Tax Harmonisation Act

Last change: 01.06.2026

PDF generated on: 17.09.2026

ONLINE COMMENTARY
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TABLE OF CONTENTS

COMMENTARY ON

Rem. to art. 13-14a StHG

A commentary by Nicolas Grieder / Peter Hongler

SUGGESTED CITATION

Nicolas Grieder/Peter Hongler, Preliminary remarks to art. 13-14a StHG, in: Peter Hongler/Fabian Sutter (eds.), Online Commentary of the Act on the Harmonisation of Direct Taxes of the Cantons and Municipalities (Tax Harmonisation Act, StHG)

Short citation: OK-Grieder/Hongler, Rem. to art. 13-14a StHG

CONTENT

I. INTRODUCTION, THEORETICAL BACKGROUND, AND PRACTICAL SIGNIFICANCE

Historically, the wealth tax was of great importance because income was either not taxed at all or only to a limited extent. Its imposition was justified, among other things, by the state's protection of wealth. In the present day, the wealth tax plays merely a supplementary role in relation to the income tax, which is why it is also referred to as a supplementary tax to the income tax. 1

The principle of subsidiarity implies that only the cantons (or, at most, the municipalities through further delegation) possess the constitutional authority to levy a wealth tax. However, the cantons are not free to decide whether to levy a wealth tax; rather, they are obligated to do so under federal law via the StHG (but not under the Constitution). With regard to its structure, they must adhere to the provisions of the StHG. 2

II. HARMONIZATION REQUIREMENTS

Pursuant to Art. 129 of the FC, the Confederation establishes the principles governing the harmonization of direct taxes levied by the Confederation, the cantons, and the municipalities. This includes the wealth tax, from which the Confederation derives the authority to enact Articles 13–14a of the StHG. 3

The StHG is a framework law. According to the highest court's case law, the basis for the assessment of cantonal taxes—such as the wealth tax—is, in principle, the cantonal tax laws. If a canton fails to fulfill its implementation obligations, the relevant provision of the StHG is directly applicable in any case if it is sufficiently specific. In this case, the harmonization provision of the StHG becomes the directly applicable tax norm. 4

The harmonization requirements regarding wealth tax are limited to the establishment of a few provisions set forth in Art. 13, 14, and 14a of the StHG. The aforementioned articles bear the headings "Tax Object," its "Valuation," and, as lex specialis, the "Valuation of Employee Shareholdings." 5

In its case law on wealth tax, the Federal Supreme Court occasionally emphasizes "that the cantons have considerable discretion." This formulation is regularly found in decisions regarding the valuation of assets under Art. 14 et seq. StHG. In contrast, in decisions concerning Art. 13 StHG—i.e., the definition of 6 the taxable object—the Federal Supreme Court interprets the cantons' discretion much more narrowly and derives far-reaching, sometimes detailed requirements from the harmonized definition of assets. The Federal Supreme Court notes in this regard that the "discretion [...] is limited to the valuation rules and does not permit the taxation of items that do not fall under the definition of assets pursuant to Art. 13 StHG."

7 With regard to Art. 13 para. 1 StHG, the Federal Supreme Court further states that taxable assets consist of the totality of assets, insofar as these are not explicitly exempt from asset taxation under a special statutory provision. According to the highest court's case law, this generally includes all rights of monetary value. These are rights that are economically exploitable and thus realizable, in particular because they can be transferred in exchange for consideration. Para. 13 of StHG thus obliges the cantons to subject all monetary rights defined in this manner—and only these—to wealth tax. Rights that do not meet this definition may not be taxed as assets, nor may the items expressly listed in Art. 13 para. 4 StHG.

8 This strict definition of the subject matter is in a certain tension with the legislative objective as explained in the message on tax harmonization: According to this, Art. 13 and 14 StHG should not supplant the existing (in some cases differing) cantonal wealth taxes, but rather preserve their basic structure. In contrast, the Federal Supreme Court's case law runs counter to this legislative objective insofar as the Federal Supreme Court repeatedly intervenes to correct and clarify which rights are to be attributed to the "total net assets" and which are not.

9 In contrast, the Federal Supreme Court has been more cautious in its decisions regarding the issue of valuation under Art. 14 et seq. StHG. In this area, as mentioned, the cantons are regularly granted broad discretion, particularly in shaping valuation practices and operationalizing market value. In summary, the Federal Supreme Court appears to derive clear and binding guidelines for the cantons from the concept of net assets within the meaning of Art. 13 StHG, whereas in its cautious case law—depending on the nature of the asset being assessed—it derives only general guidelines from the concept of market value pursuant to Art. 14 StHG.

10 From a tax system perspective, this asymmetry is only partially convincing. Both sets of provisions concern the wealth tax and thus a tax that is not verti-

cally harmonized. If cantonal tax legislators are indeed to retain considerable discretion regarding the wealth tax, this would logically have to be reflected in an open interpretation of the concept of net assets. If, by contrast, the Federal Supreme Court interprets the StHG as an instrument for materially harmonizing the wealth tax, it would be consistent to not only "consolidate" the harmonization regarding the tax object but also to align the individual cantonal valuation practices at the same time. In its current form, the Federal Supreme Court's case law thus appears fraught with tension and, in parts, even contradictory.

III. CONSTITUTIONAL REQUIREMENTS

A. Economic Capacity

With regard to constitutional requirements, the structure of the wealth tax 11
must, in principle, satisfy the principle of economic capacity. In this regard, the Federal Supreme Court holds that taxation of net wealth complies with this principle. Conversely, it would be unconstitutional to tax an asset "that does not actually exist."

However, this does not yet address the extent to which net wealth can sub- 12
stantiate economic capacity. The justification for the wealth tax is primarily based on the fundus theory, according to which income from wealth is considered "well-founded" and the wealthy therefore possess a higher economic capacity. Legal scholars criticize this, among other things, because of the wealth tax burden on non-income-generating assets and the sometimes higher volatility of such investment returns. The Federal Supreme Court nevertheless continues to rely on it.

Alongside this stands the theory of asset ownership. According to this theory, 13
the mere possession of wealth constitutes a form of economic capacity in itself (e.g., independence, creditworthiness) and justifies taxation even in the absence of income.

If guidelines were indeed to be derived from the principle of economic ca- 14
pacity, it would be more convincing to understand wealth as solvency and not to use net income as a benchmark. The prevailing view in Switzerland, however, is caught in the contradiction that, on the one hand, net income and, on the other hand, net assets (net worth) serve as measures of ability to pay. This

is—in the view expressed here—an irresolvable contradiction. Furthermore, it has already been explained in detail elsewhere why the ability-to-pay principle only supposedly leads to greater fairness. Rather, it conveys a moral illusion.

15 Further requirements for the design of the wealth tax arise from the prohibition of confiscatory taxation derived from the guarantee of property rights, as well as the prohibition of intercantonal double taxation enshrined in Art. 127 para. 3 of the FC.

B. Guarantee of Property Rights

16 The wealth tax is limited by the guarantee of property rights—in particular, the guarantee of the institution of property. A confiscatory tax burden that makes it impossible to preserve the substance of one's assets or to accumulate assets in a reasonable manner is prohibited. No abstract threshold can be established in this regard.

17 The Federal Supreme Court sets a high bar for finding confiscatory taxation and, in doing so, assesses in particular the tax rate, the tax base, the duration and intensity of the burden, as well as the accumulation with other levies and the possibilities for passing on the burden. Even if net worth must be temporarily used to pay the tax, such taxation does not automatically constitute confiscatory taxation according to its practice. Such taxation has been affirmed only in exceptional cases.

18 In the Federal Supreme Court's recent case law, the following is stated regarding the wealth tax: *"Consequently, since the wealth tax is levied on the substance of wealth and since the ability to pay is determined precisely by the amount of that wealth, and since taxation is to be characterized as confiscatory only if the returns on the wealth are insufficient to cover the tax burden over time, it cannot be concluded that the constitutional guarantee of property has been violated merely because, in a single tax period, the tax burden exceeds the return on the assets»*.

Accordingly, what is decisive is not whether the return on assets covers the tax burden in a single tax period, but whether the wealth tax remains bearable over time from the assets themselves or from the returns (including those that may be generated in the future). Only a sustained shortfall can have a confiscatory effect. Consequently, the taxation of shares as assets is not per se unconstitutional even without a dividend distribution—particularly not when profits are retained and reflected in the asset value.

C. Prohibition of Intercantonal Double Taxation

The constitutional prohibition of intercantonal double taxation within the meaning of Art. 127 para. 3 of the FC also applies to wealth tax. The prohibition of intercantonal double taxation not only expressly and unconditionally prohibits such taxation; that is, it must not merely be limited but completely prevented. It is thus to be understood as a limit on cantonal tax sovereignty. 19

This principle is particularly significant when special tax domiciles exist outside the canton, as is the case, for example, with real estate. Real estate and its income fall exclusively under the tax sovereignty of the canton in which the property is located. This also has implications for the deduction of interest on debt. In intercantonal situations, this deduction is generally determined by the location of the assets. This shift does not result from the harmonization provisions in Art. 13–14a StHG, but directly from the case law on the prohibition of intercantonal double taxation. 20

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Nicolas Grieder/Peter Hongler, Commentary of art. 13 StHG, in: Peter Hongler/Fabian Sutter (eds.), Online Commentary of the Federal Act on the Harmonisation of Direct Taxes of the Cantons and Municipalities (Tax Harmonisation Act, StHG)

Short citation: OK-Grieder/Hongler, art. 13 StHG N. XXX.

Chapter 4: Wealth Tax

Art. 13 Taxable Base

[1] The tax is levied on the total net assets.

[2] Assets held under usufruct are attributed to the usufructuary.

[3] In the case of units in collective investment schemes holding direct real estate, the difference in value between the total assets of the collective investment scheme and its direct real estate holdings is taxable.

[4] Household goods and personal effects are not taxed.

