

# Housing Taxation in European Countries

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## Objectives

- Overview of housing taxation across European countries and a source document on the comparative taxation position of housing both between different tenures within each country and between countries.
- Differs from much of later economists' work which simply compares owner-occupied housing with other assets.
- Economists see housing as an asset and therefore expect it to be taxed as other investment goods. In practice housing is taxed in very different ways - ranging from as a consumption good through as a depreciating asset to a non-depreciating asset - both within and between countries – so the result is rarely economically coherent.
- The paper addresses a wide range of housing specific issues: notably how the taxation of owner-occupation compares with private and even social renting and the impacts of taxation, subsidies and other factors on tenure choice both within and between countries.

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## Question Areas

- Do private and social landlords pay tax on rental income? Private yes ; social sometimes;
- Do owner-occupiers pay tax on imputed income? Only in Netherlands;
- Do owner-occupiers receive depreciation allowances - very rarely;
- Do owner- occupiers and private landlords pay capital gains tax - owners very rarely; landlords usually;
- Do owner-occupiers receive mortgage tax relief – the major area of change 13/212 no; Scandinavian countries have tax relief on all interest; others limited
- Do landlords receive MTR– generally – but in 7 countries do not and UK heavily restricted.
- Are transaction taxes levied? All but three levy stamp duties; a smaller number also tax registration at lower rates.;

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## Property/wealth/inheritance

- Is there property and land taxation? All have property taxation – mainly providing income for local authorities; rarely current values – except Denmark;
- Only 2 countries had examples of pure land taxation – some states in Australia and Denmark. Some have identified land taxes within property taxation;
- Only 2 countries had general wealth taxes that included property. Some changes lately;
- Is there inheritance tax? 14/21 had some version but owner-occupied housing treated differently . Rates, including zero vary with relationship-spouses & next generation favoured – often zero. Generally a minimum threshold and gifts in lifetime often well treated.

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## Subsidies

- There are income related subsidies for social tenants in most countries; private tenants are sometimes not covered or more usually are subject to less generous rules. Around half of our survey countries have some form of income support across all tenures.
- Rates often differ between household types – with families and older households given more help. Younger households are either excluded or treated less generously.
- Ten countries have specific help for first-time buyers. These include lower interest rates, tax rebates, mortgage guarantee and exemptions or lower levels of transactions taxes. Many were introduced after the GFC.
- A number of countries have more general assistance to support owner-occupation.
- Other taxes and subsidies – too many to name!

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## The relative position of O/Os and private landlords

- The general picture is of stability in taxation arrangements,
- Although large numbers of specific changes, often in response to external factors such as the financial crisis.
- Owner-occupation generally remains the favoured tenure but the extent of the relative benefit has declined – in some countries very significantly.
- Reductions in mortgage tax relief have been the main cause of that decline. But it is also because interest rates have become much lower, so interest rate reliefs make less difference.
- There have also been moves to improve the tax position of landlords in a number of countries including the Czech Republic, Iceland; Portugal, Spain, and the UK – although in the UK further changes have now limited tax reliefs for individual landlords

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## Conclusions

- National tax systems in general and particularly the rules for housing taxation are both complicated and differ a great deal between countries.
- No country included in our survey has a housing tax system which is fully consistent with any set of economic principles – whether looking at inter-tenure or inter-asset comparisons.
- Only the Netherlands still has an imputed rent taxation system for owner-occupiers. Similarly, only Sweden taxes capital gains associated with the longer-term ownership of primary residential properties, while private landlords are taxed on capital gains in nearly all the countries in the survey. On the other hand, full mortgage tax relief only exists in 6 of our sample countries while eleven have removed it all together.
- One reason why it has proved possible to reduce or eliminate mortgage tax relief is that interest rates have declined over the last three decades – and look likely to remain very low for a long period.
- in most countries owner-occupied housing is being treated as a consumption good with no interest relief or capital gains tax and no capacity to offset costs of occupation. Private renting on the other hand – with some exceptions, notably the UK - is generally treated, as an investment good, with taxes on net income and value increases.

## Conclusions (cont).

- With respect to wealth and property taxation, there are many distortions that affect housing investment decisions. Taxes are rarely related to current market values.
- There are also enormous political pressures against inter-generational transfers within the immediate family. Shifting the balance between income and property taxes towards property would reduce distortions.
- Housing taxation remains a highly complex area, where many relevant decisions are made for purposes unrelated to neutrality between tenures or even to improving housing outcomes. Such decisions are often made for highly political reasons.
- Finally, there are immense differences between countries in terms of the mix of tenure-specific and other housing and land based taxes. Even so, and in the face of an often rapidly changing economic environment, the emphasis is generally on stability rather than change.

## Archbishop of Canterbury's Housing Commission Report

- Important distinction - not the Church overall and particularly not the Church Commissioners.
- Looking both at what the Church can do and what is necessary to make a good housing system.
- Church has 2 main roles :
  - They are present everywhere in the country and they play an important role in the community
  - They have a lot of land (much unsuitable for development but some definitely suitable) which the Church Commissioners argue they must use for their charitable role – which is looking after the clergy and the churches etc – so must maximise value

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## Main objectives

- Theological view of housing - the 5 requirements for a good home sustainable, stable, safe, sociable; satisfying – (and sacrifice);
- Practical - eg mapping the ownership of church land; providing support for clergy on housing matter; - aimed at initiatives at parish and diocese levels as well as the Church policy plus 6,000 acres of identified land;
- Policy - wanted to provide a different - more long term and community oriented approach on policy issues ;
- Emphasis on existing stock and on affordability.

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## Seven Recommendations for Government

- Twenty year housing strategy particularly focussed on those in the greatest need (Total numbers of new homes is not a strategy)
  - Long term improvements to the housing stock – carbon neutrality etc; increase in capital subsidy; coherent regulatory framework
- Review of the social security system – address the Beveridge issue;
- Public land to maximise social , environmental and economic value;
- Review of tenure arrangements in the PRS:
  - Remove S21 – replace with long term security;
  - Duty of care from landlords

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## Seven Recommendations (cont)

- Reduce the need for temporary accommodation – in meantime quality standards; clear landlord duties and resolution process;
- Cladding crisis - immediate help for those affected and clearer standards going forward;
- Support for tenant voice in both social and private sectors;
- In some sense nothing new BUT emphasis on help for households and community stability;
- Some suggested approaches – eg new forms of community land trusts; more structured use of S106;
- Monitoring outcomes annually.

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