course only possible if the necessary funds are available.



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Tenant and homeowner with residential tax



The 8% residential tax for the imputed rental value ensures that home owners and tenants are treated similarly.

The 8% residential tax for tenants (with unchanged rent) is an option. More facts must be known before such a flat tax can be worked out.



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What next?

The proposal of the Economic Commission of the Council of States meets with resistance. Quote from Natalie Imboden, Association of Tenants, SRF, 10.9.2018: **...if there is a relief only for the homeowners, then that is not fair...**

If a balanced solution is not found in time, the current tax reform might fail. This is unfortunate because it will preserve the problematic rental value taxation for many years to come and delay the urgently needed reforms.

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The proposal by the Economic Commission of the Council of States is unfair because it unilaterally exempts homeowners from taxes on living. Tactically, however, it is clever: if the concept prevails, homeowners can enjoy new privileges. If the concept falls victim to a referendum, right-wing populists will promise another ten years to free us from the rental value...



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Move to simplicity?

The planned abolition of rental value

Exception 1: rental value for second homes remains

Exception 2: Debt interest deduction for second homes

Exception 3: Debt interest deduction for rental income

Exception 4: Debt interest deduction on investment income

Exception 5: Debt interest deduction for the first purchase

A compromise that applies to all homeowners:

rental value * 8%



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Flat tax at its best: For the tax reform on rental value (EMW = Eigenmietwert), half a thumbnail is sufficient! The second line serves as a supplementary option.



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From left to right: Edwin Drack, National Councillor Thomas Hardegger (Social Democratic Party, ZH), Green Liberal party manager Ahmet Kut and National Councillor Beat Flach (Green Liberal Party, AG). Thomas Hardegger and Beat Flach, as Vice-Presidents of the Hausverein Schweiz, are very familiar with topics related to living.



From left to right: National Councillor Thomas Hardegger (Social Democratic Party, ZH), Green Liberal party manager Ahmet Kut, National Councillor Beat Flach (Green Liberal Party, AG) and Stefan Drack. The Vice-Presidents of the Hausverein Schweiz, Beat Flach and Thomas Hardegger, confronted us with critical questions. They recognized the potential of the 8% residential tax, but also legal and political challenges...