Taxation of Housing in Belgium
Facts and reforms

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Taxation of housing in Belgium

- ***Facts:*** how do we tax property in Belgium ?
  - The market
  - The basics of housing taxation
  - Main trends and components of the ETR
- ***Reforms***
  - Regional reforms in registration duties
  - Property tax and valuation
  - The 2005 reform of PIT Tax incentives

Facts
The market

- rather static, low turnover
    - widespread commuting
    - price increases since 2004 but no boom/bust
- high share of owner occupied housing
    - risk avoiding, low Loan to Value ratio, few 2nd mortgages
    - rather renovating than moving
- dual rental sector: social & private
    - social sector: income related rentals, demand > offer
    - rather strict private rent regulation (main residence)
        - mandatory energy certificate
        - transparent rental prices
        - mandatory registration of rental agreement
        - strict indexation procedures
        - but few rental subsidies

Facts: how do we tax property? *Owner occupied housing*

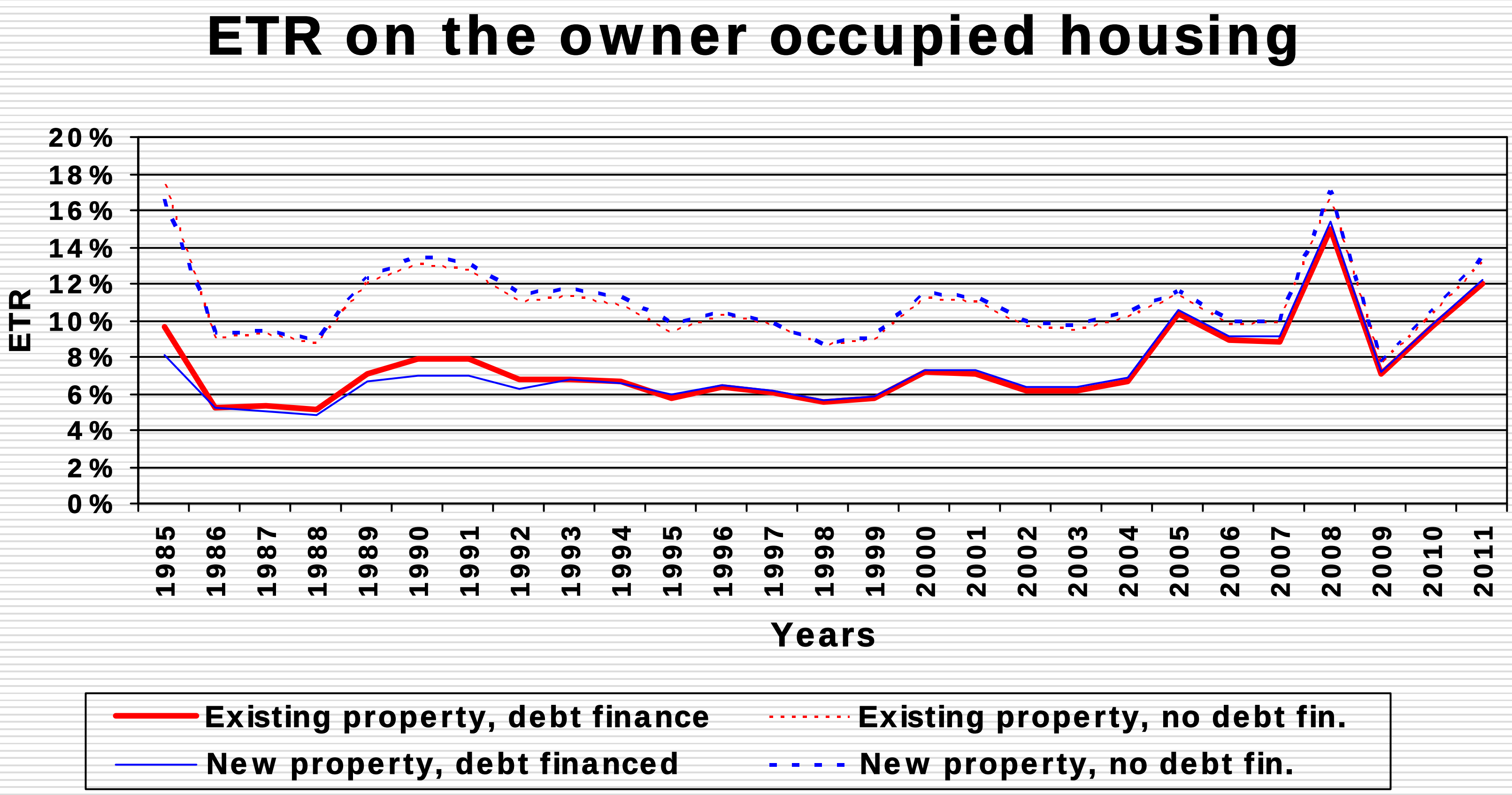
- **Bold : Federal**
- Transaction taxes (Registration duties or **VAT**)
- Property taxes (Region+Provinces+municipalities)
- **No taxation of the imputed income**
  - **Up to 2005, property tax credit on PIT, up to 12,5% of the indexed imputed income**
- **Tax incentives, up to 2005**
  - **No effective mortgage interest deduction, except for new and owner occupied residential property**
  - **Tax credit for mortgage repayments, up to a ceiling**
- **Tax incentives, from to 2005**
  - **Allowances for mortgage interest and repayments, up to (per spouse) 2120 € + 710 € for the 10 first years**
  - **No distinction existing – new residential property**
  - **« Old rules » remains for ongoing contracts, but refinancing mortgages qualified for the new rules**

