The influence of housing taxation on the housing market

Author: Wouter Vangeel
Promotors: Prof. Lieven De Moor, Ph.D and Prof. Laurens Defau, Ph.D

Abstract

Houses are an essential asset, and one of the most basic of human needs. Keeping housing affordable is therefore a focal point of concern for governments. The choice between renting and owning a home is one of the major decisions to be made by households throughout their lives. Multiple governments stimulate homeownership, often being associated with beneficial externalities and socioeconomic effects. For this they can deploy a number of fiscal instruments. Throughout this dissertation, our focus is specifically on a mortgage interest deduction (MID) that allows homeowners to subtract the amount of interest paid on mortgage loans from their taxable income.

Indeed, this doctoral dissertation intends to provide more insight into the need for and way in which governments intervene in the real estate market. To do so, we have explored effects of (approaches to) a MID, both on (European) (1) housing prices and (2) homeownership. It is after all believed that the popular fiscal instrument fails to promote affordable housing, likely due to its alleged side-effect of increasing housing prices. But although the past decennium has witnessed an increasing interest in fiscal stimuli, we consider that the fiscal framework has not been sufficiently investigated in the housing literature – and certainly not in Europe, having a diversified housing market. Since the availability of and access to affordable housing will remain a critical issue in the future, research in this dissertation is important, creating more clarity about a governments’ frequently used, but widely discussed initiative to promote this.
Main takeaways from our empirical analyses are the following. First, (approaches to) a MID generally have a price-increasing effect. Second, this fiscal instrument generally fails to advance its stated purpose of promoting homeownership, likely due to this price capitalization. Third, the intended positive effect of a MID on homeownership probability does occur for the highest-income households and young households.

We believe that obtained results are relevant in the first place – and next to for academia and society – for governments around the world, wishing to promote homeownership (through tax incentives). Especially, as the continuation of a MID remains one of the contested issues in many national debates.