



Reforming Housing Taxation

SUERF workshop on “Real estate markets – outlook, risks, scenarios, policies”

13 March 2024

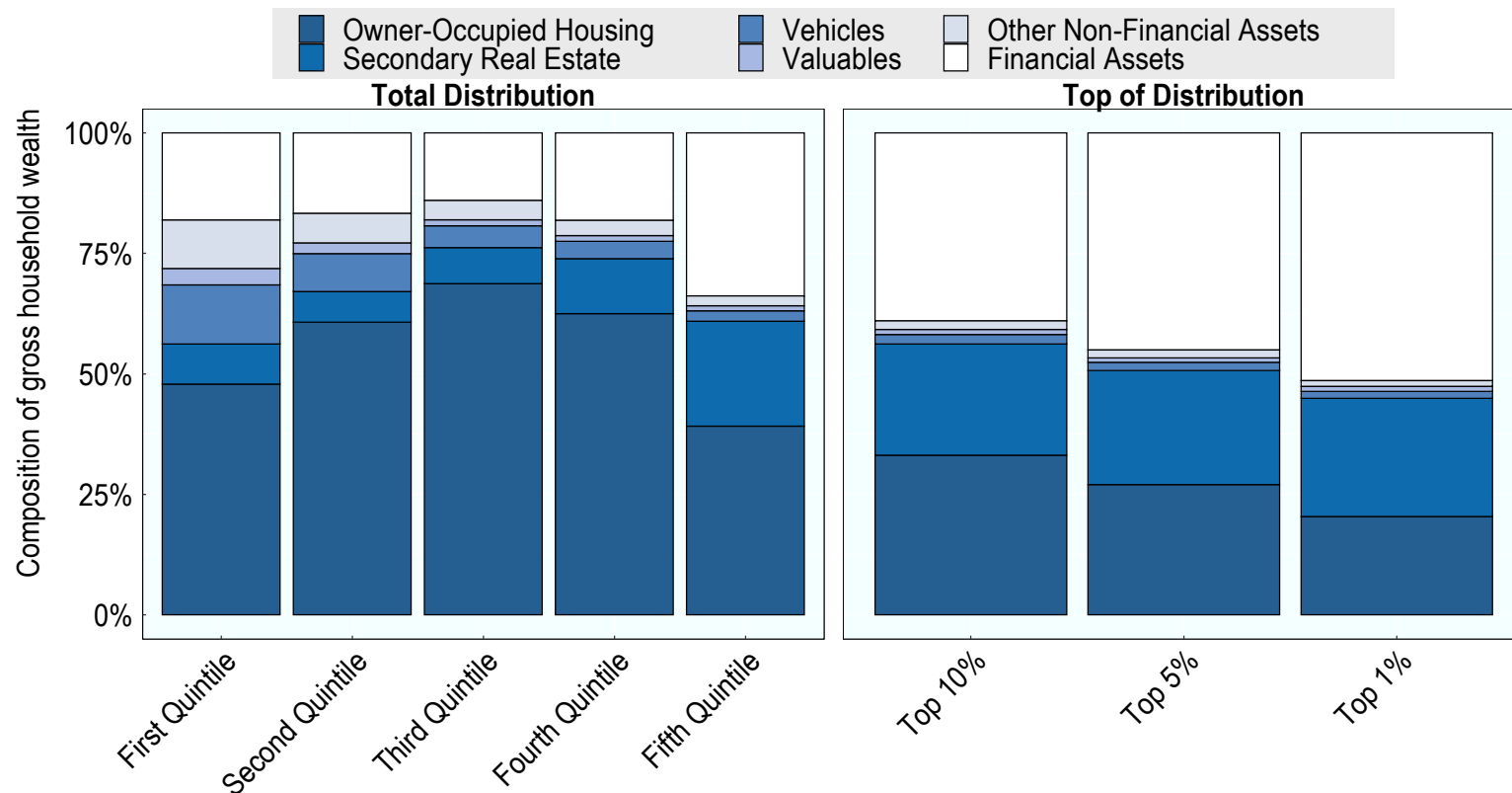
Sarah Perret (OECD)