(Legal text translated by DeepL)

CONTENT

I. OVERVIEW

Art. 13 of the Federal Act on Direct Taxation (StHG) contains the key substantive provisions defining the scope of the wealth tax base for natural persons. The provision specifies which assets are subject to wealth taxation. As previously noted, the Federal Supreme Court imposes strict guidelines on the cantons regarding the determination of the taxable base. This key principle will be further clarified in the following discussion. 1

II. REGARDING ART. 13 PARA. 1 STHG

A. Principle

According to the harmonization provision of Art. 13 para. 1 StHG, the entire net worth is subject to wealth tax. From this, the Federal Supreme Court derives both the totality principle and the net principle in its case law. 2

According to the former, all assets—in wealth tax terminology, all taxable assets—must be included in the tax base. Under the net principle, all associated liabilities must be deducted from the total of taxable assets. This is intended—as mentioned—to reflect the guiding principle of taxation according to economic capacity. 3

The definition of net assets enshrined in para. 1 of Art. 13 StHG is binding on the cantons insofar as they are prohibited from subjecting assets to taxation that do not fall under this definition. Conversely, however, this also means that the cantons may not exclude assets that are part of net worth from wealth taxation. 4

B. Harmonized Concept of Wealth

1. Interpretation

According to Federal Supreme Court case law, the concept of assets encompasses "all monetary rights to property, claims, and equity interests to which a person is entitled under civil law and which are legally enforceable, whether of a real or personal nature, regardless of whether the assets are private or business-related, movable or immovable." 5

6 A right has "monetary value" if it is either marketable or has a use or utility value. It further follows that the marketability of an asset is not a mandatory requirement for taxability, which is why, for example, restricted employee shares also constitute taxable assets. Pure entitlements, on the other hand, are not subject to wealth tax due to their lack of enforceability under civil law. If there is merely a vague prospect of a possible future acquisition of a right to an asset, this is also not subject to wealth tax.

7 Balances held with occupational pension funds (2nd pillar) and with recognized forms of tied self-pension plans (Pillar 3a) are exempt from wealth tax pursuant to the federal provision of Art. 84 BVG, provided they are not yet due. This results from the fact that the insured person cannot freely dispose of the corresponding assets—they are subject to statutory withdrawal requirements (see Art. 30a et seq. BVG in conjunction with Art. 3 BVV 3) and are therefore not available as taxable monetary rights within the meaning of Art. 13 para. 1 StHG. The taxpayer lacks the necessary economic freedom of disposal over these assets. According to unanimous practice, vested benefits are also subject to wealth tax only upon maturity—i.e., upon cash payment. The situation is different for assets in voluntary pension plans (Pillar 3b). These are subject to wealth tax, as they are generally freely available and thus have a realizable monetary value. Furthermore, future entitlements under the AHV, IV, and SUVA are not subject to wealth tax, as it is unclear whether the taxpayer will ever draw upon them.

2. Classification of Assets

8 In tax practice, (taxable) assets are divided into real property and movable property, which has different consequences with regard to the valuation rules established in administrative practice. The Federal Supreme Court notes, however, that the Federal Tax Act (StHG) does not specify the criteria according to which net assets are to be classified into real property and movable property. The aforementioned division thus falls, in principle, within the discretion of the cantons.

9 In legal doctrine, taxable movable assets specifically include cash, postal and bank deposits, monetary claims, listed and unlisted securities, as well as gold and other precious metals. Cryptocurrencies (namely Bitcoin, Ether, and other tokens) as well as other digital assets generally constitute taxable movable private assets under current administrative practice, provided they have a re-

alizable monetary value. They thus fall under the definition of assets in Art. 13 para. 1 StHG.

10 Taxable immovable assets primarily include real estate as well as those independent and permanent rights that can be entered in the land register, namely building rights and water rights within the meaning of civil law. In this context as well, the Federal Supreme Court clarified that the StHG does not further define the term “real property,” but rather uses it primarily in the context of real property gains tax and—within the framework of wealth tax—in relation to land used for agricultural and forestry purposes pursuant to Art. 14 para. 2 StHG. Whether and how wealth taxation is linked to the nature of the property is thus, according to the highest court’s case law, generally left to cantonal law.

3. Case Studies of Federal Supreme Court Interventions

11 The Federal Supreme Court has already intervened on several occasions to correct the classification of an asset as taxable property. While this was accompanied by a concretization of the harmonization requirements, it simultaneously restricted the cantons’ discretion. The following case studies are intended to provide an overview in this regard:

- The Federal Supreme Court classified life insurance policies without a surrender value as non-taxable assets. Specifically, “non-redeemable entitlements to periodic payments such as annuities or life annuities, spousal or child support payments, benefice payments, or rights of residence” are exempt from wealth tax, “because the value of these entitlements is limited to the claim to the individual periodic payments.”
- In contrast, life annuities with a surrender value are subject to wealth tax during the annuity term to the extent of the actual surrender value.
- Assets with a realizable monetary value constitute taxable assets, even if they are functionally or spatially connected to the household. Thus, photovoltaic systems whose generated electricity is fed into the public grid and for which a feed-in tariff is paid cannot be classified as household goods or personal effects. Regardless of whether they are designed to be mobile, they are therefore subject to wealth tax.

4. Debt Deduction

12 The net principle implies that taxpayers are entitled to deduct debts existing at the end of the year from their assets. The deduction of liabilities is mandatory due to the structure of the tax as a tax on total net assets, although the StHG does not explicitly regulate the deduction of liabilities. Restrictions on the deduction of liabilities by the cantons are generally—with corresponding exceptions to be discussed below—to be classified as violations of the harmonization requirements.

13 In particular, a provision that would limit the deduction of liabilities to those owed to domestic creditors would be incompatible with the StHG. Conversely, a limitation on the deduction of liabilities is permissible and objectively necessary to the extent that assets are not subject to the tax jurisdiction of the canton in question, namely when they are taxable in another canton or abroad. In these cases, the debt deduction is determined in accordance with the provisions of intercantonal or international double taxation law, which typically results in a proportional allocation of the debts—corresponding to the location of the assets. However, this may lead to the proportionate debts and debt interest allocated to foreign jurisdictions being disregarded due to the unilateral tax laws applicable there. Harmonization in this context arises directly from the intercantonal prohibition of double taxation and not from Art. 13 StHG.

14 As mentioned, the Federal Supreme Court imposes strict guidelines on the cantons regarding the tax base. Regarding the concept of debt, individual indications of a harmonized definition of debt can also be derived from case law.

15 In tax practice, all debts for which the taxpayer is legally liable are deductible. According to the Federal Supreme Court, the prerequisite for their deduction is that, as of the relevant reference date, a fixed and legally enforceable debt exists, the fulfillment of which is seriously expected. However, the liability need not be due at that time. Furthermore, there must be an economic connection between the deductible liability and the asset. Liabilities that do not reduce the economic value of a taxable asset cannot therefore be deducted.

16 Liabilities are generally deductible to the extent of their nominal value but, like receivables, are subject to the general valuation rules. Easements and public restrictions on ownership do not constitute liabilities for wealth tax

purposes. Cantonal regulations provide for different requirements and procedures for their consideration for wealth tax purposes, depending on the type of liability. The following list provides an overview of some cantonal arrangements and indicates whether the Federal Supreme Court has already deemed them compatible with the harmonization requirements:

- Joint and several liabilities can generally be deducted only to the extent that the taxpayer is personally liable to third parties, due to existing recourse options. The Federal Supreme Court has found this provision to be compatible with the harmonization requirements.
- Guarantee debts are to be treated for tax purposes in the same way as joint and several debts and may be deducted only to the extent that the guarantor is liable under civil law. The Federal Supreme Court also considers this provision to be compatible with the StHG.
- Although the harmonization requirement of Art. 13 para. 2 StHG addresses the attribution of usufructuary assets, it does not explicitly address the deduction of debts encumbering those assets. From a tax system perspective, it appears appropriate to allow the deduction of those debts for which the usufructuary is personally liable. The Federal Supreme Court also states that the taxpayer "may deduct from the assets his debts and the debts of all other persons whose assets he is required to tax."
- The partners of partnerships may deduct the partnership's debts from their assets on a pro rata basis—in accordance with the allocation rules. As far as can be ascertained, the Federal Supreme Court has not yet explicitly ruled on the treatment of partnership debts, at least with regard to the harmonization requirements for wealth tax. In the area of income tax, however, Art. 10 para. 1 DBG, among other provisions, stipulates that the income of partnerships must be allocated to the individual partners on a pro rata basis—in accordance with the partnership agreement or, alternatively, the discretionary statutory provisions. Legal doctrine assumes that the allocation rule applies not only to income but also to assets.
- In the case of contingent claims and those with an indefinite maturity date —for example, where certificates of loss exist for a claim—the probability of the actual debt obligation being enforced must be taken into account.
- Merely potential, purely prospective, and time-barred debts cannot be deducted—mirroring the rules governing taxable assets. According to Federal

Supreme Court case law, this includes, in particular, non-redeemable rights to periodic payments such as annuities or life annuities, spousal or child support payments, benefice payments, or residential rights, because the value of these rights is limited to the entitlement to the individual periodic payments.

C. Social deduction or tax-exempt minimum

17 In practice, the cantons regularly grant a social deduction for wealth tax, or a tax-exempt minimum asset is exempt from wealth tax. This tax-exempt minimum asset may also be linked to other social purposes. The canton of St. Gallen, for example, grants a tax-exempt minimum asset of CHF 75,000 plus CHF 20,000 for each minor child under the parental care or custody of the taxpayer.

18 The exemptions or social deductions provided for in wealth tax are not intended to exclude a minimum amount necessary for securing one's livelihood from the tax base, but merely aim to protect smaller fortunes from excessive state encroachment on assets. In short, they thus fulfill a purely tariff-related function. However, it cannot be ruled out that a very high exemption could violate harmonization law, since in such a case net assets would no longer be taxed. If, for example, a canton were to provide that the wealth tax would apply only to assets of CHF 1,000,000 or more, this would likely constitute a violation of harmonization law. As far as can be seen, however, the Federal Supreme Court has not yet ruled on this issue.

