



ELSEVIER

Journal of Monetary Economics 49 (2002) 1461–1489

Journal of
MONETARY
ECONOMICS

www.elsevier.com/locate/econbase

Housing taxation and capital accumulation[☆]

Martin Gervais^{a,b,*}

^a *Department of Economics, Queen's University, Dunning Hall, Kingston, Ont., Canada K7L 3N6*

^b *Research Department, Federal Reserve Bank of Richmond, P.O. Box 27622, Richmond, VA 23261, USA*

Received 10 December 1999; received in revised form 30 August 2001; accepted 9 October 2001

Abstract

This paper studies the impact of the preferential tax treatment of housing capital in a dynamic general equilibrium life-cycle economy populated by heterogeneous individuals. The model includes the main housing tax provisions currently in place in the U.S. and a minimum downpayment requirement upon purchasing non-divisible houses. The tax code makes the return on housing capital larger than that on business capital, which distorts the lifetime profile and composition of individuals' savings. The wedge between the two rates of return emanates from the failure to tax imputed rents and is amplified by the presence of mortgage interest deductibility. Simulations show that individuals at all income levels would rather live in a world where imputed rents are taxed or one where mortgage interest payments are not deductible. Furthermore, distributional effects are much smaller than conventionally believed. © 2002 Elsevier Science B.V. All rights reserved.

JEL classification: E62; H3

Keywords: Housing taxation; Imputed rents; Mortgage deductibility; Capital accumulation

[☆]This paper is a chapter of my Ph.D. dissertation written at the University of Western Ontario. I am grateful to Andrés Erosa and Ig Horstmann for the generous use of their time and constant encouragement. For their comments and suggestions, I would like to thank David Laidler, Jim Davies, Shannon Seitz, Al Slivinski, Gustavo Ventura, an anonymous referee and the editor, as well as seminar participants at the University of Waterloo, McMaster University, the University of Toronto, McGill University, the Federal Reserve Bank of Richmond, Simon Fraser University, the University of Alberta, the University of Missouri-Columbia, l'Université de Montréal, ITAM, York University, the CEA meetings in St. John's (1997), the NASM of the Econometric Society in Montréal (1998) and the SED conference in Philadelphia (1998). Financial support from The Bradley Foundation is gratefully acknowledged. The views expressed in this paper are solely those of the author and do not necessarily represent those of the Federal Reserve Bank of Richmond nor the Federal Reserve System.

*Corresponding author. Department of Economics, Queen's University, Dunning Hall, Kingston, Ont., Canada K7L 3N6. Tel.: +1-613-533-2261; fax: +1-613-533-6668.

E-mail address: gervais@qed.econ.queensu.ca (M. Gervais).

1. Introduction

It has long been understood that housing capital receives preferential tax treatment relative to other types of capital in the U.S. The two most important housing tax advantages are that the service income provided by owner-occupied housing (generally referred to as imputed rents) is untaxed and mortgage interest payments are deductible from taxable income.¹ The potential distortions caused by this asymmetric treatment of different sources of capital income are substantial, especially in light of the fact that housing capital, broadly defined, accounts for well over 50 percent of the capital stock in the U.S. (Díaz-Giménez et al., 1992). The object of this paper is twofold. First, it studies the distortions introduced by this preferential tax treatment of housing. The second objective is to quantitatively assess its impact on the composition of the aggregate stock of capital and to estimate its long-run welfare and distributional consequences.

This study emphasizes two channels through which housing tax provisions distort individuals' behavior. One is that the tax code provides an incentive for individuals to own rather than rent. The other is that, should they own, individuals have an incentive to own larger houses. Through these channels, housing tax provisions distort the lifetime profile and composition of individuals' savings. In both cases, distortions are due to the fact that the tax code makes the return on housing capital larger than that on business capital. The wedge between the two rates of return arises from the failure to tax implicit rental income from owner-occupied housing. The presence of mortgage interest deductibility, although neither sufficient nor necessary for the existence of a wedge between the two rates of return, increases the size of the wedge.

The impact of these tax provisions is analyzed in a general equilibrium life-cycle economy populated by heterogeneous individuals. Individuals can either own their house or rent housing services. If they own, there is a minimum size house that can be purchased and a downpayment is required. Renting allows individuals to avoid the downpayment requirement. In addition, rental units come in smaller sizes than houses, thus allowing renters to consume smaller amount of housing services.² Implicit in the model is that the costs of co-owning a house—e.g. moral hazard, privacy issues, separation costs—are sufficiently high to prevent individuals from co-owning and co-occupying a house. The benchmark model is calibrated to the U.S. economy where imputed rents are not taxed and individuals have the ability to fully

¹ Rosen (1985) reports that 96.2 percent of government revenue losses from the special tax treatment of housing emanates from owner-occupied housing. Fullerton (1987) estimates the effective tax rate on owner-occupied housing to be 19 percent while his estimate of the tax rate on non-housing capital is 36 percent. These figures become –5 and 25 percent, respectively, when property taxes are regarded as a fee for government services rather than a tax.

² In 1998, when the homeownership rate was 66 percent, owner-occupied housing accounted for 75 percent of the stock of residential fixed assets (Survey of Current Business, 2000). On average, rental units were thus 65 percent smaller than owner-occupied houses. This may be due, in part, to lower bounds on the size of houses imposed in many areas. Other areas, where lower bounds are not imposed, specialize in smaller rental units.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات