PRESIDENT'S MESSAGE

September 2025

My lead item for this month's newsletter comes from Australia. It is an article written by two leading academics - Peter Siminski, Professor of Economics at the University of Technology Sydney and Roger Wilkins, Professorial Fellow and Co-Director at the HILDA Survey, Melbourne Institute of Applied Economic and Social Research, The University of Melbourne. They have "bravely" ventured to suggest that the Australian family home should be taxed. Their article is titled "The government has asked for bold proposals. Maybe it's time to consider taxing the family home".

The authors state: "The Australian government has "an appetite to be bold and ambitious" in its economic reform agenda. And tax reform is on the menu at its much-publicised reform roundtable, to be held next week.

Here, we serve some food for thought – the taxation of owner-occupied housing. This may seem distasteful, but there are some strong arguments for doing so.

Tax breaks for owner-occupied housing are very large

The size of tax concessions for owner-occupied housing is similar to that of superannuation, and much larger than for investment property. Treasury estimates it forgoes more than A$50 billion per year by exempting owner-occupied housing from capital gains tax (CGT).

There is also no tax on the rental value of owner-occupied housing, although we did tax such "imputed rental income" (what a homeowner would pay in rent) briefly between 1915 and 1923.

Owner-occupied housing exacerbates inequality

Australia prides itself on being a fair society. In reality, we are near the middle among developed countries on standard measures of income inequality. But such statistics ignore the income that owner-occupiers derive from their homes.

In a new paper, we see what happens to income inequality if owner-occupied housing income is included. This non-cash housing income refers to the imputed rent and unrealised capital gains on the property.

When these are included in the income measure, inequality is higher, and it increases more strongly over time. The effect is large enough to shift Australia's inequality from 16th to tenth highest amongst OECD countries (though we haven't conducted the same exercise for other countries).

Unsurprisingly, outright homeowners are much better off than renters when income from the home is counted. They have an average income 86% higher than the average income of renters – compared with 34% higher if housing income is ignored, as it usually is.

Australia's progressive tax system is largely a mirage

Income taxes reduce inequality because the tax rate is higher for people with higher incomes. That is what is meant by a "progressive" tax system.

Our paper finds that this changes greatly when income from owner-occupied housing is included. The income tax system reduces inequality by a lot less (about 40.5% less) if we include such housing income. Because this income is tax-free, the average tax rate for the rich is much lower than it seems. So the tax system is less progressive than it appears to be.

The same is true for government pensions and benefits. They also reduce inequality, since they are targeted to people with limited means.

But housing wealth is excluded from the pension assets test, so pensions are not as targeted as they appear to be. Repeating the exercise above, we find the effect of pensions and benefits on inequality is 18.9% smaller when housing income is included.

Overall, the combined impact of income taxes and pensions/benefits on inequality is 26.7% lower when we include income from the family home.

Favourable tax treatment is built into house prices

These tax concessions may also increase house prices and encourage inefficient allocation of resources. Income from investing in owner-occupied housing is tax-free, while all other investments attract tax. So Australians plough their money into their home instead of other, more economically productive, investments. These funds could instead be invested into private firms (directly or through the stock market), stimulating entrepreneurial activity and lifting productivity, wages and profits.

While stamp duty is typically payable on home purchases, the value of the income tax exemption is much larger. That lifts demand for housing, and hence housing prices. We know of no recent studies that have estimated the size of this effect, but it is likely to be large and therefore make the move into home ownership more difficult.

The absence of recent studies may be because taxing owner-occupied housing is not seen as a politically viable option. Much more attention has been placed on the much smaller tax concessions for investment property income.

Most people would be better off

The Australian community as a whole would benefit from a reduced incentive to invest in housing because it would lead to increased investment in productive activities.

In terms of who would benefit most, renters stand out as obvious beneficiaries, since the tax burden would shift towards homeowners. But a progressive tax on housing could also benefit owners of modest homes, as part of a broader redesign of the tax system.

There is a temptation to equate a new tax with more total tax. This depends on the design. But it is certainly possible to implement a progressive tax on housing wealth, perhaps combined with an income tax cut, which could leave most people better off.

How would this look in practice?

There are many policy options for more fairly incorporating owner-occupied housing in the tax system. We do not make a specific proposal here, but options include:

- a broad-based land tax would go a long way to addressing the issue, and should be on the government's agenda. This is an economically efficient tax that is advocated by many economists;
- an explicit tax on owner-occupied housing wealth is also justifiable, since it is the only large asset that generates income that is not taxed;
- a broader wealth tax could also be considered.

We also believe there is a strong case for reconsidering the exemption of housing from the pension assets test. Many wealthy retirees benefit from public pensions, which are funded by taxes on the incomes of younger workers and renters.

Too important to be squeamish

We should have a national conversation on whether the current tax treatment of owner-occupied housing is sensible. Moving away from complete exemption would open up opportunities for reduced reliance on income taxes and more food on the table for renters, and owners of modest homes.