19 The definition of the tax base for wealth tax is also harmonized in terms of time—not by Art. 13, but by Art. 17 para. 1 StHG.

III. ON ART. 13 PARA. 2 STHG

A. Attribution of taxable assets

20 The StHG expressly regulates the attribution of taxable assets in connection with usufruct relationships in Art. 13 para. 2 StHG. The fact that the StHG contains only this specific rule regarding the allocation of assets is interpreted to mean that, in all other cases, the ownership relationships under civil law are generally decisive.

In the case of assets held in joint or undivided ownership, civil law relationships are again decisive for their allocation for property tax purposes. In the case of 50% joint or undivided ownership, therefore, half of the property tax value would be subject to tax. 21

However, a different allocation is justified where another person exercises actual control over the asset and holds a position analogous to that of an owner, such that this person appears to be the beneficial owner. In this context, Reich cites, for example, the purchaser of real property who, although not yet registered as the owner in the land register, has already assumed the benefits and risks. 22

The harmonization requirements regarding the tax attribution of assets are binding on the cantons and serve to ensure a coherent system in this area. In terms of procedural law, this means that the Federal Supreme Court has discretion to review whether the attribution rule chosen by a canton is compatible with the provisions of the Federal Tax Harmonization Act (StHG). The following sections will examine several scenarios in which the allocation of taxable assets does not follow civil law relationships or may occasionally lead to difficulties in delineation. The focus here is again on the relevant case law of the Federal Supreme Court and the extent to which this restricts or preserves cantonal discretion. 23

1. Special Circumstances

a. Usufruct and Similar Legal Relationships

According to para. 13(2) of StHG, the usufructuary must pay tax not only on the capitalized value of their usufruct right but on the full value of the asset in question. This attribution to the usufructuary, prescribed by harmonization law, corresponds—at least in the case of formal usufructs—to current practice in all cantons. The usufructuary must therefore declare the market value of the usufruct property as assets pursuant to Art. 14 StHG, but may deduct the debts encumbering it. 24

According to tax law doctrine and, implicitly, also in accordance with the case law of the Federal Supreme Court, the described attribution rule applies not only to formal usufructs but also to comparable, usufruct-like relationships, in particular to de facto usufructs. A de facto usufruct exists when the right of usufruct exists by mutual agreement between the owner and the usufructuary 25 without a legal obligation based on the economic circumstances, or can in fact be inferred from implied conduct. The concept of usufruct must be interpreted in economic terms. However—as emphasized in tax law doctrine—caution is warranted when assuming such an equivalent relationship.

26 The Federal Supreme Court's case law, however, limits its statements to the fact that tax equivalence between de facto and formal usufructs is not ruled out. The cantons are thus free to treat usufruct-like relationships as equivalent to formal usufruct, which is why various cantonal practices exist in this regard.

27 The cantons' discretion stems from the fact that the Federal Supreme Court does not rule out tax equivalence, but not from the fact that such equivalence would be mandatory. On the other hand, this means that if a usufruct-like relationship—from an economic perspective—cannot be equated with formal usufruct, the asset in question—in the absence of an explicit attribution rule under harmonization law—must be classified as net assets under Art. 13 para. 1 StHG and allocated to the formal owner under civil law.

b. Right of residence

28 In a recent landmark decision on this matter, the Federal Supreme Court acknowledged the structural parallels between usufruct and the right of residence, but at the same time emphasized the limited scope of the right of residence.

29 The Federal Supreme Court thus clarified that a property encumbered with a right of residence is, for wealth tax purposes, attributable to the civil law owner and not to the holder of the right of residence. Once again, the Federal Supreme Court intervened in this regard to harmonize the cantonal discretion.

c. Trust Relationships

30 Assets held by a third party within the framework of a trust relationship are attributable for wealth tax purposes to the beneficial owner—i.e., the settlor. Although the Federal Act on Wealth Tax (StHG) does not contain a special provision—analogous to that for usufruct—for trust relationships. However, the Federal Supreme Court clarifies that a taxpayer's net assets include not only assets in which the taxpayer holds a usufruct, but also those to which the

taxpayer is the beneficial owner as the settlor. This applies at least in cases where the fiduciary relationship is sufficiently proven. Such trust relationships constitute genuine fiduciary legal transactions that must also be recognized under tax law. Tax recognition follows the general principle that civil law relationships are generally decisive for tax classification. Consequently, a deviating cantonal rule regarding attribution in trust relationships would be incompatible with harmonization law.

d. Trusts

Swiss tax law contains no separate statutory provisions regarding the tax 31 treatment of trusts. With the publication of Circular No. 30 of the Swiss Tax Conference (KS 30 SSK) on the tax treatment of trusts, there has been at least a partial harmonization of cantonal practices. It is undisputed that a trust is not a taxable entity. Consequently, the attribution of trust assets based on civil law ownership relationships is not possible, which is why the treatment of trusts for wealth tax purposes must be based on an economic approach.

The type of trust is decisive for the wealth tax treatment of trusts. A distinc- 32 tion is made between revocable and irrevocable trusts. In the case of revocable trusts, there is no definitive transfer of assets, which is why, according to prevailing tax law doctrine, the trust assets continue to be attributed to the settlor.

In the case of irrevocable trusts, a further distinction must be made between 33 fixed-interest and discretionary trusts. The administrative practice established in KS 30 SSK treats fixed-interest trusts for wealth tax purposes as a usufruct arrangement, with the beneficiary as the usufructuary. The Federal Supreme Court clarified in this regard that this tax-law equivalence of the beneficiary of an irrevocable fixed-interest trust with a usufructuary is, in principle, consistent with Federal Supreme Court case law. According to this view, both the trust assets and the income derived therefrom are attributable to the beneficiary for wealth tax purposes. However, the Federal Supreme Court did not comment on whether a provision deviating from KS 30 SSK regarding the wealth tax treatment of an irrevocable fixed-interest trust would be compatible with the Federal Tax Act (StHG).

Difficulties arose regarding the determination of the scope of the wealth tax 34 base to be attributed to the beneficiary. The administrative practice set forth in KS 30 SSK provides that the beneficiary is subject to wealth tax on his or her share of the trust assets. If this share cannot be determined, the income may be capitalized instead.

35 Following this Supreme Court decision, the administrative practice for the aforementioned scenario must be revised such that the beneficiary—provided their share of the trust assets cannot be determined—must be taxed on the basis of the capitalized income. Cantonal administrative practices that generally allocate the beneficiary's share of the trust assets to the wealth tax base—without this share being clearly determinable—are likely to prove inconsistent with harmonization.

36 In the case of an irrevocable discretionary trust, however, there is no basis for attribution, as the beneficiaries hold only prospective rights and the settlor has relinquished his power of disposal, so that the trust assets remain, in principle, exempt from wealth tax.

37 The administrative practice set forth in KS 30 SSK concludes from this circumstance that there is a tax loophole and continues to classify trusts with a settlor resident in Switzerland as "revocable" for tax purposes, attributing the assets and the resulting income to the settlor. If the settlor is resident abroad, however, the attribution does not apply. This differential treatment has been criticized in legal scholarship. As far as can be seen, the Federal Supreme Court has not yet ruled on this issue. As discussed in detail elsewhere, the transfer of assets into a "cloud"—whether into an irrevocable discretionary trust or into foundation structures—poses a major challenge for a comprehensive wealth tax system such as Switzerland's. In other words, there is a significant risk that an overly liberal practice regarding the recognition of assets held in an Irrevocable Discretionary Trust (as convincing as it may seem at first glance) would call into question the very effectiveness of a wealth tax. Accordingly, a strict administrative practice may be justified on the grounds that the purpose of the wealth tax would otherwise be undermined, since assets could otherwise be shifted into a tax-free zone.

e. Groups of Persons

38 By definition, only natural persons can be subjects of the wealth tax. Although the StHG lacks a provision comparable to Art. 10 para. 1 DBG regarding the attribution of assets of groups of persons, tax law doctrine assumes that these

assets are to be attributed to the members analogously to the income tax rules.

In the case of communities of heirs, the statutory or testamentary succession must generally be taken as the basis. However, if the heirs agree on a different arrangement, the partition agreement or the actual partition carried out is decisive for wealth tax purposes—unlike what is typically the case with inheritance tax. The debts of partnerships are generally deductible according to the same distribution mechanism. 39

For shareholders in collective investment schemes with direct real estate holdings, para. 3 contains specific harmonization provisions regarding the treatment for wealth tax purposes. 40

f. Leasing

Leasing essentially constitutes a form of financing that enables the use of assets without immediately acquiring ownership of them. During the lease term, the leased assets generally remain the property of the lessor under civil law. Accordingly, leased assets are not attributable to the lessee for wealth tax purposes, unlike, for example, in the case of usufruct. 41

IV. REGARDING ART. 13 PARA. 3 STHG

A. In General

For units in collective investment schemes with direct real estate holdings, Art. 13 para. 3 StHG provides a specific taxation rule under which only the difference in value between the fund's total assets and its direct real estate holdings is taxable. 42

This provision is necessary insofar as collective investment schemes generally do not constitute independent taxable entities as long as they do not hold direct real estate holdings. Without a special harmonization provision, the entire fund assets would be taxed on a pro rata basis among the unit holders. However, Art. 20 para. 1 StHG treats investment funds with direct real estate holdings as legal entities to ensure that the real estate can be taxed at the fund's location. This prior taxation of the real estate must be taken into account when valuing the fund units. This provision aims, particularly in intercantonal relations, to avoid both economic double taxation and tax loopholes. 43

B. Determination of the taxable assets of collective investment schemes with direct real estate holdings

44 To avoid double taxation, the holder of fund shares must, for wealth tax purposes, include only that portion of the fund's assets that is not attributable to the investment fund's direct real estate holdings.

45 The wording of the law is, however, imprecise in that it fails to take into account the liabilities of the collective investment scheme. It would be more systematically correct to base the calculation on the difference between the fund's total net assets and the net assets attributable to direct real estate holdings.

V. REGARDING ART. 13 PARA. 4 STHG

A. Harmonization Provisions Regarding Exempt Assets

46 In principle, only assets that either do not give rise to a legally enforceable claim to monetary rights or are expressly exempted from taxation under the StHG are tax-exempt. Household goods and personal effects are explicitly exempted under para. 13(4) StHG.

1. Household goods and personal effects

47 The Federal Supreme Court defines household goods as those assets that serve residential purposes, are located in the home or household, and form part of the standard furnishings. In this context, it cites, for example, furniture, kitchen fixtures, household and garden tools, as well as electronic devices and hi-fi systems. Personal effects, by contrast, comprise those assets that are primarily intended for everyday personal use and not primarily for investment purposes. It is irrelevant whether the items are located in one's own household. What is decisive is their ongoing personal use.

48 The distinction between tax-exempt household goods or personal effects and taxable capital investments is sometimes difficult. According to legal doctrine, items such as paintings, jewelry, or carpets are not tax-exempt if their investment character clearly predominates. The decisive factor is not only an unusually high value, but an overall assessment of the circumstances, namely in-

vestment suitability, intended purpose, and actual use, as well as the taxpayer's financial circumstances and the rest of the household furnishings.

Several cantonal administrative practices provide, for example, that motor vehicles, boats, riding horses, and art collections, as well as valuable collections —such as musical instruments—do not count as household goods or personal effects. As far as can be ascertained, the Federal Supreme Court has not yet ruled on this practice. 49

2. Scope of the harmonization provision

The list of tax-exempt assets under harmonization law is exhaustive. This means that neither can further tax-exempt assets be established through interpretation, nor are the cantons authorized to exempt additional assets from taxation. 50

This exception must be understood in light of Art. 13 para. 1 StHG, which prescribes the taxation of the entire net worth and exempts only these two categories of assets from it. Since the cantons are thus prohibited from providing for further exemptions from the obligation to pay wealth tax, the interpretation of the terms "household goods" and "personal effects" takes on particular significance. 51

a. Assets without monetary value

Furthermore, assets without actual monetary value are not taxable, in particular mementos with merely subjective value. Assets whose monetary value is too indeterminate or uncertain are also exempt from taxation, such as self-generated, non-capitalizable goodwill. 52

Mere future entitlements are not to be regarded as taxable assets due to a lack of sufficient certainty. These include, above all, uncertain prospects of a future legal acquisition, such as claims to future pension benefits, to an inheritance or reversionary inheritance that has not yet accrued, as well as other rights subject to a condition precedent. The same applies to purchase prices for real estate deposited in an escrow account, as long as the transfer of ownership has not yet taken place. 53

b. Works of art and jewelry

54 The distinction is particularly delicate when it comes to works of art and jewelry. Depending on their purpose, use, and value, they are considered tax-exempt household goods or personal items, or ca9pital investments subject to wealth tax.

55 In legal doctrine, three criteria have been established for distinguishing between tax-exempt household goods or personal items and taxable works of art or jewelry: (i) the actual use and intended purpose, which can usually be objectively determined without further ado; (ii) the customary nature of the furnishings in comparison to similar circumstances, whereby, for example, in the case of art, the living situation and the motive for acquisition may also be taken into account; and (iii) in the case of works of art, the question of whether the investment character predominates or whether they are primarily part of the home furnishings. The type of insurance (household contents or separate art insurance) may serve as an indication in this regard but does not constitute an independent criterion.

56 Reference should be made here to Greter's study, which outlines various cantonal administrative practices regarding this distinction. Several cantons have issued practical guidelines for distinguishing tax-exempt from taxable assets and have in some cases supplemented these with valuation rules. These are regularly based on the classic distinguishing criteria mentioned above, combined with the note that taxpayers are entitled to tax-exempt home furnishings commensurate with their economic circumstances.

57 According to the tax practice of the Canton of Basel-Stadt, works of art up to a total value of CHF 100,000 are tax-exempt, although this limit may be adjusted based on financial circumstances.

58 There are only a limited number of court decisions regarding the distinction between household goods and other assets, with the majority relating to cases from the Canton of Zurich. The following overview of cantonal decisions is intended to provide guidance in this regard.

59 In an older decision, the Tax Appeals Commission of the Canton of Zurich held that works of art with a total value of approximately CHF 2.2 million, in the context of total assets of approximately CHF 7 million, exceeded the customary limit and were therefore subject to wealth tax. In doing so, the court

established the guideline—still frequently cited today—that in borderline cases, one must examine, taking economic circumstances into account, whether the value remains within the bounds of what is customary. If this limit is significantly exceeded and the object is capable of achieving substantial increases in value, the investment character generally prevails. Classification as household goods is then ruled out—regardless of the actual use.

In a later decision, the Administrative Court of Zurich built upon this and clarified the distinction by establishing a value threshold. A single painting valued at CHF 150,000 is no longer to be classified as tax-exempt household goods, regardless of its use or the taxpayer's financial circumstances. In doing so, the Administrative Court tightened the practice by classifying individual works of art as taxable assets once they exceed a certain value. 60

This has been criticized in legal scholarship because it means that individual objects can already be subject to declaration without the existence of a collection. Furthermore, it remains unclear at what point a collection can even be said to exist. Such a threshold—which is not enshrined in law and is difficult for taxpayers to predict—is, in the view of legal scholarship, at odds with the principle of legality under tax law. 61

Despite all the criticism in this regard, the Administrative Court of the Canton of Zurich—continuing its established case law—ruled in a recent decision that a painting valued at CHF 2.5 million clearly exceeded what is generally customary for household furnishings. 62

The differing treatment of works of art and jewelry under cantonal wealth tax laws illustrates the function of a framework law, as embodied by the StHG. Nothing in the wording of Art. 13 StHG suggests that either of the two cantonal tax practices outlined—distinction based on traditional criteria or the establishment of a monetary threshold—would violate the requirements of harmonization law. 63

Thus, as long as the Federal Supreme Court does not rule on this matter, it must be assumed—given the cantons' discretion—that the administrative practices described do not, at the very least, violate the provisions of the StHG. 64

c. Pets

65 Pets constitute a special case, as they are currently regarded under the law as living beings and not as property. This raises the question, even with regard to animals, of whether they are subject to wealth tax or are exempt from it as "household goods." According to Kunz, animals with an economic purpose—such as farm animals—are to be included in taxable net assets and are thus subject to wealth tax. In this case, the question arises as to the valuation of the animals for wealth tax purposes. It should be noted at the outset that certain cantons have special statutory valuation provisions.

66 For privately kept animals such as cats, dogs, or ornamental birds, however, the distinction is sometimes more difficult to make, particularly in the case of purebred animals. While an ornamental fish aquarium can still be classified as part of the home furnishings, this is hardly the case for a dog. In tax practice, however, pets are generally not treated as other assets subject to declaration, even though certain breeds may well have a considerable market value. In contrast, various cantonal administrative practices require the declaration of privately owned riding horses, without convincingly justifying what the tax-relevant difference is compared to other pets, particularly dogs.

67 In this context, Kunz advocates for a case-by-case assessment, but establishes the basic rule that valuable animals—which, according to the author, may include koi fish, racehorses, and purebred cats—may well be subject to wealth tax. As far as can be seen, however, there is a lack of Federal Supreme Court case law that clarifies the relevant distinction, which is why there is corresponding cantonal discretion in this matter.

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COMMENTARY ON

Art. 14 StHG

A commentary by Nicolas Grieder / Peter Hongler

SUGGESTED CITATION

Nicolas Grieder/Peter Hongler, Commentary of art. 14 StHG, in: Peter Hongler/Fabian Sutter (eds.), Online Commentary of the Federal Act on the Harmonisation of Direct Taxes of the Cantons and Municipalities (Tax Harmonisation Act, StHG)

Short citation: OK-Grieder/Hongler, art. 14 StHG N. XXX.

Art. 14 Valuation

1 Assets shall be valued at market value. In doing so, due account may be taken of the capitalised value.

2 Land used for agricultural or forestry purposes shall be valued at capitalised value. Cantonal law may stipulate that market value is taken into account in the valuation or, in the event of the sale or cessation of agricultural or forestry use of the land, that a supplementary tax assessment is made for the difference between the capitalised value and the market value. Such additional taxation may be levied for a maximum of 20 years.

3 Intangible assets and movable property forming part of the taxpayer's business assets shall be valued at the value relevant for income tax

purposes. The cantons may provide for a tax reduction in respect of assets attributable to rights under Article 8*a*.

(Legal text translated by DeepL)

CONTENT

I. OVERVIEW

Article 14 of the StHG governs the valuation of taxable assets and thus sets out in detail the provisions described in Article 13 of the StHG regarding the determination of the tax base for wealth tax purposes. Art. 14 StHG is thus to be understood as the link between the classification of an asset under wealth tax law and its quantification for wealth tax purposes. 1

II. REGARDING ART. 14(1) STHG

A. Principle of valuation at market value

1. In general

According to Art. 14 para. 1 StHG, assets are generally to be valued at market value, although the income value may be taken into account appropriately. According to Federal Supreme Court case law, the market value corresponds to the price that would likely be realised in the ordinary course of business if the asset were sold on the valuation date. Only objective market conditions are decisive in this regard. Subjective factors, as well as prices agreed between friends or acquaintances, are disregarded. The market value is thus based on a twofold assumption: firstly, that a sale is in principle possible and that it takes place on standard market terms. Market value is not a precisely calculable figure, but is regularly determined by way of estimation or comparison. Secondly, the prices actually achieved on the market are subject to considerable fluctuations in some cases and may also contain speculative or subjective elements in individual cases. 2

The income value is furthermore derived from the capitalisation of the income generated by the asset, using a market-standard capitalisation rate. 3

2. Scope of the harmonisation provisions

Art. 14 StHG contains only basic guidelines for the valuation of the net assets determined in accordance with Art. 13 StHG. In particular, the StHG does not specify the specific methods to be used to determine the market value. The cantons therefore have considerable discretion both in the choice of valuation method and in deciding whether and to what extent the income value – as a 4 discretionary provision – is included in the valuation. However, according to the established case law of the Federal Supreme Court, valuation methods that systematically lead to overvaluation or undervaluation are impermissible. According to the Federal Supreme Court's reasoning, this is the case, for example, when a flat-rate discount is applied to the market value to determine the wealth tax value, or when only a specified percentage of the market value is taxed.

