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Homeownership taxation after the Great Recession onset in Europe: do property taxes compensate for income tax exemptions?

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Homeownership tax treatment across Europe: lack of neutrality with respect to other forms of capital investment

1. Tax exemption of imputed rent (i.e. the return from investing in owner-occupied housing)
2. Tax reliefs of mortgage interest payments (MITR)
3. Recurrent property taxes

Contributions of the paper

1. Up-to-date aggregate and distributional measures of the homeownership bias arising from the income tax rules
2. Novel evidence on the extent to which lack of neutrality is mitigated by recurrent property taxation
3. Comparisons of 8 EU countries with different housing markets and tax systems

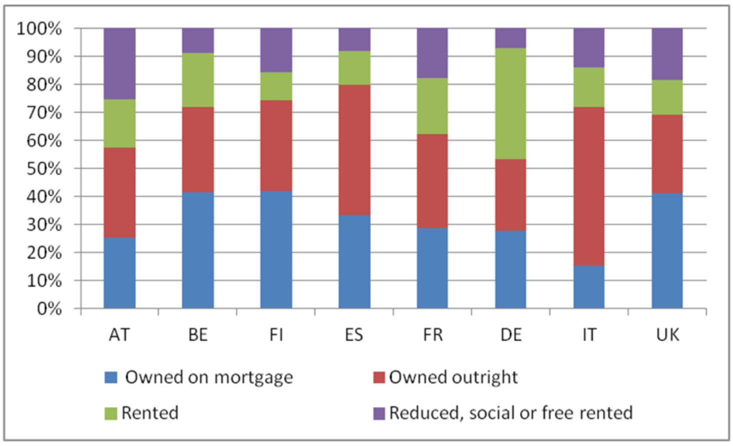
Data and methodology

- ➢ EUROMOD, 2012 policy systems
- ➢ EU-SILC and FRS 2010
- Imputed rent (IR) estimates for tax base calculations

Two scenarios to quantify the budgetary and distributive effects of lack of neutrality:

1. IR taxed as part of Personal Income Tax (PIT) as income from secondary property; MITR applied when present for secondary properties
2. IR taxed as financial investment income as in place in the country; no MITR applied.

Homeownership rates in 8 EU countries, 2010



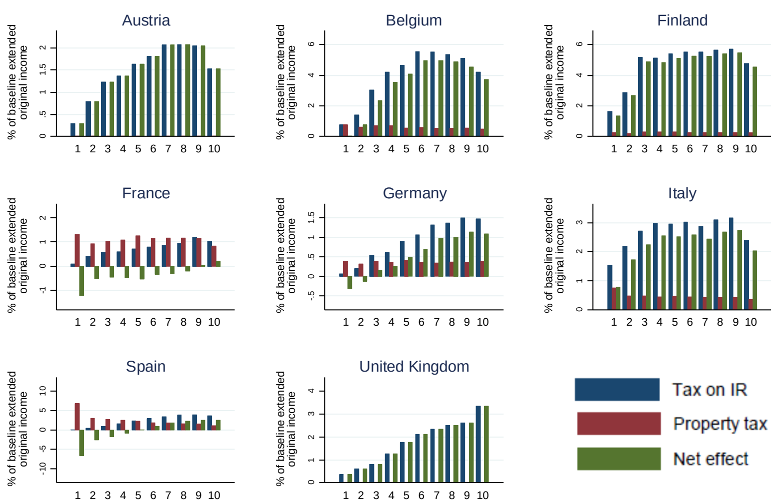
Budgetary impact of lack of neutrality

	Property Tax as % of tax revenue	Scen. 1: IR taxed as part of PIT		Scen 2: IR taxed as financial income	
		Change in tax revenue (a)	Property Tax as % of (a)	Change in tax revenue (b)	Property tax as % of (b)
AT	-	11.38	-	6.78	-
BE	3.06	24.31	12.6%	6.65	46.0%
FI	1.37	26.62	5.1%	20.39	6.7%
ES	15.27	25.96	58.8%	22.24	68.7%
FR	7.06	5.83	121.1%	5.13	137.6%
DE	2.59	8.25	31.4%	9.96	26.0%
IT	2.29	15.03	15.2%	5.46	41.9%
UK	-	17.85	-	17.09	-

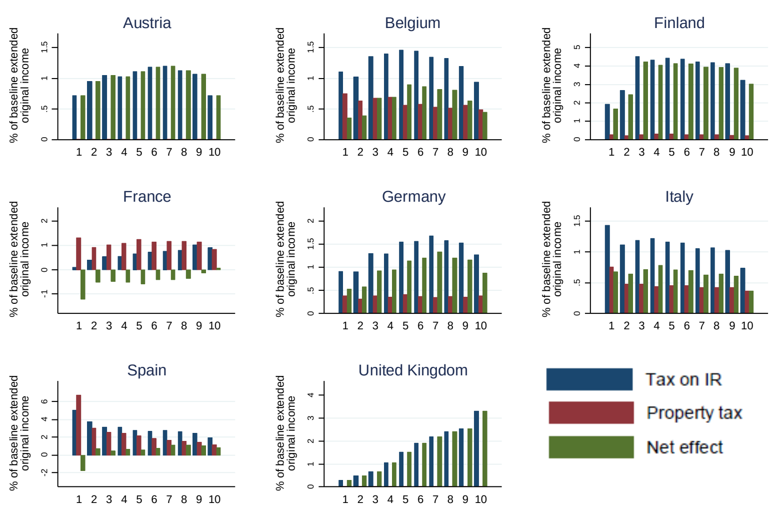
- ➢ Existing property taxes not sufficient to compensate for the revenue gain that homeowners get due to the non-neutral existing systems with the exception of France.

Distributive outcomes

Changes in tax revenue when IR is taxed as part of PIT and property taxes



Changes in tax revenue when IR is taxed as financial incomes and property taxes



- ➢ Austria, Belgium, Finland, Italy and the United Kingdom: net bias in favour of richest tax payers
- ➢ France, Germany and Spain: net bias negative in the first part of the distribution: poorest tax payers would pay less taxes with a neutral tax system