Facts

An ETR for owner occupied housing

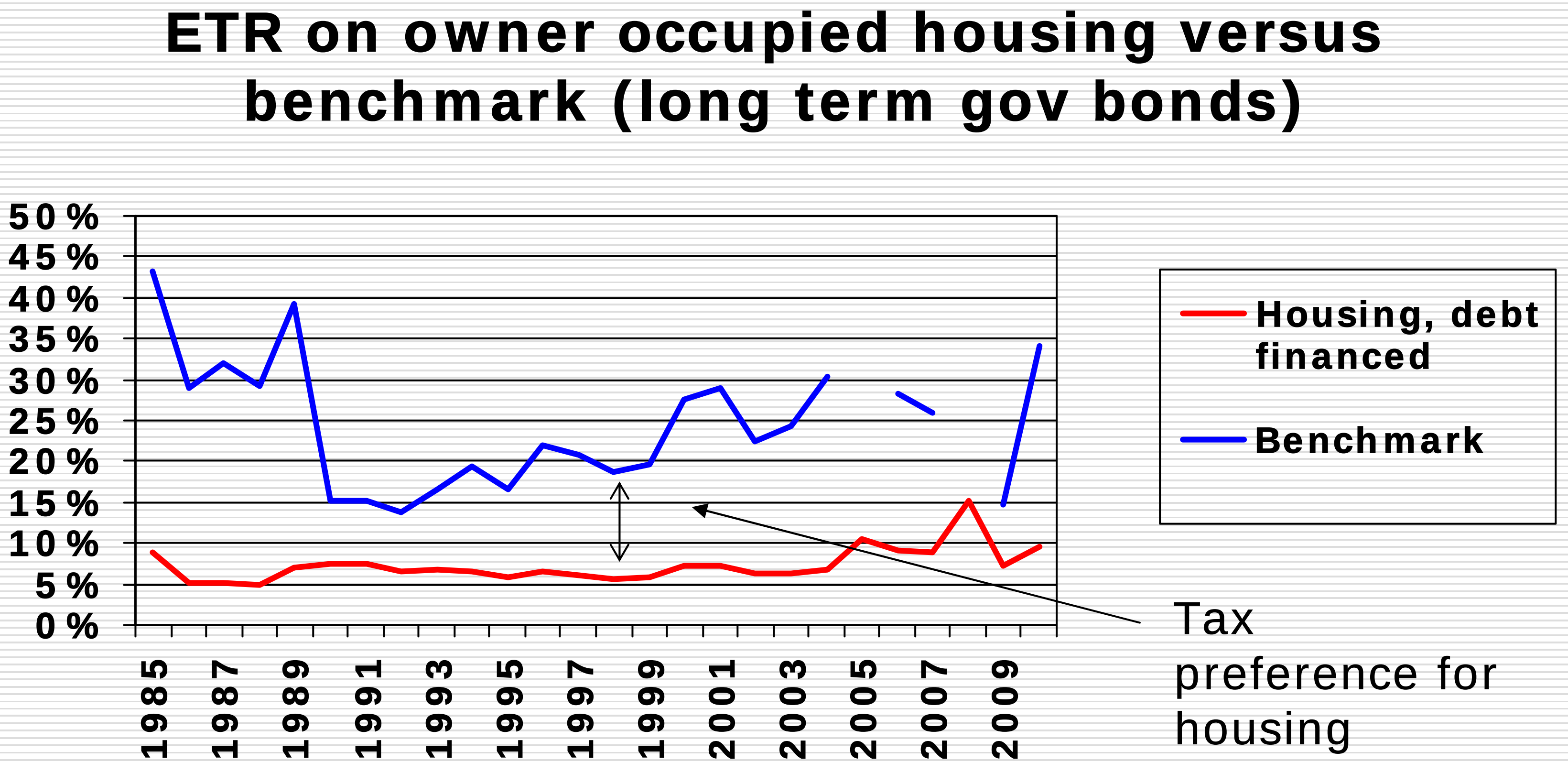
- ETR = (Rg-Rn)/(Rg-π)
  - Rg = gross nominal return (8% of the value of the property)
  - Rn = net nominal return
  - Π = inflation rate
- (Rg-Rn) Includes
  - (a) Taxation of the acquisition
  - (b) Net Property tax
  - (c) NPV of tax credits and allowances
  - Infinite horizon: (a) and (c) are transformed into a yearly tax or subsidy (lower bound, due to the infinite horizon)