The distribution of housing wealth



Housing is a key asset for households, in particular for the middle class

Composition of household assets by wealth quintile, unweighted average
29 OECD countries, 2019 or latest available year



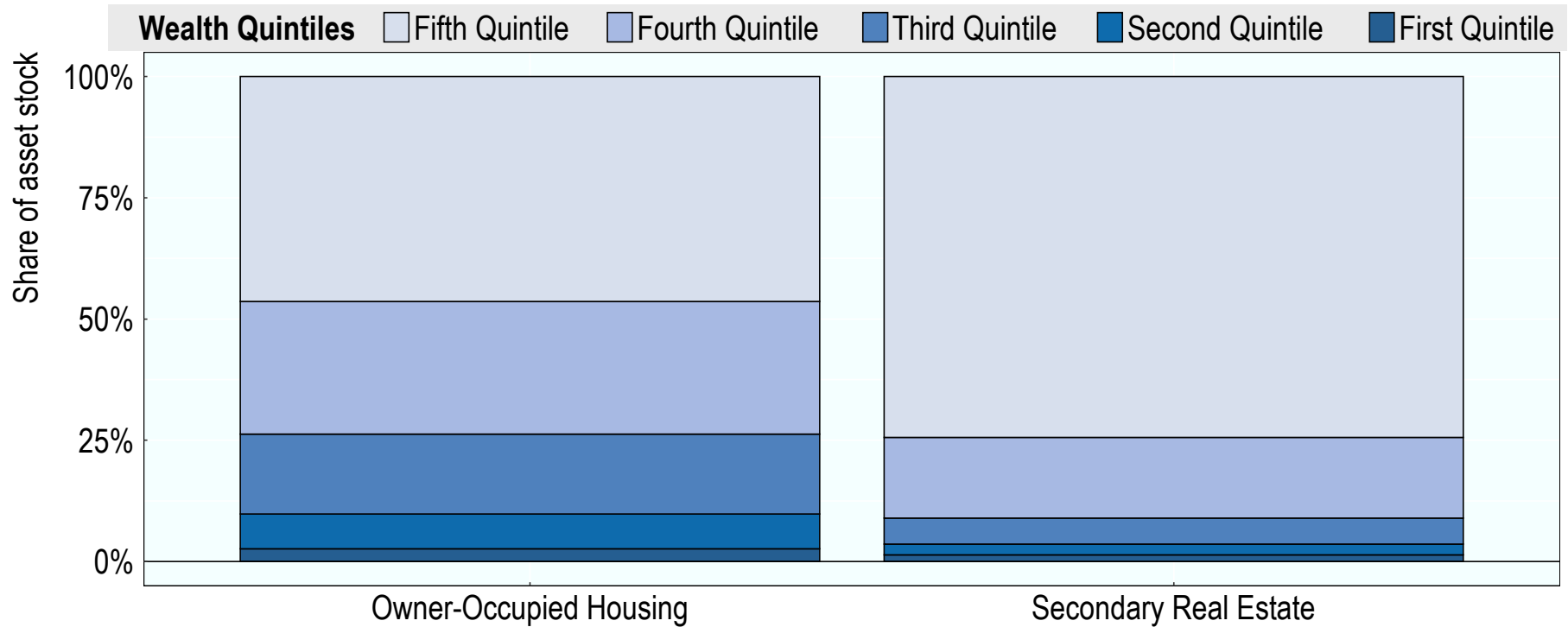
Source: OECD (2022), *Housing Taxation in OECD Countries*, OECD Tax Policy Studies, No. 29, OECD Publishing, Paris



But overall housing wealth is heavily concentrated among wealthier households...

