

REDUCING TRANSACTION TAXES ON HOUSING IN HIGHLY REGULATED ECONOMIES

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on Property Tax Administration & Design

April 10th, 2026

THIS PAPER: RICHER MODEL OF WELFARE CONSEQUENCES OF HOUSING TRANSACTION TAXES

- Big literature on these taxes in post-COVID housing affordability crisis
 - ▶ Main reason cited by policymakers: improve housing affordability or raise revenues for affordable housing funds (e.g., 2023 Los Angeles Mansion Tax)
 - ▶ Other less-cited rationales: easier to tax market values than assessed values, punish speculation, encourage landlords to rent out units
- **Main limitation in existing literature:** natural experiments with not always clean identification, short post-reform periods
 - ▶ These taxes are common in major cities worldwide, especially taxes on “flippers” in East Asia post-2010 (Chi, LaPoint, Lin 2025)
- This paper simulates what would happen at longer horizons in an **OLG setting with rich mortgage features** such as downpayment, PTI, and minimum repayment constraints

TRANSACTION TAXES IN TOP 20 HOUSING INVESTMENT MARKETS

	RE stock value	Transaction tax	Capital gains tax (CGT)	Rate(s)	Holding period notch(es)	Exemptions	Legal Incidence
Taiwan	253,973	Yes	Yes	10-15% (flat)	Yes (both)	Inheritance/public entity	Seller
Hong Kong	196,706	Yes	No	1.5-20% (progressive)	✓ (buyer surcharge)	N/A	Seller & buyer surcharge
Singapore	217,042	Yes	No	0.33-16% (progressive)	✓ (seller stamp tax)	Certain uses (e.g., childcare center)	Buyer & seller (separate rates)
South Korea	758,376	Yes	No	4.6% (flat)	No	N/A	Buyer
Tokyo	711,255	Yes	Yes	3% (flat)	Yes (CGT)	Inheritance	Buyer
New York	656,903	Yes	No	1-2.625% (flat)	No	Sales by public agency	Seller (buyer if seller exempt)
Los Angeles	482,065	Yes	No	0.45%-5.95% (progressive)	No	Court order/collateral/gifts	Seller
Paris	342,389	Yes	No	0.71-6.41% (flat)	No	N/A	Seller
London	333,683	Yes	Yes	2-12% (progressive)	No	New homeowner/value < 125k GBP	Buyer
San Francisco	307,076	Yes	No	0.5-2.5% (flat)	No	Gifts/inheritance/refinancing/trusts	Buyer
Chicago	299,593	Yes	No	1.05% (flat)	No	Collateral/public/divorce	70-30 buyer-seller split
Seoul	290,695	Yes	No	0.02-5% (flat)	No	N/A	Buyer
Osaka	287,726	Yes	Yes	3% (flat)	Yes (CGT)	Inheritance	Buyer
Houston	254,515	No	No	N/A	N/A	N/A	N/A
Washington, D.C.	239,336	Yes	No	1.1-1.45% (flat)	No	Public/gifts/collateral/inheritance/non-profits	Seller
Boston	165,320	Yes	No	0.456% (flat)	No	Gifts/public/value < 2 mil. USD	Seller
Dallas	164,475	No	No	N/A	N/A	N/A	N/A
Atlanta	142,551	Yes	No	0.1% (flat)	No	Court order/divorce/inheritance/firm-to-firm	Seller
Miami	140,244	Yes	No	0.7% (flat)	No	Divorce/inheritance/trusts	Seller
Toronto	130,279	Yes	No	0.5-2.5% (progressive)	No	Public/nursing homes/hospitals/schools	Buyer
Philadelphia	128,534	Yes	No	4.28% (flat)	No	Gifts between family	50-50 buyer-seller split
Seattle	125,147	Yes	No	1.28% (flat)	No	Gifts/refinancing	Seller
Minneapolis	114,309	Yes	No	0.34% (flat)	No	Public/inheritance/refinancing/divorce	Seller
Sydney	113,395	Yes	No	1.25-5.5% (progressive)	No	Inheritance/spouse	Buyer
Detroit	107,711	Yes	No	0.11-0.75% (flat)	No	Gifts/inheritance/energy storage	Seller
Madrid	107,007	Yes	Yes (VAT)	6-11% (flat)	No	Transfer of ownership shares	Buyer
Phoenix	102,956	No	No	N/A	N/A	N/A	N/A
San Diego	99,343	Yes	No	0.055% (flat)	No	Collateral/public/share transfer	Seller
Milan	97,492	No	Yes (VAT)	N/A (10% VAT)	No	Residential/share transfers (VAT)	Buyer

Source: Chi, LaPoint, Lin (2025): "Flip or Flop? Tobin Taxes in the Real Estate Market."