How do we tax property?
An ETR for owner occupied housing



How do we tax property?

An ETR for owner occupied housing



How do we tax property?
An ETR for owner occupied housing

- Main lessons
  - From the methodology: ETR highly sensitive to inflation and interest rates
  - In any case, a clear tax privilege compared to the benchmark
  - Additional tax support in the case of mortgage
  - The specific tax privilege for construction has disappeared over time

Reforms
Registration duties (Flanders)

- Rate cut
  - up to 2002: 12.5% and 6%
  - since 2002: 10% and 5%
- Reduced rate
  - depends mainly on cadastral revenue (CI)
  - rationale: equity
    - enhancing accessibility of home ownership
  - CI is a poor benchmark - how to turn into “house reduction”?
    - depending upon revenue buyer
    - depending upon surface area house + garden

Reforms
Registration duties (Flanders)

- zero rate band (main residence)
  - standard abatement of 15,000 €
  - increased when mortgage
    - plus 10,000 € (10% rate applicable)
    - or plus 20,000 € (5% rate)
- carry over of previously paid duties
  - up to 12,500 €
  - reinvestment within 2 (house) or 5 (building lot) yrs
  - limited to FL -> European objections

Reforms
Registration duties (Flanders)

Purchase probability	Before reform	After reform
< 30 yr	17.14%	+0.54%pt
30 - 40	34.28%	+0.30%pt
40 - 50	20.73%	- 0.20%pt
50 - 60	11.49%	- 0.21%pt
60 - 70	5.14%	- 0.12%pt
No purchase	11.21%	- 0.31%pt

Source: Capéau B., Decoster A., De Swerdt K.(2005), *Reacties van de burgers op de verlaging en de invoering van de meeneembaarheid van de registratierechten. Verslag van de wetenschappelijke activiteiten 2004*; Brussel Workshop 25/02/2005 (www.steunpuntbov.be)

Reforms
Property tax

- Revaluation locked by a political economy issue
  - Prior to 2001
    - Political responsibility for the federal government
    - But the fed gov raises nearly no tax on imputed income
    - So that the benefits arise for municipalities and regions
  - After 2001
    - Regions may not change the cadastral values, but may opt for another base
    - No changes

