

[To Own or to Rent? The Effects of Transaction Taxes on Housing Markets](#)

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Transaction taxes in the housing market (e.g. stamp duty in the UK) are often varied as an active fiscal tool. In the UK, stamp duty rates have been revised 13 times since 2008, sometimes with the aim of stimulating housing transactions as part of a countercyclical fiscal policy package, such as after the 2008 financial crisis and during the Covid pandemic. However, there is also growing concern among policymakers and researchers about the inefficiencies created by transaction taxes. The Henry and Mirrlees reviews of tax policy commissioned respectively by the Australian and UK governments both highlighted significant distortions arising from transaction taxes, and proposed reforms that would replace them with taxes on land values or housing consumption.

A large literature has confirmed the negative effects of transaction taxes on homeowners' mobility, transaction volumes, and house prices. This paper shows that the distorting effects of transaction taxes also extend to the allocation of properties between owner-occupation and the rental market, and hence the homeownership rate. The tax impact across the markets for rentals and property ownership is investigated using a unique micro dataset of leasing and transaction records from the Greater Toronto Area. With this data, it is possible to examine changes in landlords' leasing activity and to distinguish property purchases made by buy-to-rent investors from those of owner-occupiers.

The paper studies the introduction of a new transaction tax in the City of Toronto, but which did not apply to other parts of the Greater Toronto Area. This feature allows estimation of the effects of the new tax by comparing housing-market outcomes before and after the new tax across neighbourhoods that are adjacent to, but on opposite sides of the City of Toronto border. The paper uncovers a novel effect of higher transaction taxes in lowering the homeownership rate. This is evidenced by an increase in buy-to-rent transactions and more leasing activity, while buy-to-own transactions decline, thus shifting properties and households towards the rental market.

The paper develops and calibrates a housing search model with both rental and ownership markets to explain these empirical findings. The model predicts that higher transaction taxes lower the homeownership rate because landlords have an implicit tax advantage over owner-occupiers even when they face the same transaction tax rates. This advantage stems from landlords not needing to sell properties when tenants want to move, unlike owner-occupiers who must sell and buy again when they want to move, and thus face paying the transaction tax more often. The calibrated model shows that transaction taxes generate substantial welfare losses through distortions to both the tenure and mobility decisions of households.