SUMMARY OF THE MODEL'S BUILDING BLOCKS

- **OLG economy** with four cohorts and three income groups within each cohort
- Housing tenure: renters, owner-occupiers, landlords
- Balance sheet: HHs save in deposits or borrow through mortgages
- **Prudential mortgage regulation: LTV, PTI, and repayment constraints**
- Preferences: utility depends on non-housing consumption, housing services, and an ownership premium (net of maintenance costs)
- Market clearing of both rental and ownership markets
- Tax/benefit system features income/payroll taxes, housing subsidies, residence taxes, property taxes, and transaction taxes on buyers and sellers

COMMENT #1: THE MISSING LOCK-IN EFFECT

- **Transaction taxes generate competing effects on prices and rents**
 - ▶ Capitalization effect: reduced willingness to pay due to dynamic investment problem
 - ▶ **Lock-in effect:** reduce supply (inventory) by instituting a fixed cost, which encourages longer holding periods, legal avoidance strategies through trusts
- **Solve for long-run steady state of model, where lock-in effect plays no major role**
 - ▶ Still, fixed transaction costs can reduce long-run supply by discouraging new construction altogether unless builders are exempt from tax → true in France?
- Shutting down lock-in \implies transaction taxes desirable from a long-run ownership affordability perspective in all counterfactual policy regimes considered
- Lock-in effect has been shown to be quantitatively important for prices in natural experiments estimating short-run effects of transaction taxes
 - ▶ Examples: Chi et al. (2025, Taiwan); Dolls et al. (2025, Germany); Han et al. (2025, Toronto)

COMMENT #2: WHAT DOES MODELING MORTGAGE REGULATIONS TEACH US ABOUT THIS TYPE OF TAX?

- Framing of the paper based on the title and abstract is that we need to account for “prudential regulations” in life-cycle housing investment decisions
- If that is the case, then quantify this with counterfactuals in which prudential mortgage constraints are successively turned off
 - ▶ How does the share of HHs up against these constraints change under different tax regimes?
- Transaction costs θ are theoretically isomorphic to LTV limits (Koetter et al. 2025)

$$\text{Maximum Loan Amount} = F \times \frac{\overline{LTV}}{1 + \overline{LTV} + \theta}$$

- **My interpretation: main contribution is on the dynamic OLG side**
 - ▶ Check: if collapse the OLG aspect of the model to one cohort, what are the welfare implications?

COMMENT #3: THE MISSING WEALTH EXTRACTION CHANNEL

- Advantage to the OLG framework is decomposition of welfare incidence across income and age groups
 - ▶ Largely missing from the structural literature on transaction taxes
- Strange result in the paper that elderly welfare goes down in response to reducing transaction taxes despite $P \uparrow$
 - ▶ Tradeoff: user cost \uparrow under c.f. tax regimes but home equity values \uparrow
- Housing is assumed to be **highly illiquid** in this model
 - ▶ No home equity extraction or bequest motives
 - ▶ Extreme case of the Kaplan & Violante (2014) wealthy hand-to-mouth agent
 - ▶ But France has reverse mortgages (*prêt viager hypothécaire*)
- Absence of these forces also contributes to dampened lock-in effect which is important in transfer tax regimes

POLICY TENSION BETWEEN HELPING FIRST-TIME HOMEBUYERS AND PRESERVING HOMEVOTERS' EQUITY VALUES!

PUTTING AMERICAN FAMILIES FIRST IN THE HOUSING MARKET: President Trump is working to make homeownership affordable again after years of Wall Street crowding out first-time buyers and young families.

- For many, homeownership is considered the pinnacle of the American dream and a way to invest and build lifetime wealth.
- However, high inflation and interest rates caused by the Biden Administration have put starter homes out of reach for millions, while large Wall Street investors have snapped up single-family homes in many communities.

Source: Fact Sheet: President Donald J. Trump Stops Wall Street from Competing with Main Street Homebuyers. January 20, 2026.