Reforms

Property tax: the "Antwerp" reform

- Reform of the provincial taxes in Antwerp
  - Currently 2 taxes
    - Lump sum
      - 28 € single; 36 € families
      - min 54 € self-employed; 144 € when employing staff
      - (income surtax not allowed)
    - Immovable property surtax (IPS)
  - Nov 2011 decision to shift to IPS only…

Reforms
Property tax: the "Antwerp" reform

- Arguments pro shift to IPS only
  - Equity:
    - Relative burden of lump sum taxes is unequal ("antisocial")
      - Millionaires pay as much as unemployed
    - Cadastral income reflects ability to pay
      - Tenants do not longer pay
  - Allocation / efficiency
    - Lower burden on economic activity and employment
      - Should enhance competitiveness of companies
  - Administrative costs
    - Abolishment adm cost of lump sum: 4/48 mln €/year (8%)
      - Adm costs of increase of immovable property surtax negligible
    - Reduction of compliance cost (1 assessment)

Reforms
Property tax: the "Antwerp" reform

- Arguments contra shift to IPS only
  - Equity:
    - Cadastral income is outdated
      - rise and fall of areas since 1975 (urban – suburban – rural)
      - not possible to correct outdated base via rate differentials, difficult at municipal level, impossible at provincial level
    - Cadastral income is poor measure of ability to pay
      - large house & small pension : high CI but low ability to pay
      - no correction for family size
    - Incorporation of self-employed
      - immovable property surtax is deductible cost for "villa companies", enabling some high income earners to avoid part of the tax
    - Benefit principle
      - renters also consume provincial services, but pay no IPS

Reforms
The 2005 Federal reform

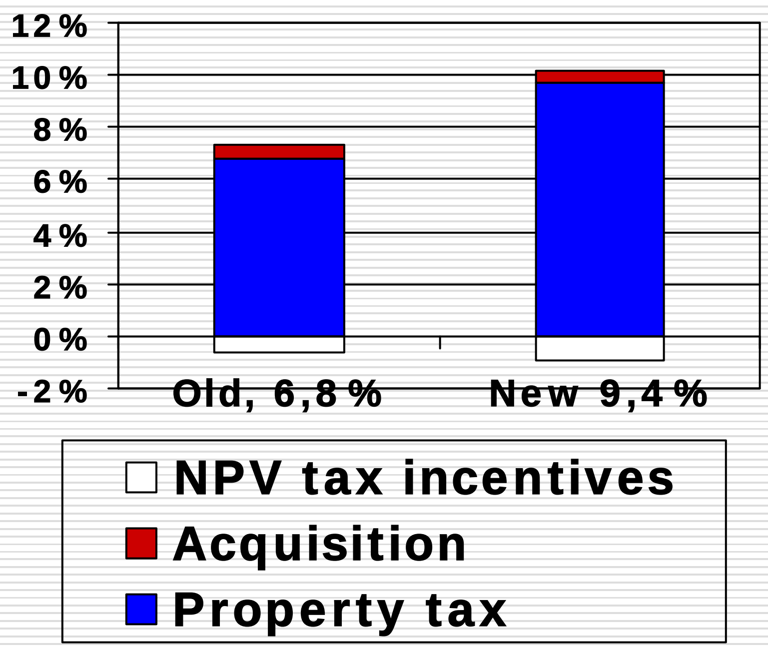
- Proposals from the HCF (2002)
  - Baskets for tax expenditures, with ceiling
  - Basket for housing and long term ceiling
  - *No distinction between interest and capital*
- Reform (Federal, implemented in 2005)
  - No basket
  - Ceiling increased
  - *No distinction between interest and capital*
  - Repealed the (limited) crediting of PT on PIT
  - Refinancing mortgages included..!

