

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

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Real estate transaction taxes are a common feature of tax systems around the world, representing an important form of government tax revenue and fiscal tool. In the UK, the real estate transaction tax is called Stamp Duty Land Tax (henceforth, ‘stamp duty’). Stamp duty generated £14 billion during the financial year 2021-22, which is about 2% of total tax revenue. Since 2008, the stamp duty rates have been revised 13 times, often as a tool to stimulate housing transactions as part of the countercyclical fiscal policy package, especially around the Global Financial Crisis of 2008 and the onset of Covid-19.

There are, however, growing concerns about the fundamental costs of real estate transaction taxes among policymakers and academic researchers. Two prominent examples are the Henry Review by the Australian government (Henry et. al. 2009) and the Mirrlees Review by the UK government (Mirrlees et. al. 2010). Both found significant costs of transaction taxes owing to reduced mobility and distortions associated with ad-valorem taxes. This paper uses a dataset on housing sales and leasing transactions in Toronto between 2006 and 2018 to examine the effects of high property transaction taxes on both household decisions (including the choice to own or rent property) and landlords’ investment decisions.

We find three novel effects of a higher property transaction tax: higher buy-to-rent transactions alongside lower buy-to-own transactions, despite both being taxed, a lower sales-to-leases ratio, and a lower price-to-rent ratio. This paper explains these facts by developing a search model with entry of investors and households, households choosing to own or rent in the presence of credit frictions, and homeowners deciding when to move homes. A higher transaction tax reduces homeowners’ mobility and increases demand for rental properties, explains the empirical facts and reduces the homeownership rate. The deadweight loss is large at 111% of tax revenue, with more than half of this due to distorting decisions to own or rent.