TAXATION OF PROPERTIES ABROAD

Do Swiss citizens have to declare their properties abroad ?

Owners of houses or flats abroad must declare their property in Switzerland, without it being taxable. However, you should be aware that real estate abroad can influence taxation in Switzerland.

If you own a holiday home in Provence or a second home in Tuscany, the property and the income generated will be taxed in France or Italy. However, you must also declare the property in Switzerland, even if you do not pay any federal, cantonal or municipal taxes on it. On the other hand, its value and the income generated have an effect on the tax rate: the tax value of the property influences the level of the tax rate for wealth tax, and the income (rental income and own/theoretical rental value less deductible maintenance costs and mortgage interest) influences the level of the tax rate for income tax.

The financial consequences

Let's assume that you own a house in Provence, which has a value of CHF 400’000 and that you rent it out for CHF 20’000 francs per year. The CHF 400’000 will not be taxed as wealth and the CHF 20’000 will not be added to your income, otherwise you would be taxed twice. However, they do influence the tax rate on your assets (eg. CHF 600’000) and income (eg. CHF 100’000) in Switzerland. The CHF 600’000 will be taxed at the tax rate for assets over 1 million, the CHF 100’000 at the tax rate for income of CHF 120’000. This can lead to higher taxation, especially for income tax.

Costs and income

If the deductible costs for maintenance, insurance and management of the rent or own/theoretical rental value exceed the income, this results in an excess of income acquisition costs, ie. a loss. In some cantons, eg. Zurich, the excess income acquisition costs are considered as negative income from abroad and have a positive effect on taxation. However, most cantons and the federal government only take negative foreign income into account when calculating the tax rate.

Debts and interest on debts

Real estate transactions are in most cases linked to debts and interest on debts. International assets and debts are divided between the tax domiciles according to the location and value of all assets. This means, for example, that part of your mortgage debt and mortgage interest on your Swiss condominium will be transferred to your debt-free home in Provence. This tax allocation leads to an increase in taxable assets and taxable income in Switzerland, because you can deduct less debt and less interest on debt.

Other countries, other customs

There are other points to consider with regards to holiday homes or second homes abroad. For example, in many countries, the property is subject to the seller's property gains tax. Therefore, in order not to take any risks, it is advisable to put this sum aside before the purchase or to take it into account in part in the selling price. In addition, there are considerable differences between states in the taxation of income from land.

It is not worth concealing

The legal basis for the automatic exchange of information came into force in Switzerland on 1 January 2017, which means that data is being collected from 2017 onwards and is exchanged with Switzerland's automatic exchange of information (AEI) partner states since 1 January 2018. Since then, banks have been providing their international clients' data to the national tax authorities. Currently, more than 100 countries are participating, including all EU states. In principle, only information on accounts and securities deposits is exchanged. However, this information enables the tax authorities to discover undeclared assets. Anyone caught will have to pay the tax arrears of the last ten years on his assets and income, which are calculated at a higher rate, as well as interest on arrears and a fine. Inheritors of undeclared property will have to pay three years of tax arrears.

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