Reforms

The 2005 Federal reform

- Increase in the ETR
  - *On the long term, the non crediting of Property Tax on PIT outweighs the increase on the NPV of tax allowances*
- Neutral on new versus existing property
- Short- medium term effect positive for the investor (negative effect on tax revenue)
- Information bias in favour of the tax incentive

ETR for the old and new regimes, under comparable interest and inflation rates

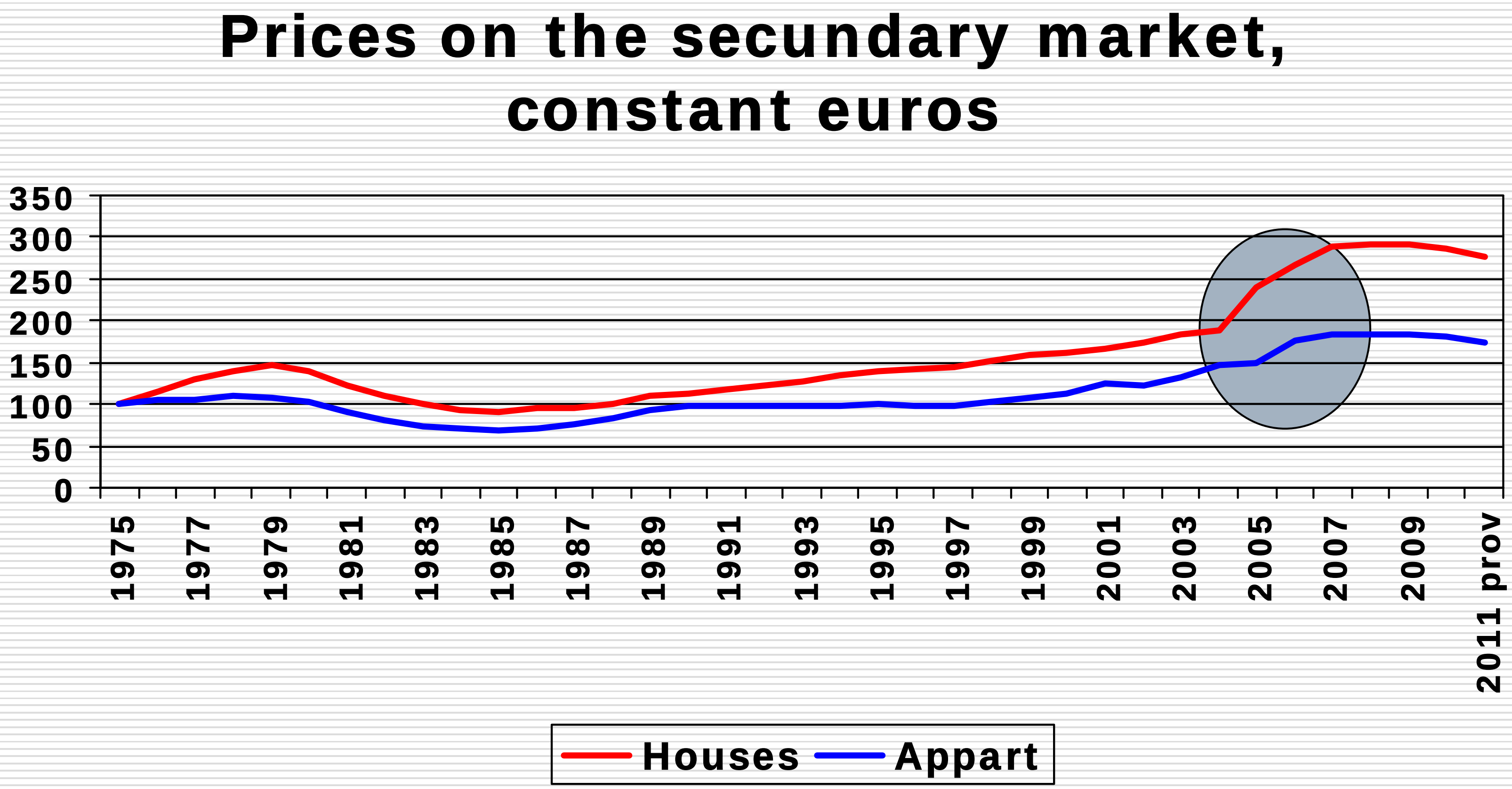


Reforms
The 2005 Federal reform

- No formal investigation of the effects, « other things being equals »
- Most of the effect of the tax amnesty took place in 2004 and funds repatriated might have been invested in property in 2005
- So, difficult to disentangle the specific effect of the change in the tax incentive
- What we may observe..
  - Strong increase in prices
  - No clear change in the number of transactions
  - Large capital gains for those who sold existing assets in 2005
  - Increase in mortgage, and strong increase from refinancing

