Homeownership Taxation After the Great Recession Onset in Europe: Do Property Taxes Compensate for Income Tax Exemptions?

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Paper Abstract: Western countries' income tax system exempts imputed rent, i.e. the return from investing in owner-occupied housing, thus entailing a lack of neutrality with respect to other forms of capital investment. Despite a long-standing endorsement of removing this *homeownership bias*, lack of updated comparative evidence on its size, in relation to existing property taxes on owner-occupied housing, and their joint distributional effect, is hampering the current policy debate. This paper first offers up-to-date aggregate and distributional measures of the homeownership bias arising from the income tax rules prevalent in eight European countries, observed after the onset of the recent crisis. Second, it provides novel evidence on the extent to which lack of neutrality is mitigated by recurrent property taxation of owner-occupied housing assessing the joint distributive effects of income and property taxes. The analysis is based on data drawn from Survey of Income and Living Conditions and UK Family Resources Survey and makes use of the multi-country tax benefit model EUROMOD. Results show that a sizeable bias in favour of homeowners is indeed embedded in current income tax systems, and that property taxation represents only a partial correction to this bias. Moreover, this bias is not the same across the income distribution. Such evidence appears valuable in informing the policy debate on the search for new sources of tax revenues, and in particular for those less detrimental to growth and equity.