Share of owner-occupied housing and secondary real estate by wealth quintile

29 OECD countries, 2019 or latest available year

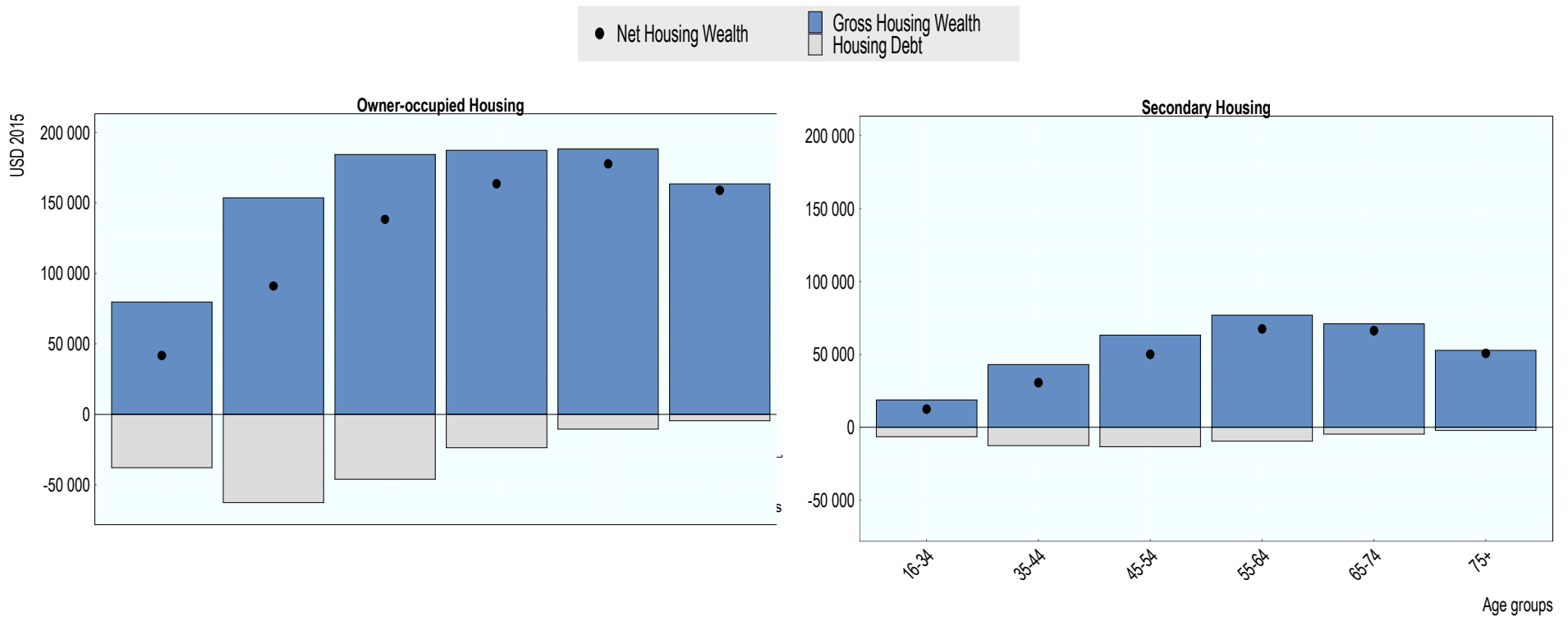


Source: OECD (2022), *Housing Taxation in OECD Countries*, OECD Tax Policy Studies, No. 29, OECD Publishing, Paris



... and among older households

Mean value of owner-occupied and secondary housing assets and liabilities by age group of household head
26 OECD countries, 2019 or latest available year