5 Under the harmonisation principle of market value assessment, the cantons are no longer free to assess individual asset categories using arbitrary valuation methods – such as book values, market prices or other values. Deviations from this principle are only permissible in the cases provided for under harmonisation law.

6 The limited regulatory scope of harmonised tax law thus leaves the cantons considerable discretion and, at the same time, relativises the scope of Federal Supreme Court case law. It is true that both the interpretation of the StHG and the compatibility of cantonal law with it are subject to free review by the Federal Supreme Court. However, insofar as the StHG deliberately grants the cantons a margin of discretion, judicial review is limited to compliance with constitutional limits, namely the prohibition of arbitrariness.

7 There are certain exceptions to the principle of market value assessment that are explicitly provided for under harmonisation law, and these are exhaustively regulated. One such exception, pursuant to Art. 14 para. 2 StHG, concerns land used for agricultural and forestry purposes, which must be valued on the basis of the income value. A further exception applies, pursuant to Art. 14 para. 3 StHG, to movable assets, including intangible assets, insofar as they form part of the taxpayer's business assets. This must be recorded at the value relevant for income tax purposes. By contrast, immovable, non-agricultural assets – regardless of whether they are classified as private or business assets – must in principle be valued at market value within the meaning of para. 14 of StHG, although the income value may be taken into account appropriately.

8 For the sake of completeness, it should be noted that Art. 14a StHG, as a *lex specialis* provision for employee shareholdings, also provides for special valuation rules.

B. Valuation of assets pursuant to para. 14(1) StHG

If the market value cannot be determined on the basis of reliable comparative prices – e.g. using stock market prices – it must be estimated in accordance with generally accepted valuation principles. In properly conducted market value estimates, the income value is regularly taken into account in an appropriate manner. By contrast, the exclusive valuation of movable or immovable assets at the lower capitalised value is, in principle, impermissible and is provided for under harmonisation law only in the case of land used for agricultural and forestry purposes. 9

The following section addresses the valuation and, in particular, the methods developed by case law and administrative practice for determining the market value of those assets for which there are no special provisions under harmonisation law and which therefore fall under Art. 14 para. 1 StHG. This concerns movable private assets as well as immovable assets that are not used for agricultural or forestry purposes. 10

The focus of this commentary is to demonstrate the extent to which cantonal discretion is restricted by the case law of the Federal Supreme Court. 11

C. Valuation of movable private assets

1. Receivables and liabilities

a. Receivables

Case law on the valuation of receivables for wealth tax purposes is relatively consistent and can be summarised in a few key principles. The starting point is the nominal value principle. According to this principle, receivables are in principle taxable as assets at their full nominal value. This approach is recognised by the Federal Supreme Court as well as by the cantonal courts as an appropriate application of the concept of market value, because the nominal value generally corresponds to the value likely to be realised. 12

At the same time, case law emphasises that the nominal value is not a fixed figure and that a deviation from the nominal value is entirely possible. In this context, the probability of loss is of particular significance. The market value of a receivable is determined by its expected recoverability, which in turn is significantly influenced by the debtor's income and financial circumstances. In 13 a judgment of the Administrative Court of the Canton of Zurich, which was upheld by the Federal Supreme Court, the cantonal court stated that the debtor's solvency, the existence of disputes, subordination of claims, conditions precedent or other objective risks that reduce the actual value of the claim must also be taken into account. In such cases, the increased risk of loss must be reflected by applying a discount. Complete exclusion for wealth tax purposes, however, is only considered in exceptional cases.

14 Furthermore, case law clarifies that the due date of a claim does not in itself influence its valuation. Non-interest-bearing receivables are also generally to be recorded at their nominal value. Only when additional factors come into play – such as a long term combined with a lack of terminability or structural risks – does a discount appear objectively justified.

15 A recurring theme in cantonal case law concerns the burden of proof. If the taxpayer wishes to deviate from valuation at nominal value, they must substantiate and provide evidence of the circumstances giving rise to a reduction in value. Mere general references to uncertainties or the absence of interest are not sufficient. Rather, the courts require comprehensible evidence, for example regarding the debtor's financial situation or the lack of enforceability of the claim. In the absence of such evidence, the valuation at nominal value stands.

16 In summary, it can be stated that the courts approach the valuation of claims for wealth tax purposes with a pragmatic balance. The nominal value is the standard rule, whilst case-specific adjustments apply where objectively substantiated risks reduce the actual value.

b. Debts

17 Liabilities are generally to be recorded in accordance with the same valuation principles as the corresponding receivables. For the determination of market value, reference must therefore generally be made to the par or nominal value. Deviations are to be made – by analogy with the valuation of receivables – where liabilities are uncertain, cannot be precisely determined in terms of amount, are disputed, or are subject to suspensive or resolutive conditions.

2. Listed shareholdings or assets

The valuation of shares is largely determined by whether a stock market price or a relevant change of ownership reflecting the fair market value is available. If this is not the case, the wealth tax value must be determined using valuation methods. 18

Determining the market value of listed shares is relatively straightforward, as listed securities generally have a transparent market price. The guiding principle is that, for regularly traded securities, the closing price on the last trading day of the tax period reliably reflects the market value. This practice is endorsed by the Federal Supreme Court and forms the basis of cantonal valuation practice, as specified in particular in Circular No. 28 of the Swiss Tax Conference (KS 28 SSK). 19

The valuation of listed shares presents little potential for conflict under harmonisation law for the purposes of wealth tax. 20

3. Unlisted shares

a. Preliminary remarks

With regard to the valuation of unlisted shareholdings, KS 28 SSK plays a central role in practice. Although this is merely an administrative regulation, the guidance—which is geared towards cross-cantonal harmonisation—regularly reflects the administrative practice actually followed. At the same time, as 'soft law', it gives concrete form to Art. 14 para. 1 StHG and fills the scope that this provision deliberately leaves to the cantons. In the area of wealth tax, KS 28 SSK aims to ensure the most uniform possible valuation and assessment of domestic and foreign securities not listed on a stock exchange throughout Switzerland, thereby making a significant contribution to intercantonal tax harmonisation. 21

The practical relevance of KS 28 SSK for cantonal administrative practices is further demonstrated by the fact that – as far as can be ascertained – all cantons refer to it when there is no stock market price or relevant change of ownership for a shareholding and the market value must be determined using valuation methods. Depending on the canton, this is done either through explicit references in the implementing or enforcement ordinances to the can- 22 tonal tax laws or through corresponding references and adoptions in cantonal tax manuals or guidelines.

23 The Federal Supreme Court has already addressed specific issues within the scope of application of KS 28 SSK in a large number of decisions and has developed a nuanced body of case law in this regard. The following remarks serve in particular to demonstrate whether the principles developed by the SSK for determining the market value of unlisted shares are compatible with the requirements of harmonisation law. We shall not set out the principles for determining the market value for wealth tax purposes here, but refer to the relevant guidelines.

b. On the binding nature of KS 28 SSK

24 According to established case law of the Federal Supreme Court, KS 28 SSK is regarded as an appropriate and reliable method for determining the market value of unlisted securities, as it reflects the factors typically decisive for the pricing of such holdings. Accordingly – at least in the area of wealth tax – it is generally assumed that the guidelines must be applied when valuing unlisted securities. However, according to Federal Supreme Court case law, a deviation from this administrative regulation is appropriate if, in the specific case, a more substantiated and convincing determination of the market value is possible. Valuations of unlisted securities carried out on the basis of KS 28 SSK are, in principle, recognised and protected in Federal Supreme Court case law – with the exceptions set out below.

25 The Federal Supreme Court has deviated from the valuation principles of KS 28 SSK for the purposes of wealth tax in the following cases, amongst others:

- The holdings held by a holding company were valued by the lower courts – in deviation from the requirements of KS 28 SSK – not individually using the average value or practitioner's method, but collectively on the basis of the audited consolidated financial statements. According to the Federal Supreme Court, this approach is appropriate insofar as consolidation avoids unjustified multiple recognition of equity and fictitious profits from intra-group transactions, thereby preventing inflated net asset and income values.
- According to the case law of the Federal Supreme Court, schematic valuation or estimation rules – such as those set out in KS 28 SSK – are not de-

cisive, in particular, where the market value can be derived with sufficient certainty from actual transactions concluded at market-based prices. According to one interpretation of Federal Supreme Court case law, there is therefore no cantonal discretion regarding the determination of the wealth tax value if, for unlisted securities, there has been a relevant change of ownership that reflects the market value between independent third parties – as the concept of market value is interpreted by the Federal Supreme Court – or, more precisely: provided that the sale price reflects a representative and plausible market value.

c. On the consideration and weighting of the income value

Where the market value of unlisted shares is to be estimated using schematic methods, both Federal Supreme Court case law and cantonal administrative practice – as outlined above – are generally guided by KS 28 SSK. According to this, the income value must be included in the valuation, with varying weightings depending on the type of company. 26

In this context, the Federal Supreme Court held that a valuation approach based exclusively on net asset value raises serious doubts as to whether it still takes sufficient account of the principle of market value assessment enshrined in Art. 14 para. 1 StHG, without this question having been conclusively resolved. 27

