

THE IMPACT OF TAX POLICIES WHILE
ADDRESSING THE HOUSING CRISIS IN THE EU
Panel II: Rebalancing the housing market: using tax policy

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Tax policy and Housing Markets: principles

- The efficacy, equity and revenue generation of housing tax policies depends on the interaction with housing regulations, other taxes, market conditions and macroeconomic situation (for instance, interest rates):
 - Avoid contradictions between the impact of regulations and tax policies. Example: rent control (reduce supply rental units) and tax relief for rental income (increases supply)
 - It is necessary a coordination of the tax and non-tax instruments that are responsibility of the different levels of government (central, regional and local) to avoid conflicting objectives: local governments tend to oppose to more construction for NIMBY pressures and opposite to the objectives of central and regional governments (see UK, US or Spain); recurrent taxes on immovable property large source of revenue for local authorities
 - Tax incentives to promote demand (example mortgage interest/capital relief) in a market with a very high demand or very inelastic supply increase prices and redistributes wealth to current owners



Tax policy and Housing Markets: principles

- Housing tax policies may not be the most efficient way to address some problems in the housing market
- As a general rule distortionary taxes (income tax related or transactions taxes) should be substitute by recurrent taxes on immobile property. This change is politically complicated because of the different impact in the revenue of each level of government: it affects negatively the tax revenue of the central government (and potentially the regional governments) and it benefits the local governments.
- Constant policy changes and lack of coordination between tax policy and housing supply measures undermine the effectiveness of housing tax policies leading to unpredictable market outcomes and persistent problems of affordability
- Fundamental changes in housing taxes should be gradual and complemented with other measures to mitigate the effects and avoid political backlash



Tax policy and Housing Markets: principles

- We need evidence based housing tax policy. For instance, empirical findings are mixed on the effect of transaction taxes on speculative activities in overheated housing markets. Housing tax policies must be designed to be evaluated, specifically on the distributional impact
- Good housing tax policies need good, high frequency and granular data.
 - For instance, lack of good data implies that property taxes are often levied on significantly outdated and underestimated property values (in Spain Cadatral Values) -> tax revenue increase more slowly than housing prices
 - Transactions taxes have administrative advantages: prices are visible and well-measured, high compliance rates and relatively low administrative costs compared to other taxes on housing. This explains their popularity despite their distortionary effects and impact on residential and labor mobility (low degree of efficiency and equity)



Tax policy and Housing Markets: principles

- Most large cities problems of accessibility for lack of supply (very low elasticity of supply and administrative lags): orientation of tax policy towards increase supply of owner occupied housing and rentals using a combination of tax and non-tax policies (reduce approval lags, impose construction objective to local authorities in exchange for other policies, derive urbanistic responsibilities to higher levels of government than local) -
> example: corporate tax relief to housing developers that undertake the construction of affordable housing projects (like the Low-Income Housing Tax Credit in the US) or tax breaks for rental income



Housing tax policy: the case of Spain

SPAIN	Admin	Traditional	International novelties	
Construction				
Building permits and other licenses	■	3%-5%		●
Construction taxes	■	2%-4%		●
Corporate taxes	■			●
Tax reliefs (special vehicles)	■	Corp. taxes 1% if 80% rented		●
Interest rates subsidies for building companies	■			●
Acquisition				
VAT (new properties)	■	Reduced rates for public housing		
Second hand houses transaction taxes	■		Nationality/residency dependent rates or rates that depend on legal form of the buyer	●
Holding				
Recurrent taxes on property	■		Split taxes (land/structures)	●
Income taxes	■			
Mortgage interest/capital relief for homeowners				●
Mortgage interest rate relief for rental properties				●
Net rental income		Tax relief for rental o reduced price rental; difference between long and short term rental	Rates on short term rental higher than long term rentals	●
Tax reliefs for tenants				●
Imputed income owner occupied		Except for main residence		●
Recurrent wealth taxes	■	Exemption first 300.000 euros in main residence		●
Taxes for vacant properties	■		Some cities have introduced recurrent taxes on vacant dwellings	
Disposal				
Capital gains taxes	■	Tax exemption for old owners		●
Taxes on the increased value of land	■			●
Inheritances and donation taxes	■			●
Local	■			
Regional	■			
Central government	■			



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