Not taxing imputed rent: a gift to Scrooge?

Evidence from France

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In an environment of unprecedented rise of housing prices since the early 2000's, access to homeownership is at the core of the French public debate. As the life-cycle theory predicts, young-age groups are the most concerned by housing policies as their access to first homeownership is determined by the current financial and fiscal framework. In the aftermath of the 2008-2009 financial crisis, with high unemployment, youth struggle to access affordable housing. Whether or not taxing imputed rent is of capital importance. In fact, this non-neutrality of the fiscal system resides on the fact that imputed rent benefits homeowners, while rent-payers, mainly young households, are affected by taxes paid by landlords. Imputed rent in France as in other countries, is at the core of capital taxation debates since deciding on these policies is not only essential to enhance growth and investment, but also have a symbolic social dimension that concerns political powers. Recent discussions in France on flat tax on capital and the former ISF (tax on solidarity and fortunes) have polarized economists and politicians on the fiscal design the country should take on taxing capital stocks, flows and labour earnings .

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Methodology : The Taxipp Model

Landais et al. (2011) provide an estimate of the gross rent thanks to an hedonic regression model. In this paper, we use several scenarii in order to compute the net imputed rent. In the first scenario, we use the baseline parameters of Landais et al. (2011) based on the National account base 2005. We slightly change their approach attributing the mortgage interests payments solely to owners with a mortgage identified in the database.

As a robustness check, we then account for the change in National accounts occurred when switching from the base 2005 to the base 2010. Indeed, the base 2010 adopted a much higher depreciation rate for housing capital which increased by 10 percentage points between 2000 and 2010. Moreover, in the second scenario we use the imputed property taxes (IPT) provided by Landais et al. (2011) while in the third we consider it as a share of the gross rent. All the scenarii yield relatively close results. However, the major change in the tax base comes from the hypothesis on capital depreciation (stated yearly by French National Accounts) which creates a discrepancy of about 10 billion euros between the two extreme scenarII.

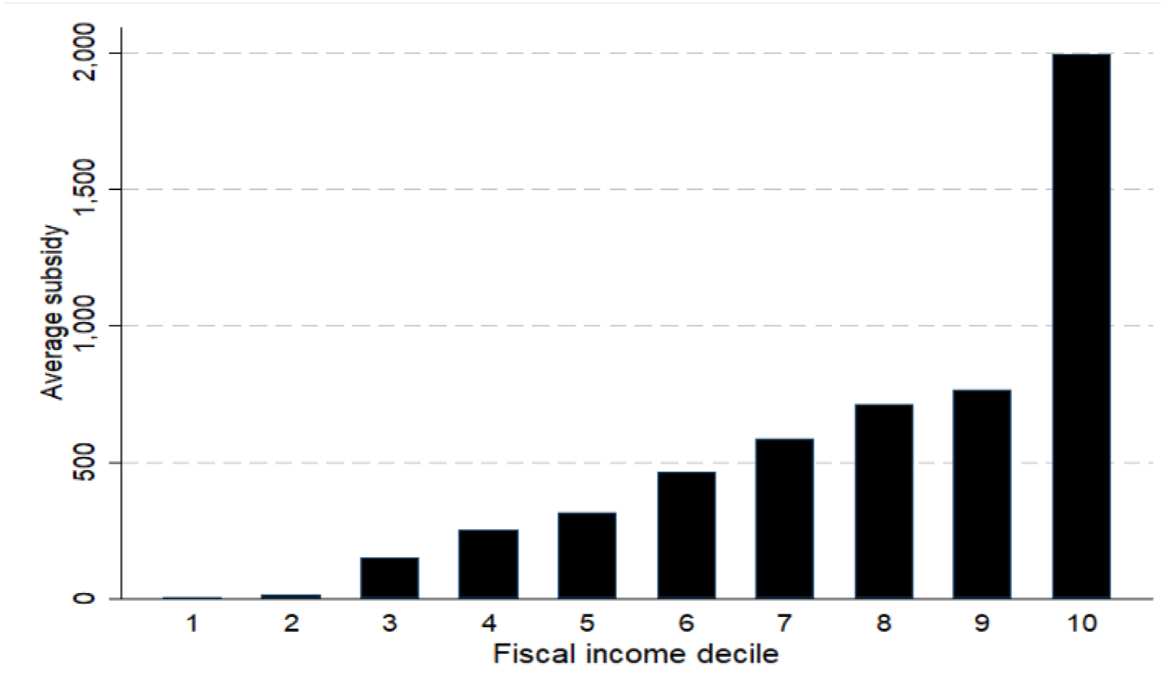

Figure 1: Average subsidy by taxable income deciles - all households using Taxipp model (2010).