However, the Federal Supreme Court appears – at least according to the interpretation put forward here – to be referring primarily to institutionalised valuation methods which schematically provide that shares are to be valued exclusively at net asset value. Conversely, it follows that, in the context of a case-by-case valuation, it may well be permissible to determine the wealth tax value exclusively on the basis of net asset value, provided that this method takes account of the actual economic circumstances and is not the result of a rigid, generalised valuation rule. Such an approach appears justifiable from the perspective of harmonisation law as well, in light of the cited Federal Supreme Court case law. According to Oesterhelt/Schreiber, a deviating valuation based on the specific circumstances is appropriate and permissible if, for example, a buy-back obligation enshrined in the articles of association or a shareholders' agreement influences the effectively realisable market value. A corresponding case-by-case approach may well be compatible with Art. 14 para. 1 StHG and the case law of the Federal Supreme Court. 28

29 Furthermore, according to the case law of the highest court, the net asset value approach is not arbitrary and is therefore compatible with harmonisation law if a company has effectively ceased its operational activities and limits itself to holding or managing assets. Conversely, a sharp decline in turnover or staff reductions do not necessarily imply that a company is in liquidation. In such cases, taking the income value into account may, according to the Federal Supreme Court's reasoning, still be appropriate and non-arbitrary.

d. Specifically regarding property companies

30 In the case of property companies, KS 28 SSK generally provides for the valuation of the holding at net asset value – as enterprise value. This must be distinguished from the valuation of undeveloped and developed land held by the property company. These are generally to be valued at market value. If this is not known, the valuation is based on the official valuation or the capitalised income value, but at least at book value.

31 In this context, the Federal Supreme Court held that the market value of the land may be determined by reference to market-based estimates – for example, using the comparative or statistical method. According to this case law of the Federal Supreme Court, the amount determined using the comparative or statistical method ultimately also represents an estimated market value. Neither KS 28 SSK nor the accompanying commentary suggests to the Federal Supreme Court that such a determination of market value should be ruled out. Where properties have been acquired at prices below the official valuation figures, the latter may nevertheless be used as a basis, provided that this takes appropriate account of the capitalised income values, as explicitly provided for under harmonisation law.

32 When valuing shareholdings in property companies, the question arises as to whether and to what extent deferred taxes – primarily deferred property gains tax – may be taken into account when determining the net asset value. KS 28 SSK provides that deferred taxes may generally be taken into account by applying a 15 per cent deduction to the untaxed hidden reserves included in the valuation. This covers taxes that would be due upon the realisation of the hidden reserves included in the net asset value calculation but which have not yet been taxed as income. The deduction for deferred taxes on immovable property is only possible if the land is valued at market value or capitalised value, or if the official valuation corresponds to the market value. The

Federal Supreme Court has at least implicitly confirmed the inclusion of deferred taxes when determining the wealth tax value for holdings in property companies in accordance with the approach set out in KS 28 SSK. However, the Federal Supreme Court did not comment on whether, in addition to the solution provided for in KS 28 SSK, other methods for taking deferred taxes into account are permissible. It must therefore be concluded that the consideration of deferred taxes is, in principle, compatible with harmonisation law and that the rule laid down in KS 28 SSK constitutes a permissible specification of the requirements under harmonisation law. Against this background, the cantons retain discretion in the design of the deferred tax regime, in particular when determining the applicable tax rate. In substance, the deduction of deferred taxes means that the value for wealth tax purposes of a holding in a property company is generally below the net asset value and thus comes closer to the principle of valuation at market value according to para. 1 of Art. 14 of the Swiss Federal Fiscal Code.

e. Specifically regarding person-related companies

As the income value of person-related companies may, under certain circumstances, be difficult to realise, the question arises in the valuation of such shareholdings as to the weighting – whether single or double inclusion – of the income value. Under current administrative practice, upon application, the income value and net asset value may each be weighted once if the income is (almost) exclusively based on the performance of a person holding a majority stake (a stake of at least 50 per cent is taken as the benchmark, with the shares of jointly taxed spouses being aggregated) and – apart from a few support staff – no significant number of staff are employed. If the income is (almost) exclusively derived from the work of a majority shareholder (a holding of at least 50 per cent is taken as the benchmark, with the shares of jointly taxed spouses being aggregated) and, apart from a few assistants, there is no significant staff, the income value and net asset value may each be weighted simply upon application. 33

In a ruling on this matter, the Federal Supreme Court held that it is neither contrary to Art. 14 para. 1 StHG nor arbitrary to take the income value into account in the same way for single-member public limited companies as for multi-member public limited companies when carrying out a valuation. However, if the income value can only be realised to a limited extent, for example 34 because it depends significantly on the personal work performance of the shareholder, it may be appropriate, according to the highest court's case law, to simply weight the income value and net asset value equally. This also corresponds to the guidelines in the commentary on KS 28 SSK for companies with income that is difficult to sell and is person-dependent. However, in its case law regarding person-dependent companies, the Federal Supreme Court has held that it is not unrealistic for a reputation to be built up, despite the person-dependent nature of the business, which is detached from the individual employee and, as such, establishes an independent market value.

35 According to the relevant case law and administrative practice, however, a complete disregard of the earnings value in the case of operationally active companies does not generally appear appropriate. In this regard, the Federal Supreme Court took the view that a valuation of person-related service companies based exclusively on net asset value would systematically undervalue them and thus contradict the market value assessment required by Art. 14 para. 1 StHG.

36 Furthermore, the Federal Supreme Court clarified that, when valuing unlisted shareholdings, it is irrelevant if the shareholder forgoes a market-standard salary and thereby increases the value of their shareholding.

f. On the flat-rate deduction

37 The Federal Supreme Court has repeatedly ruled on minority shareholdings. According to established case law of the Federal Supreme Court, the granting of a flat-rate minority discount is excluded if the taxpayer in question, despite holding a formal minority stake, effectively exercises a controlling or cumulative influence, for example in the case of spouses with a combined majority stake. Minority shareholdings held by spouses must therefore, in principle, be aggregated, unless it can be credibly demonstrated that they are managed and disposed of independently. In our view, the same conclusion must be reached where a company is subject to control by means of a shareholders' agreement. Conversely, a minority discount may also be justified in the case of a 50% holding if the co-shareholder does not have a controlling influence due to the company's legal structure.

g. Factors extending beyond the valuation date

Furthermore, the Federal Supreme Court held that it is not arbitrary to take into account, when determining market value, indicators that materialise shortly after the valuation date and allow reliable conclusions to be drawn regarding the determination of market value. Thus, the Federal Supreme Court did not consider it arbitrary to use the purchase price agreed in a purchase agreement as a reliable indicator of the market value, even though the purchase agreement was not concluded until the middle of the following year and was backdated to 1 January of that year. According to the case law of the Federal Supreme Court, it is therefore permissible to also use recent events from the subsequent tax period to determine the market value. 38

h. Digression: Divergence between income tax and wealth tax values

The Federal Supreme Court also held that the valuation rules for income tax and wealth tax do not have to be identical. A divergence between the book value or income tax value on the one hand and the wealth tax value on the other was deliberately provided for by the tax harmonisation legislature, or at least accepted. There is evidently no coordination rule from which a priority of one type of tax over the other could be derived. Had the tax harmonisation legislature intended such a hierarchy, it would have had to stipulate it expressly, as has been done, for example, for intangible assets and movable assets of the business estate. For these, Art. 14 para. 3 StHG expressly provides that they are to be valued at the value relevant for income tax. 39

4. Valuation of immovable property not used for agricultural purposes

a. Preliminary remarks

Land not used for agricultural or forestry purposes is, in principle, to be valued at market value, although the income value may in turn be taken into account appropriately. This valuation principle applies regardless of whether the land forms part of the taxpayer's private or business assets. The deviation from the market value principle provided for in para. 14(3) StHG applies exclusively to movable business assets, for which the income tax value is decisive. 40

b. Definition of immovable non-agricultural assets

41 The StHG contains no provisions regarding the division of net assets into immovable and movable components. Whether and how property taxation is linked to the nature of the land therefore depends on cantonal law. Accordingly, photovoltaic systems, which, as shown, are subject to property taxation, may, depending on cantonal regulations, either be included in the official land valuation or be taxed as independent movable assets.

c. Harmonisation requirements

42 Even for immovable assets not used for agricultural purposes, the StHG neither specifies the methods by which the market value is to be determined, nor does it clarify the conditions under which the income value must be appropriately taken into account. This again leaves the cantons with considerable scope for regulation and application, within which they may – to a certain extent – also take property policy considerations into account for residential buildings.

d. Specific challenges

43 The Federal Supreme Court acknowledges that the valuation of land – irrespective of the specific method applied – is subject to a certain degree of uncertainty. This unavoidable imprecision is reflected in a range of results that corresponds to the reality of property valuation. Against this background, it is in principle permissible to determine the wealth tax value for non-agricultural land on the basis of schematic and conservative estimates, provided that these take account of the necessary categorisation and the inevitable uncertainty in valuation.