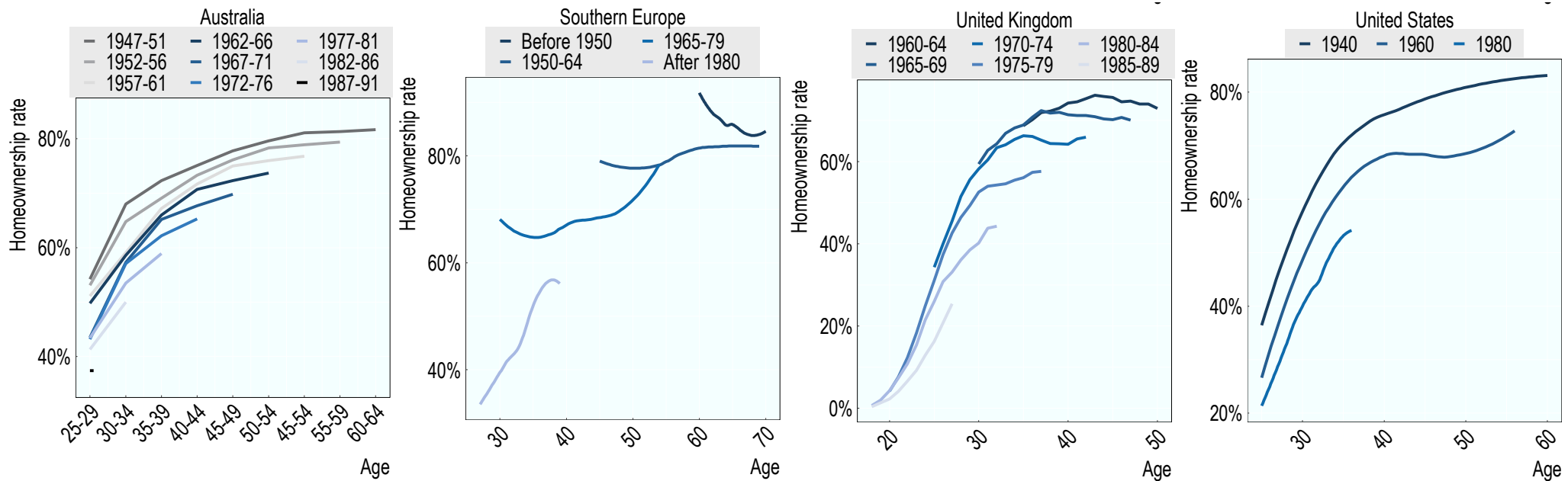


Source: OECD (2022), *Housing Taxation in OECD Countries*, OECD Tax Policy Studies, No. 29, OECD Publishing, Paris



Homeownership rates have declined over generations in a number of countries

Homeownership rates over the lifecycle for successive birth cohorts Australia, Southern Europe, the United Kingdom and the United States



Source: Australia: AIHW (2021), Southern Europe and the United States: Paz-Paredo (2022), United Kingdom: Cribb, Hood, and Hoyle (2018)

Housing taxes: current issues and options for reform



OECD countries levy a wide range of taxes on housing

Acquisition

- ❑ Transaction taxes
- ❑ VAT (on sale of new property)

Holding

- ❑ Recurrent taxes on immovable property
- ❑ Income taxes
- ❑ Mortgage interest relief
- ❑ Real estate wealth taxes
- ❑ Net wealth taxes

Disposal

- ❑ Capital gains taxes
- ❑ Inheritance, estate and gift taxes



But housing, in particular owner-occupied housing, often benefits from preferential taxation

- Preferential tax treatment for owner-occupied housing is very common
 - e.g. capital gains tax exemptions, mortgage interest relief (and the non-taxation of imputed rents), and other tax incentives for homeownership (e.g. reduced transaction taxes for first-time buyers)
- In some countries, owner-occupied housing ends up being significantly undertaxed compared to other assets
 - Distorts the allocation of savings, tends to be regressive, and reduces revenue potential
- Highly preferential tax treatment of housing may have counter-productive effects
 - Fuelling house price growth where housing supply is relatively fixed
 - Measures to increase housing supply tend to be more effective to enhance housing affordability
- Preferential tax treatment for secondary housing is less widely available but still applies under different forms



The report identifies options to enhance the design and functioning of housing taxes

Reduce distortions

Improve efficiency
in the allocation of
savings

Support greater
mobility

Enhance the
equity and
progressivity of
housing taxes

Enhance revenue
potential

Attenuate upward
pressure on house
prices

Address tax
avoidance and tax
evasion

Support energy
efficiency and
clean energy use



Significant scope to improve the efficiency, equity and revenue potential of property taxes