	Scenario 1 (National Accounts Base 2005)	Scenario 2 (National Accounts Base 2010)	Scenario 3 (National Accounts Base 2010)
Depreciation rate	18%	28%	28%
Mortage interest payments	70%	70%	70%
Property Tax (PT)	declared	declared	8%
Net/Gross Imputed rent - full owner	82% - IPT	72% - IPT	64%
Net/Gross Imputed rent - owner with loan	12% - IPT	5.4% - PT	0%
Total Net Imputed Rent (Billions of Euros)	63.08	53.54	55.19

Results

- **Non taxation of imputed rent mostly benefits high income households.** This is easily explained by two reasons: as shown in Figure 1, richer households are mostly owners, consume more housing and are less dependent on mortgage funding. This means their implicit rent is thus much higher. Second, it is important to remember that 50 percent of the French fiscal households are not paying any income tax because their total income is below the taxation threshold. This casts some doubts on the capacity of such subsidy to increase the homeownership rate as it benefits mostly to richer households which are already mostly owners.
- **Older groups (those aged between 60 and 75 and above 75) are the main beneficiaries from non taxation of imputed rent** (Figure 2). The subsidy closely follows the patterns of the net imputed rent received by each generation and the homeownership rate by age group (Figure 3). One can observe that younger households, aged between 18 and 30, only receive a residual subsidy below 20 euros per year while those aged between 30 and 45 receive about 100 euros. Moreover, in a context of rise in prices in the 2000s, donations play a key role to allow younger household to buy their main residence and could increase inequalities in the access to first homeownership (Figure 4).

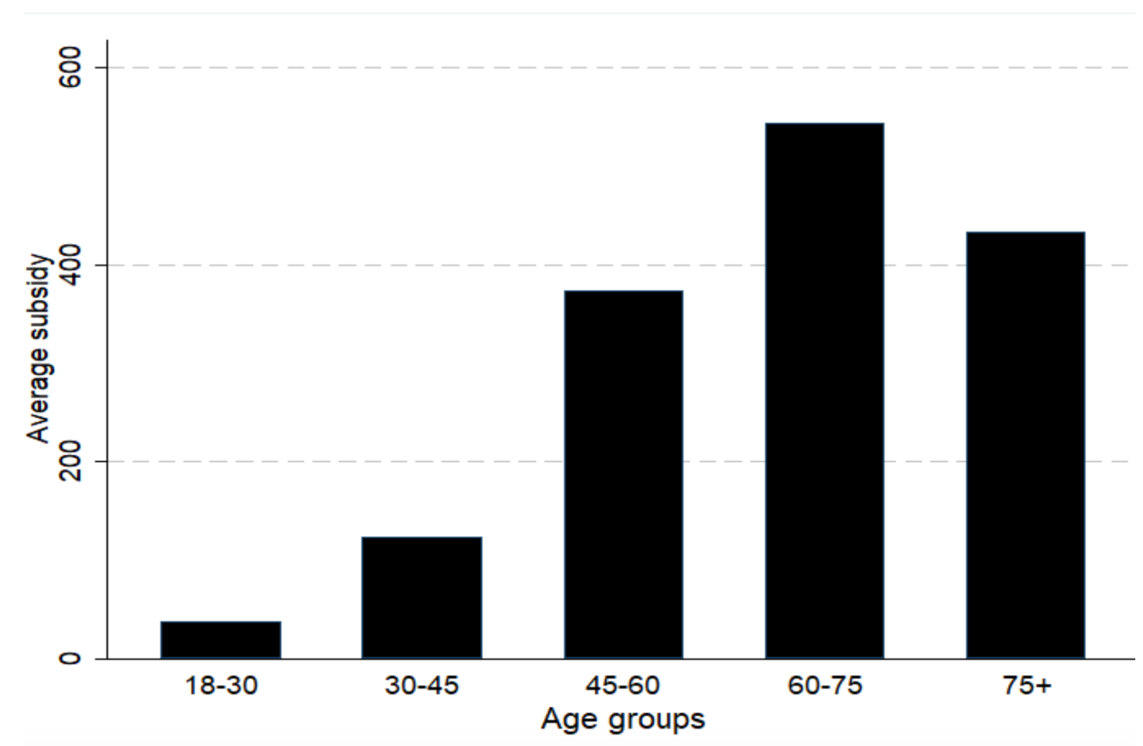

Figure 2: Average subsidy by age groups thanks Taxipp model (2010).