“I want to drive housing prices up for people that own their homes,” President Trump said at a White House cabinet meeting in January. Doug Mills/The New York Times

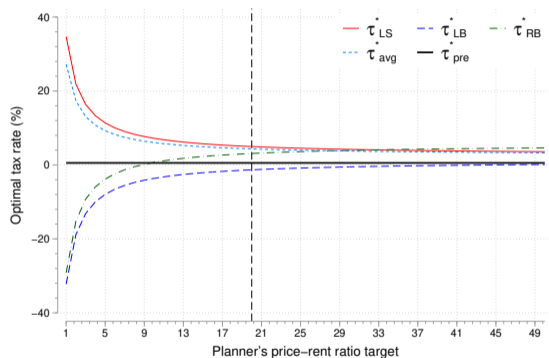
COMMENT #4: IMPLICATIONS FOR PROPERTY TAX ADMINISTRATION

- Green et al. (2025) show that LA's Mansion Tax generates large neg. fiscal externalities by limiting transactions
 - ▶ Revenues earmarked for affordable housing programs and homelessness prevention
 - ▶ Assessment limits amplify lock-in effect and result in 2/3 reduction in transfer tax revenues

$$\begin{aligned} T(w, h, h', s, b) = & \underbrace{t(w + \rho(h - s))}_{\text{Income and payroll taxes}} + \underbrace{\eta(w, h, h', s, b)}_{\text{Housing allowances}} + \underbrace{\tau^r qs}_{\text{Residential tax}} \\ & + \underbrace{\tau^h qh}_{\text{Property tax}} + \underbrace{\mathbf{1}\{h' \neq h, h > 0\} \tau^s qh}_{\text{Housing sale tax}} + \underbrace{\mathbf{1}\{h' \neq h, h' > 0\} \tau^b qh'}_{\text{Housing purchase tax}} \end{aligned}$$

- Real estate and income taxes richly modeled, but they are in practice all interdependent, which is shut down here
 - ▶ Counterfactuals do consider revenue-neutral options to replace transfer tax
 - ▶ But local tax authorities worry about short-run budget constraint

WELFARE EFFECTS OF TAXES BY INVESTOR TYPE?



Source: Chi, LaPoint, Lin (2025): "Flip or Flop? Tobin Taxes in the Real Estate Market."

- Transaction taxes modeled here as uniform tax rate across all buyer/sellers
- Chi, LaPoint, Lin (2025) show that welfare and price implications differ depending on legal incidence by agent type
 - ▶ Policy target is usually 2nd+ home investors or luxury properties
- **Context dependence:** "landlord sellers (LS)" most sensitive to the tax
 - ▶ Which group contributes to the reduction in volume in France?
 - ▶ Statistics on buyer/seller type pairings
 - ▶ Risk aversion by type (beliefs) matters

MISCELLANEOUS QUIBBLES/QUESTIONS

- It is odd to lump non-regulatory transaction costs like broker/recording fees into transaction costs given that these are market equilibrium outcomes
 - ▶ Report detailed breakdown and discuss how much of the abnormally high transaction costs in France are due to regulation vs. market power
- Difficult to follow how much of the solution method is novel → clarify added constraints relative to Sommer & Sullivan (2018)
- Why only using the 2006 French Housing Survey wave to calibrate?
 - ▶ Is this to allow enough years prior to Housing Survey to estimate income group transition probability matrix?
 - ▶ Not clear how authors calculated empirical moments to be matched in Table 2
- Table 6 and 7 refer to the same information on ownership rates in model vs. data but report different numbers (check this)

CONCLUSION: ARE THESE TAXES SO BAD AFTER ALL?

- **My two cents:** main contribution of this paper is to highlight intergenerational distributional consequences of a common type of real estate tax
 - ▶ Mortgage regulation features may be a red herring to the extent some of the constraints would be binding for marginal homeowners even w/o transaction tax
 - ▶ Plus, transfer taxes are, in theory, isomorphic to a downpayment constraint
- Current set of welfare conclusions are at odds with conventional (political) wisdom
 - ▶ Lock-in effect, home equity extraction, bequest motives suggest older HOs would benefit from diminished home inventory → **currently missing from the model**
- **Need richer counterfactuals** on how mortgage market mechanics + heterogeneous preferences for housing interact with RE taxes
 - ▶ Will help us interpret natural experiments from the RE transaction tax literature which show either pos. or neg. pricing effects!



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THANKS!