Current issues

Recurrent property taxes are one of the most economically efficient forms of taxation

Evidence suggests that property taxes tend to be regressive with respect to income, but distributional impacts will vary across countries and depending on tax design, and property taxes are likely to be more progressive relative to wealth

In many countries, the lack of regular property revaluations significantly reduces equity, efficiency and revenues

Property taxes raise potential liquidity concerns for income poor but asset-rich households

Reform options

Recurrent property taxes should be based on regularly updated market values (consider embedding the update of very outdated values in a comprehensive property tax reform)

The use of value bands, caps and assessment limits should be avoided

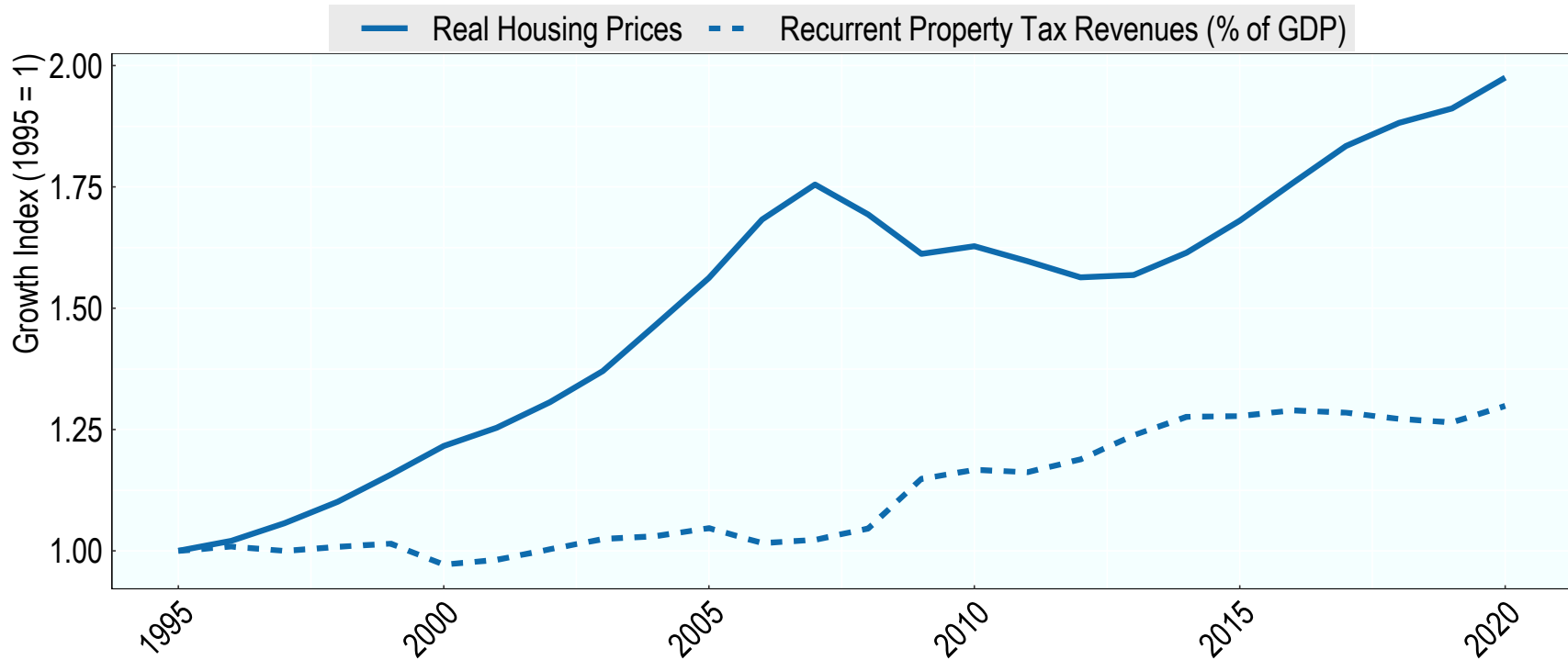
Progressive tax rates may enhance equity, but progressivity is typically better achieved by higher levels of government