44 Given the considerable discretion enjoyed by the cantons, the Federal Supreme Court considers it permissible for the property tax values to ultimately lie more or less significantly below the actual market value. If, on the other hand, a general valuation rule were designed to achieve an average wealth tax value of 100 per cent of the market value, there would inevitably be a risk that this would exceed the actual market value in a large number of cases. In such circumstances, according to the case law of the highest court, an asset value would be taxed that does not actually exist, which contravenes the harmonisation requirement.

e. Methods for determining the property tax value

Various valuation and estimation methods are available for determining the market value of real estate; their suitability depends on the nature of the property being valued and the specific purpose of the valuation. A collection and explanation of relevant methods can be found in the valuation handbook 'Das Schweizerische Schätzungshandbuch, Bewertung von Immobilien' published by the Swiss Association of Cantonal Property Valuation Experts (SVKG) and the Swiss Valuation Chamber/Swiss Association of the Real Estate Industry (SEK/SVIT). Several cantonal administrative practices declare this to be applicable to their valuations of immovable property. Cantonal case law has also already recognised the valuation handbook as generally accepted practice. Federal Supreme Court case law contains no explicit reference to this – as far as can be ascertained and unlike in relation to KS 28 SSK – indicating that the Federal Supreme Court would rely on the aforementioned Valuation Manual or the guidelines described therein when determining the market value of land for wealth tax purposes. 45

According to Roesch/Pandurski, the cantonal valuation approaches for determining the wealth tax value of land can essentially be divided into two groups. A first group uses mixed-value models that combine cost and income approaches. Although this method is recognised by experts, it is considered outdated in property valuation theory and is increasingly being abandoned due to its complexity. 46

A second group relies primarily on the cost or real value for the calculation of the wealth tax value. However, this approach is criticised by Roesch/Pandurski from a valuation and harmonisation law perspective, as the cost value on its own does not reflect market value and, in particular, systematically favours investment properties. Particularly critical in this regard are models based on insurance or fire insurance values or those using schematic capitalisation rates, as they lack a market reference. In any case, a market-based approach to the market value is necessary for a proper valuation of assets. 47

According to Federal Supreme Court case law, the price comparison method is regarded as the most reliable method for determining the property tax value of land, provided it is based on a statistically sufficient number of suitable comparative prices. The price comparison method is particularly suitable for 48 the valuation of land and constitutes the primary method in this area. By contrast, the location class method primarily serves as an auxiliary method.

f. Valuation by property type

49 Cantonal administrative practices regularly differentiate the specific determination of market value by property type. In the case of developed land – particularly owner-occupied and let properties – the market value may, in practice, also be derived using a capitalisation approach, provided the capitalisation is market-oriented, which has been deemed a permissible method by the Federal Supreme Court. In contrast, undeveloped plots of land not used for agricultural purposes typically generate no income or only a minor income, which is why the market value is typically determined using comparative prices or market-based models. Irrespective of this, it is crucial that the valuation method as a whole remains close to the market value and does not veer into a schematic undervaluation or overvaluation detached from the market. Furthermore, it appears permissible under both constitutional and harmonisation law to differentiate between second homes and owner-occupied primary residences when determining the wealth tax value. As far as can be ascertained, there is no Supreme Court ruling on this specific issue.

g. Federal Supreme Court guidelines regarding the determination of the wealth tax value

50 The Federal Supreme Court has repeatedly ruled that cantonal regulations which systematically set the wealth tax value significantly below market value are contrary to federal law. Thus, valuation practices were rejected which set the wealth tax value 'as a rule at 60 per cent of the market value' or at '70 per cent of the estimated value'. The same applies to regulations that effectively resulted in average valuations of around 61 or 59 per cent of market value. According to the Federal Supreme Court, such approaches fail to meet the definition of market value under Art. 14 StHG, as they amount to structural undervaluation and thus contravene the requirements of harmonisation law.

51 By contrast, the Federal Supreme Court has on several occasions deemed cantonal valuation models to be permissible under harmonisation law where the estimates at the upper end of the valuation range do not exceed the actual market value, even if this results in property tax values generally falling between 70 and 100 per cent of the market value. According to the highest

court's case law, it is also compatible with Art. 14 para. 1 StHG to aim for a target value of 90 per cent of the market value when using formulaic valuation methods, in order to avoid inflated market values in individual cases.

As explained, both a general undervaluation of 70 per cent and an overvaluation of 100 per cent of the actual market value are contrary to harmonisation. 52
Within this framework defined by the Federal Supreme Court, however, the cantons are free to provide for adjustments where the valuation methods applied result in values outside this range. The decisive factor is that the property tax values determined by way of correction comply with the framework prescribed by federal law.

Conversely, schematic solutions providing for a flat-rate discount motivated 53
by property policy are also inadmissible, as such regulations would in turn lead to valuations that are systematically significantly below the real value. A flat-rate and linear discount must, however, be distinguished from the cautious valuation resulting from the inherent uncertainty in property valuation.

In accordance with the above, the property tax value for immovable property 54
may be determined by means of schematic and conservative estimates that take account of the inevitable schematisation and the inherent uncertainty of any valuation. If such methods result in tax values that, on average, fall below the actual realisable market value, this is permissible within certain limits. The prerequisite is that the deviation is objectively justified by the inaccuracy of the valuation and does not result from systematic undervaluation. Overall, Federal Supreme Court case law requires a cautious and moderate approach to the valuation of immovable property, which serves in particular to avoid overvaluation and the taxation of assets that cannot be realised.

The cantonal discretion regarding the consideration of the income value of 55
immovable property is limited by the fact that – with the exception of land used for agricultural and forestry purposes in accordance with Art. 14 para. 2 StHG – a valuation may not be based exclusively on the income criterion without taking the market value into account. The income value may only be taken into account in an appropriate manner and cannot, on its own, justify any arbitrary deviation from the market value.

In light of the above, cantonal valuation systems which determine the wealth 56
tax value on a flat-rate basis and exclusively according to the income value,

whilst disregarding the market value, would in principle be classified as impermissible.

57 The case law of the Federal Supreme Court on wealth tax valuation issues is also of particular interest with regard to the scope of cantonal discretion. Whilst the Federal Supreme Court, when valuing movable assets – notably unlisted shareholdings – adheres almost stoically to the guidelines of KS 28 SSK, it grants the cantons significantly broader discretion regarding permissible valuation methods when determining the wealth tax value of immovable property.

h. Encumbrances and appurtenances

58 Encumbrances on a property must be taken into account as value-reducing factors in its valuation to the extent that they actually impair the objective market value. The economic value of easements and encumbrances must be added to the value of the property holding the right and deducted from the value of the encumbered property. Mortgages, on the other hand, are not taken into account when valuing land, as they are to be classified as taxable movable assets for the creditor and as deductible debts for the debtor.

59 Personal servitudes and registered personal rights, by contrast, do not generally reduce the value of the encumbered property. This is subject to the special provision on usufruct under Art. 13 para. 2 StHG.

60 Components and appurtenances of a property, as well as the associated rights of use, must be taken into account as value-enhancing factors in the valuation, provided they do not qualify as independent taxable objects. Whilst components are inseparably linked to the property under civil law and cannot be subject to separate rights, appurtenances may be legally independent. This civil law distinction must also be consistently taken into account in the allocation and valuation for wealth tax purposes.

61 The valuation of immovable property is also significant with regard to the allocation of liabilities according to the location of the assets, as this is based on the respective values determined for these assets. If individual assets are undervalued, this results in fewer liabilities and interest on liabilities being allocated to the relevant canton than would be the case under a uniform valuation standard.

To ensure uniform valuation in the distribution of debts and debt interest in the intercantonal context, so-called distribution factors were introduced by Circular No. 22 of the Swiss Tax Conference (KS 22 SSK). These factors are periodically adjusted to reflect changes in property values and serve to convert cantonal differences in wealth tax values into comparable apportionment values. The Federal Supreme Court has repeatedly recognised the apportionment factors as suitable and permissible correction instruments for intercantonal tax allocation. 62

The apportionment values – as the Federal Supreme Court expressly states – are relevant only for the allocation of liabilities, but not for the valuation of assets. In this respect, the market values determined in accordance with cantonal law remain the sole determining factor. It would be incompatible with both the prohibition on disadvantage and the harmonisation requirement to value assets at market value to increase the wealth tax value of a property owned by a taxpayer liable for tax in several cantons to a distribution value that exceeds the taxable market value of the property on which a taxpayer liable for tax only in the canton of location would be required to pay tax. 63

i. Valuation cycle

In terms of timing, harmonised tax law stipulates that wealth tax must be levied annually and is based on the value of assets at the end of the tax period or the tax liability. The Federal Supreme Court has concluded from this that tax harmonisation law prohibits the cantons from determining or updating asset values only at longer intervals. Valuation models that fail to adjust asset values over several years and thereby increasingly diverge from actual market conditions are incompatible with the Federal Act on the Harmonisation of Taxation (StHG). Cantonal regulations providing for such static values thus violate harmonisation law, as they contradict the legally required period-based and reference-date-related taxation of assets. 64

5. Cryptocurrencies and digital assets

For wealth tax purposes, crypto assets are generally to be treated in the same way as foreign currencies and must be declared in the securities and assets register. The relevant market value is the exchange rate as at 31 December, whereby the FTA – in line with securities listed on Swiss stock exchanges – publishes an official price list for the most common crypto assets. Digital as- 65 sets not listed therein are to be valued on the basis of the prices on trading platforms.

66 With NFTs, determining value is often difficult because individual high sale prices do not necessarily reflect the market value due to the lack of a liquid secondary market. In principle, the same valuation principles apply to digital artworks as to physical art, which is often difficult to value due to its uniqueness.

67 Difficulties may arise with tokens lacking a liquid market – namely utility tokens and certain asset tokens. Their fair market value must be estimated on a case-by-case basis, although significant uncertainties regarding the relevant methodology exist due to the lack of Federal Supreme Court case law. It is also unclear under harmonisation law whether DeFi positions (e.g. staking, liquidity pools) are to be classified as separate assets – which would in turn need to be valued – or as part of the underlying tokens.

III. ON ART. 14(2) STHG

A. Harmonisation law requirement

68 As the sole explicit deviation from the principle of valuing immovable property at market value, Art. 14(2) StHG stipulates that land used for agricultural and forestry purposes must be valued at its income value.

B. On the classification as land used for forestry and agriculture

69 The StHG does not contain a separate definition of land used for forestry and agriculture. In its case law on Art. 8(1) and Art. 12(1) StHG, the Federal Supreme Court has clarified that the harmonised concept of land used for forestry and agriculture must not be interpreted in isolation under tax law, but systematically, taking into account the objectives of the Federal Act on the Structure of Land Ownership (BGBB), the Spatial Planning Act (RPG) and the Agricultural Act (LwG). According to the Federal Supreme Court, tax privileges for agricultural and forestry land are, in principle, justified only if the conditions for the applicability of the Federal Act on the Coordination of Land Use Planning (BGBB) are met. This is notably the case for land outside the building zone that is permitted for agricultural use, or in the other scenarios provided for by law in accordance with para. 2 of Article 2 of the BGBB.

It should be noted, however, that for the application of Art. 14 para. 2 StHG, it is not the classification as agricultural or forestry land that is decisive, but the actual agricultural use. According to Würsch, agricultural use may, however, also exist in the case of land not subject to the BGBB, but always presupposes actual use. If such use is wholly or partially absent, the property tax value must be determined in accordance with the market value principle laid down in Art. 14 para. 1 StHG. By 'agricultural use', Würsch understands core agriculture as defined in Art. 3 para. 1 of the Agricultural Act (LwG). This includes the production of crop and livestock products, as well as their processing, storage and sale, and the management of near-natural areas. Other activities, such as fishing, horticulture or beekeeping, are not included. 70

The Federal Supreme Court has left open the question of whether the cantons have an independent discretion under harmonisation law when distinguishing between land used for agricultural or forestry purposes. It has, however, repeatedly confirmed that restricting income-based taxation to land falling within the scope of the Federal Act on the Structure and Development of the Swiss Economy (BGBB) is compatible with Article 14(2) of the Federal Act on the Harmonisation of Taxation (StHG), without thereby definitively ruling on the extent of the cantons' discretion. 71

C. Valuation of land used for forestry and agriculture

The cantons nevertheless retain a degree of discretion in two respects. Firstly, they may take the market value into account in the valuation. Whilst Art. 14(1) StHG expressly limits the consideration of the income value in the market value assessment to an 'appropriate' extent, no such restriction is found in para. 2. Tax law literature assumes that, in this case, the cantons are required to take the market value into account only to the extent that the valuation based on the income value is not undermined. The deliberately open-ended wording of the StHG thus leaves the cantons considerable discretion, which is reflected in practice in significantly differing cantonal arrangements. On the other hand, Art. 14 para. 2 StHG expressly provides that in the event of a subsequent sale or change of use of the property – within a maximum of twenty years – a supplementary wealth tax (retroactive taxation) may be levied. 72

D. Specifically regarding valuation based on the income value

73 The income value for land used for agricultural and forestry purposes is determined in accordance with Art. 10 of the Federal Act on the Introduction of the Swiss Civil Code (BGBB). This refers to the capital which, in the course of the customary management of an agricultural business or plot of land, can be capitalised at the average interest rate for first mortgages using the achievable yield. In determining both the relevant income and the interest rate, reference must be made to average values over several years. The specific valuation is carried out in accordance with Art. 2 VBB. In this regard, the individual valuation method must generally be applied rather than the gross income method. Each component of an agricultural holding – namely land, buildings and woodland – must be valued separately and in accordance with the relevant guidelines.

E. Supplementary wealth tax

1. Harmonisation requirement

74 Art. 14 para. 2 StHG grants the cantons, by means of an alternative discretionary provision, the option to levy a supplementary wealth tax upon the sale of land used for agricultural or forestry purposes which was taxed at its income value during its privileged use, or upon the cessation of agricultural or forestry use. The basis for assessment of the retrospective tax is the difference between the income value and the market value. The tax must be limited in time to the past 20 years.

75 This supplementary wealth tax was already in use in several cantons prior to the entry into force of the StHG. It is based on the consideration that the market value accrues to the owner in economic terms already during agricultural or forestry use, but is only realised upon disposal or a change of use – for example, through development. The retrospective taxation is therefore intended to compensate for the under-taxation resulting from taxation based on the income value, which is in some cases not objectively justified.

2. Determination of market value

76 The StHG contains no provisions regarding the criteria by which the market value relevant for the supplementary wealth tax is to be determined. This

leaves the cantons a certain degree of discretion in this matter as well. Accordingly, the Federal Supreme Court's review of the cantonal regulations and their application is again limited to assessing arbitrariness.

IV. RE ART. 14 PARA. 3 STHG

A. Harmonisation requirement

Under Art. 14 para. 3 StHG, movable business assets – including intangible assets – are to be valued at their income tax value. The explicit mention of intangible assets is of a rather declaratory nature, as these are in any case to be classified as movable assets. 77

With the STAF tax reform, para. 14(3) StHG was amended to the effect that the cantons have since been able to provide for a tax reduction for assets comprising patents and comparable rights within the meaning of Art. 8a StHG. The Corporate Tax Reform Act II had already previously repealed the former special provision under which securities in business assets were to be valued at market value. Since then, securities in business assets have also been uniformly subject to valuation at the income tax value. 78

B. Scope of the harmonisation provision

This harmonisation provision mandatorily stipulates that movable business assets must be assessed for wealth tax purposes at their income tax value. According to the wording of Art. 14 para. 3 StHG, a deviating valuation—such as a market-oriented one—would, for example, be incompatible with harmonisation law. The cantons' discretion is thus limited to the determination of value under income tax law itself, but not to the introduction of alternative valuation criteria for the purposes of wealth tax. 79

C. Valuation at income tax value

The income tax value corresponds to the value of movable business assets, including intangible assets, which is decisive for income taxation. For taxpayers who keep accounts, this is generally the tax-adjusted book value. For self-employed persons who do not keep accounts, the value determined on the basis of records and depreciation tables must be used, provided it complies with tax law. 80

81 Hidden reserves attached to these assets may not be taken into account by the cantons when valuing the business. Consequently, a form of the 'relevance principle' applies to the wealth taxation of the business assets of self-employed persons. The value for income tax purposes is decisive and is also adopted for wealth tax purposes, subject only to the tax adjustments expressly provided for by law.

82 In summary, it follows that Art. 14 para. 3 StHG brings about a selective but mandatory harmonisation. For movable business assets, wealth tax is systematically linked to the income tax value. Whilst the StHG leaves the cantons considerable leeway in other areas – in particular regarding the determination of market value under Art. 14 para. 1 StHG – this leeway is deliberately restricted within the scope of application of Art. 14 para. 3 StHG. Disputes thus shift less to the valuation as such, but primarily to the prior classification of an asset as business or private assets.

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COMMENTARY ON

Art. 14a StHG

A commentary by Nicolas Grieder / Peter Hongler

SUGGESTED CITATION

Nicolas Grieder/Peter Hongler, Commentary of art. 14a StHG, in: Peter Hongler/Fabian Sutter (eds.), Online Commentary of the Federal Act on the Harmonisation of Direct Taxes of the Cantons and Municipalities (Tax Harmonisation Act, StHG)

Short citation: OK-Grieder/Hongler, art. 14a StHG N. XXX.

Art. 14a Valuation of employee shareholdings

[1] Employee shareholdings under Article 7*d*(1) must be valued at fair market value. Any lock-up periods must be taken into account appropriately.

[2] Employee shareholdings under Articles 7*d*(3) and 7*e* must be declared at the time of allocation without a tax value.

(Übersetzt mit DeepL)

CONTENT

I. PRELIMINARY REMARKS AND SYSTEMATIC CLASSIFICATION

Art. 14a StHG is systematically linked to income tax law and presupposes that employee share plans are relevant for wealth tax purposes only to the extent that the date of realization relevant for income tax purposes has passed. The special income tax rules for employee share plans thus generally—as discussed below—have a direct impact on wealth tax. 1

Without this special provision, the determination of the wealth tax value would be based on Art. 14 para. 1 StHG. 2

II. HARMONIZATION REQUIREMENTS

A. Genuine Employee Shareholdings

1. In General

Under Art. 14a para. 1 StHG, genuine employee shareholdings—with the exception of restricted or unlisted employee options—must be valued at fair market value. For unlisted employee shares, a formula value may be used, which is determined in accordance with Circular No. 28 of the Swiss Tax Conference (KS 28 SSK), consistent with income tax practice. According to the wording of Art. 14a para. 1 StHG, lock-up periods must be taken into account, which constitutes a deviation from the general applicability of KS 28 SSK. Since the StHG merely requires that this consideration be "appropriate," the cantons retain a degree of discretion. 3

2. Cantonal Valuation Systems

In cantonal practice, two main models have emerged regarding the consideration of lock-up periods in the context of the property tax valuation of employee shareholdings. On the one hand, the approach is based on the income tax valuation; on the other hand, flat-rate deductions are applied to the market value—which, for unlisted shareholdings, is generally determined according to KS 28 SSK. 4

3. Compatibility with Harmonized Tax Law

5 As already explained elsewhere, according to Federal Supreme Court case law, the income tax value and the wealth tax value may diverge. For this reason, the implementation variant using a flat-rate deduction does not appear to violate harmonization law requirements from the outset.

6 The question of whether to take the lock-up period into account is, however, decisive insofar as—as Teuscher/Lobsiger rightly note—this is not a matter of cantonal tariff sovereignty, but rather concerns the valuation of the taxable object. Consequently, cantonal implementation falls within the scope of the StHG and is subject to review for arbitrariness by the Federal Supreme Court. However, as far as can be seen, the Federal Supreme Court has not yet ruled on the admissibility of the two aforementioned variants of the cantonal valuation systems for restricted employee share options. It cannot be ruled out, however, that if a relevant case were brought before it, the Court might conclude that a particular cantonal implementation variant would be contrary to harmonization law.

B. Restricted, unlisted employee options and quasi-employee shareholdings

7 Restricted or unlisted employee options and quasi-employee shareholdings must be declared upon allocation pursuant to Art. 14a para. 2 StHG, but without a corresponding tax value. Para. 2 thus establishes not only a substantive valuation rule but also a mere reporting obligation. Where only future entitlements exist, valuation is ruled out in any case, as there is no taxable object that can be valued.

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