Reforms

The 2005 Federal reform



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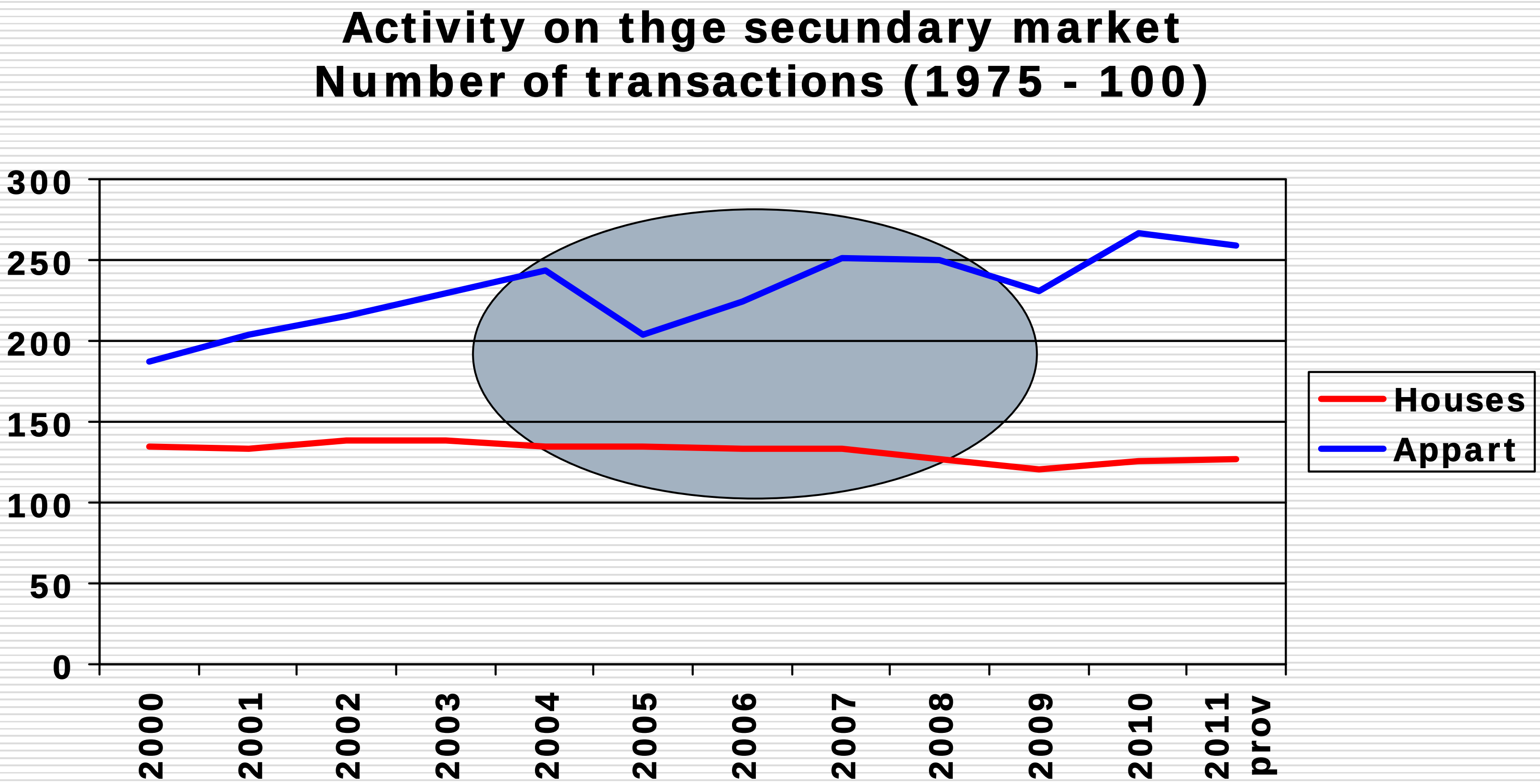

