

working paper

2404

Why Not Tax It?
The Effects of Property Taxes on
House Price and Homeownership

Francesco Chiochio

cemfi

March 2024

Why Not Tax It? The Effects of Property Taxes on House Price and Homeownership

Abstract

How do property taxes affect house prices, homeownership, and welfare? I focus on Italy, a country with high homeownership, an outdated property tax system, and failed reform attempts. As in many other countries, owner-occupied houses are exempt from property taxes in Italy. Additionally, property taxes are calculated using outdated cadastral values. I show that using cadastral values creates a regressive property tax since cadastral values are relatively lower for more expensive housing units. I develop a life-cycle model with endogenous homeownership to assess the effects of reforming the current system. My findings show that removing the owner-occupied exemption and adjusting cadastral values to market values increases government property tax revenues as a percentage of GDP by over 0.8 percentage points but also increases homeownership rates by 1.2 percentage points. The increase in homeownership results from lower property tax rates on smaller houses. Finally, I show that in the short run, the reform increases the welfare of young households but lowers the welfare of older ones. In the long run, welfare increases for new generations. Higher welfare is mainly due to the decrease in house prices in equilibrium.

JEL Codes: D15, H24, H31, R21.

Keywords: Property taxes and assessment, housing markets, homeownership, wealth accumulation and bequests.

Francesco Chiochio

CEMFI

francesco.chiochio@cemfi.edu.es

Acknowledgement

I would like to thank Nezih Guner for his continuous advice, guidance, and support. I am grateful for the many, and important, comments received by Josep Pijoan-Mas, Sebastián Fanelli, Manuel Arellano, Samuel Bentolila, Pedro Mira, Diego Puga, Morten Ravn, and the other members of CEMFI's workshops. I am also thankful for the comments and suggestions received at the Spanish Economic Association Symposium in Valencia (2022). I gratefully acknowledge financial support from Grant PRE2021-098315 funded by MCIN/AEI/ 10.13039/501100011033 and by "ESF +", the Maria de Maeztu Unit of Excellence CEMFI MDM-2016-0684 funded by MCIN/AEI/10.13039/501100011033, and CEMFI.