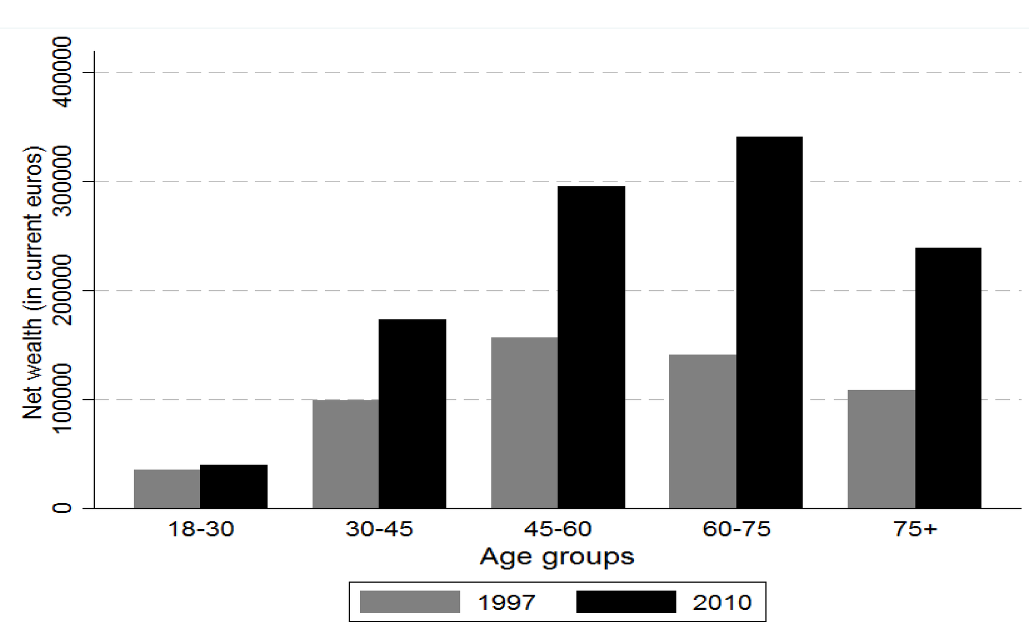

Figure 4: Net wealth young adults according to wealth transmission status using French Wealth Survey.

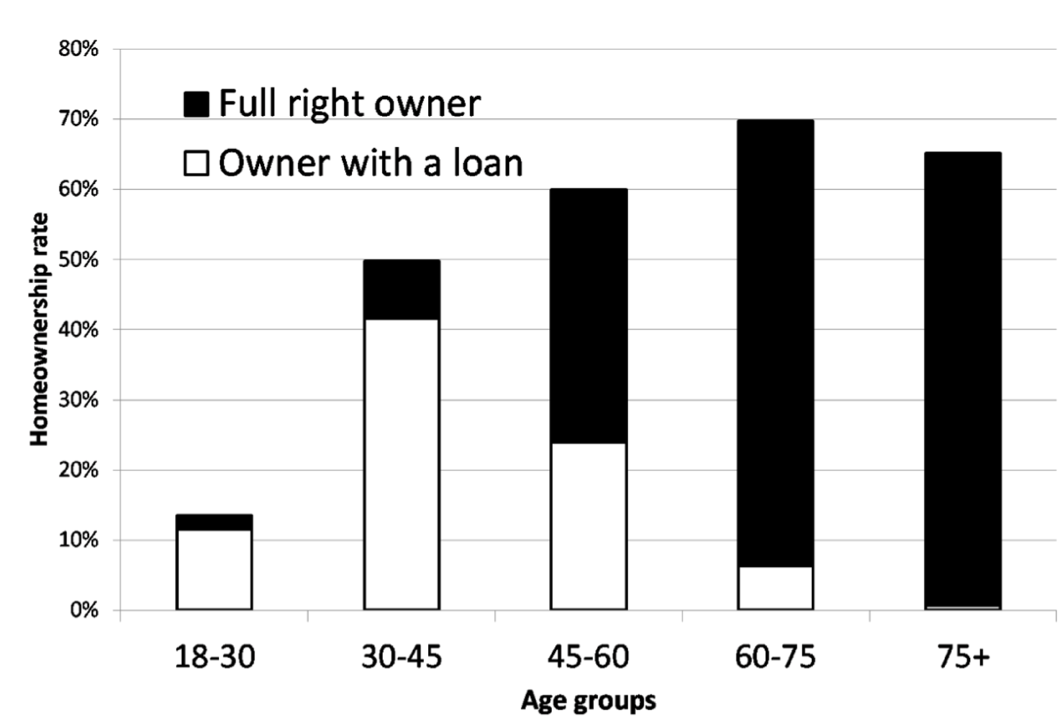

Figure 3: Ownership status by age groups using French Housing Survey (2013).

Main conclusions

- Non taxation of imputed rent represents a significant amount of fiscal spending mostly directed toward the richest and wealthiest homeowners with no financial liabilities.
- Similarly to Bonnet et al.(2017), which states that the recent rise in housing prices of the 2000s led to a divergence of wealth between older and younger generations, we believe that the debate on the opportunity to restore a tax on land through imputed rent taxation should be re-opened.
- The removal of this subsidy on imputed rent, which is mostly captured by the top income deciles should not affect owners with mortgage and thus, should not be detrimental to access to homeownership.
- Including imputed rent in the fiscal base would be a promising policy to reestablish inter- and intra-generational equity to a certain extent and it would stop subsidizing the wealthier households that benefited from unprecedented capital gains in the 2000s or from the inter-vivos donations or inheritances from their relatives.

Main references

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