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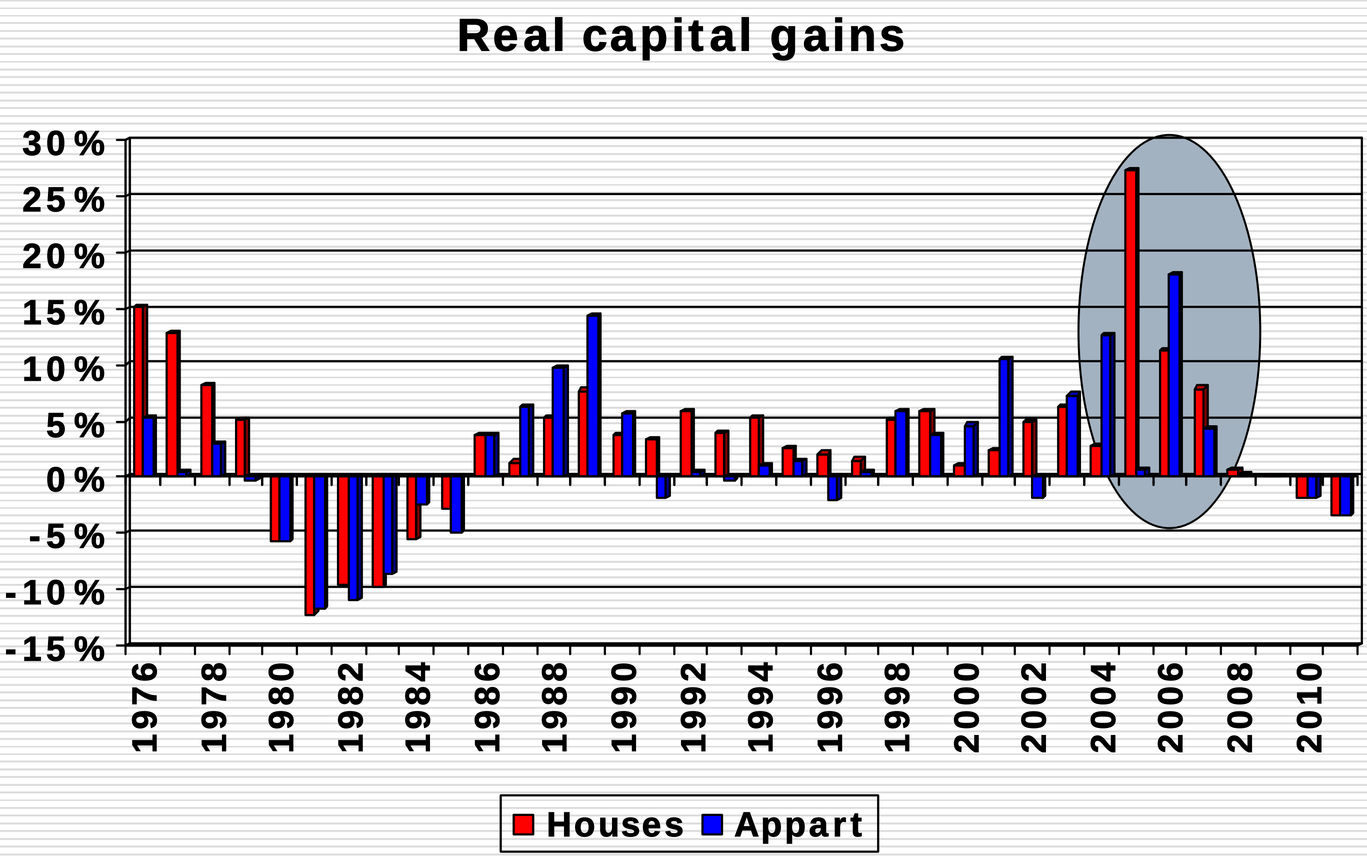