There is a strong case for tax deferral or payments in instalments to address liquidity issues



Recurrent property tax revenues have not been keeping up with house price growth

Mean growth in real housing prices and mean growth in recurrent property tax revenues over time
15 OECD countries, 1995-2020



Source: OECD (2022), *Housing Taxation in OECD Countries*, OECD Tax Policy Studies, No. 29, OECD Publishing, Paris



The design of transaction taxes should minimise welfare costs and not impede mobility

Current issues

Distortions from transaction taxes will depend on direct effects on housing markets and indirect effects on labour markets

Transaction taxes may help curb house price growth/speculation, but empirical findings are mixed

There is limited evidence on the distributional effects of transaction taxes; these will depend in part on homeownership and mobility patterns, as well as tax design

Pro-cyclical tax revenues may create funding shortfalls in economic downturns

Reform options

Transaction tax rates should be reduced, particularly where they are high and as part of a package of reforms (to avoid windfall gains for current homeowners)

Differentiated or progressive transaction taxes are options to enhance equity and reduce distortions in some segments of the housing market

To address significant and volatile price growth on housing markets, the use of transaction taxes should be carefully assessed against policy alternatives



Countries could consider taxing capital gains on main residences above a threshold

Current issues

There is some justification for exempting a portion of capital gains on owner-occupied housing to encourage savings in the form of housing wealth, prevent lock-in, and simplify tax administration

However, capital gains tax exemptions distort saving and investment decisions, represent significant foregone revenue, and may contribute to increases in house prices

Capital gains tax exemptions for main residences disproportionately benefit higher income and wealthier households and raise geographical and intergenerational equity concerns

Reform options

Taxing capital gains on main residences above a threshold would reduce distortions, enhance equity and raise revenues

- Threshold can be set high to target the wealthiest households and continue exempting most homeowners
- Reforms will need to carefully consider which gains will be subject to tax

Taxing capital gains on secondary properties promotes neutrality among different asset classes

Where capital gains are taxed, countries should consider taxing real rather than nominal capital gains



Countries could limit or phase out mortgage interest relief on owner-occupied housing

Current issues

Mortgage interest relief (MIR) allows taxpayers to deduct the costs that they incur generating taxable income, but there is little justification for MIR in the absence of taxable income

MIR is ineffective at raising homeownership, encourages household indebtedness, and represents a significant fiscal cost

MIR provides greater benefits to high-income households, although lower-income and lower-wealth households may still benefit given high relative debt levels

Reform options

Removing MIR for owner-occupied property would enhance efficiency, equity and revenues

Alternatively, MIR could be scaled back in ways that reduces regressivity (e.g. restrict eligibility, cap deductions or credits)

A gradual phase-out may be needed to increase political support and prevent destabilising housing markets, and reforms should be carefully timed

Strong case for MIR for rented properties, but limitations could be considered to reduce regressivity



Additional recommendations

- **Tax policies encouraging homeownership** → may lead to increases in house prices when supply is inelastic
- **Tax incentives targeted at increasing affordable housing supply** → evaluate against non-tax measures
- **Tax incentives for energy efficient housing renovations** → could be better targeted to ensure that they reach low-income households
- **Recurrent taxes on vacant homes** → more research is needed to assess their effectiveness relative to alternative policies
- **Address housing tax avoidance and evasion** through a combination of measures



Contact details & further reading



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Further reading

Housing Taxation in OECD Countries (2022)
<https://doi.org/10.1787/19900538>

Inheritance Taxation in OECD Countries (2021)
<https://doi.org/10.1787/e2879a7d-en>

Taxation of Household Savings (2018)
<https://doi.org/10.1787/9789264289536-en>

The Role and Design of Net Wealth Taxes
in the OECD (2018)
<https://doi.org/10.1787/9789264290303-en>