Reforms

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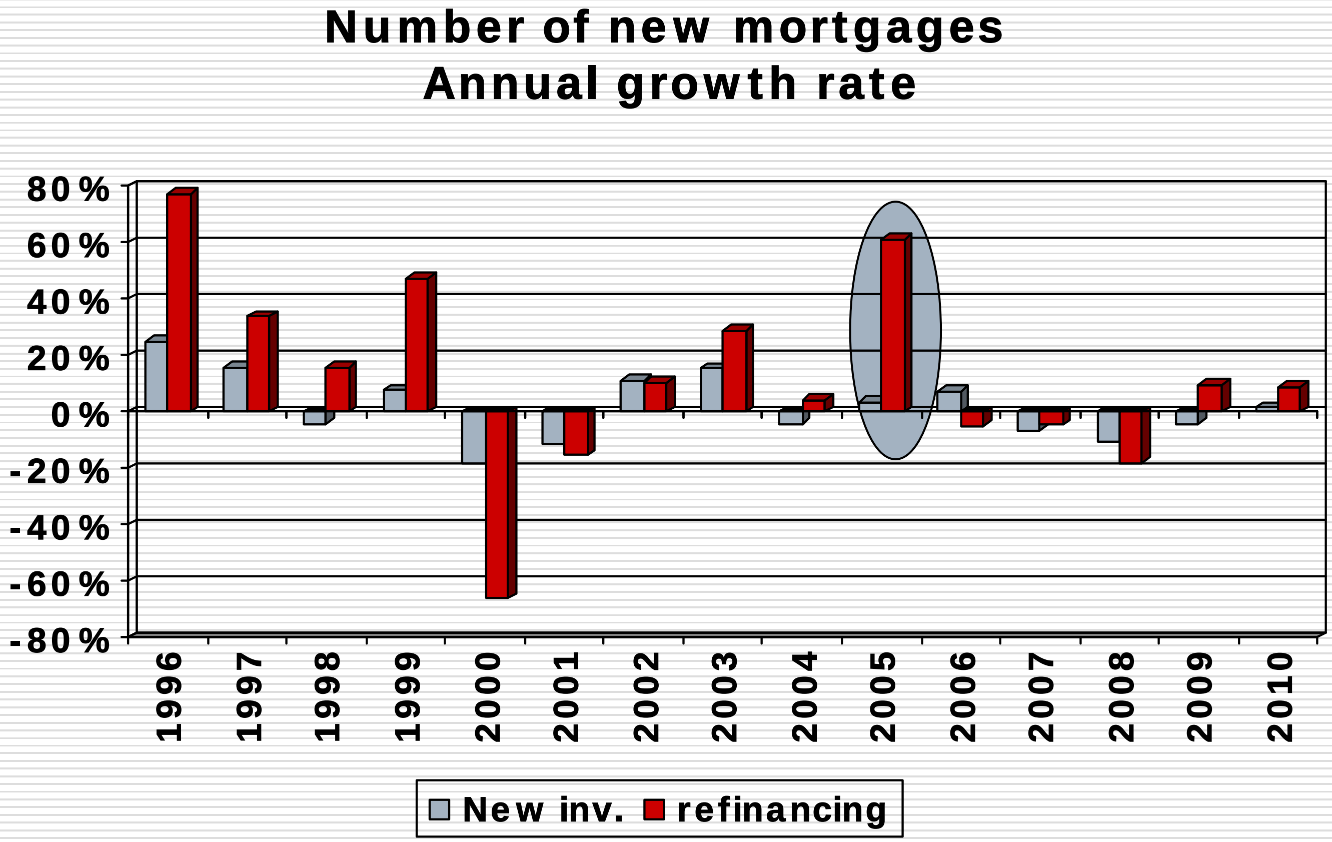

Reforms
The 2005 Federal reform

- More broadly, on tax incentives
  - They should to improve access to “a decent house”
  - But the way they work does not fit with the policy rationale
    - Owner-occupied housing versus tenants
    - Benefits unevenly distributed
    - Do not increase supply for low income earners, what they should do from the theoretical perspective
    - They seems to be capitalised into prices (do not benefit entrants)