Will the reform roundtable etiquette permit consideration of reforming the taxation of owner-occupied housing? This is an important and much neglected consideration in assessing the overall fairness and efficiency of the tax system."

IPTI comment: the tax treatment of owner-occupied housing is, of course, controversial. Taking away or reducing favourable treatment from such a large group of people is potentially hazardous from a political perspective – even if it may be the right thing to do!

Time now to move on to IPTI matters. Excitement is building for our next major in-person event which is IPTI's "Property Tax Policy and Practice" conference to be held in Halifax, Nova Scotia on 16 and 17 September. We have a great range of experts coming from around the world to share their knowledge and expertise across a wide range of topical issues.

More information about that conference, along with a great range other forthcoming events including conferences, symposiums, webinars, workshops, etc., is available on our website: www.ipti.org.

Now it's time for a quick look at what is making headlines concerning property taxes in selected jurisdictions and countries around the world. For more information, and links to the original news articles, please refer to IPTI Xtracts which can be found on our website: https://www.ipti.org/ipti-xtracts

Starting in China, it is reported that more robust collection practices helped China's property tax receipts jump 12 percent to CNY261.8 billion (USD36.5 billion) in the first half from a year ago despite a weak housing market, providing an important revenue cushion for cash-strapped local authorities. Multiple provincial-level regions reported double-digit growth in receipts from tax levied on real estate holdings in the six months ended June 30, with the last figures coming out on Aug. 5. Xinjiang Uygur Autonomous Region logged a near 18 percent jump to CNY4.1 billion (USD571 million), Jilin province a 16 percent increase to CNY9.7 billion, and Fujian province an almost 14 percent gain to CNY7.4 billion. Some localities have made their tax collection more efficient by using advanced methods such as Big Data cross-matching. The tax bureau of Zhengzhou Airport Economy Zone, for instance, used digital management techniques to gather and compare property and land tax data across the board. This way it collected CNY2.6 billion in the first half, a 36 percent jump, and recovered back taxes worth CNY231 million through online data matching combined with offline risk checks. Introduced in 1986, China's property tax is levied based on property value or rental income and collected from owners or operators at a set percentage. Except for the cities of Chongqing and Shanghai, owner-occupied homes are not subject to the tax.

The tax is levied locally and its revenues belong to local governments, which are under heavy budgetary pressure because revenue growth has slowed as a result of a slower economy, soft property market, and tax cuts, while fixed costs such as social welfare and debt servicing have not fallen. The increase in property tax revenue will, to some extent, ease the fiscal revenue-and-expenditure bind for local governments, according to analysts.

Moving on to the USA, a recent article asked: “Why doesn't the U.S. have a wealth tax?”. The author stated: “A wealth tax could raise a lot of money and burden a privileged few. Trouble is, the U.S. Constitution basically bans it. The U.S. has been home to some weird taxes: There have been taxes on tattoos, playing cards, wild blueberries, and hot air balloons. Missouri even tried out a bachelor tax on single men in the 1820s. But the federal government gets most of its money from the income tax administered by the IRS. “I'm one of the few people out there who is a fan of the IRS,” says Janet Holtzblatt, senior fellow at the Urban-Brookings Tax Policy Center. She said she actually loves filing her taxes. “Oh my god, yes! I used to coincide doing my taxes with the Oscars. So two of the biggest thrills in my life.” Holtzblatt gets excited about all the good her taxes will do for society.

Recently there has been a lot of discussion of a different kind of tax: a wealth tax, which is, essentially, a tax on property instead of income. In a lot of ways, this makes sense. Many of the wealthiest people don't make a big income; their money is tied up in houses, or stocks, or superyachts, or art collections. That's got politicians like Bernie Sanders and Elizabeth Warren calling for a tax on wealth. There's just one problem: A wealth tax is basically banned by the Constitution. The line in question: “Representatives and direct taxes shall be apportioned among the several states." It doesn’t sound like much, but it essentially means if the government were to collect a wealth tax, it would have to make sure the amount of money coming out of each state from the tax was in exact proportion to the population of that state relative to the national population. “Even with AI, the math is just impossible,” said Beverly Moran, a law professor emeritus at Vanderbilt University.

How did that line get there? “When we think about how the Constitution came to be, there was a long struggle,” explained Moran. “North Carolina, South Carolina, Georgia, Virginia... What did all those states have in common? They were slave-holding states. They were agricultural states. What they were afraid of was taxes on land and taxes on slaves, both of which would be wealth taxes.” In order to get the Southern states to sign on to become part of the union, the northern states agreed to essentially ban federal taxes on property. States and localities can tax wealth and they do: property, cars, boats, business equipment. But nationally, it’s a no can do. As a result, Jeff Bezos didn't pay any federal income taxes in 2011 and Elon Musk didn't pay any in 2018.

That doesn't not sit well with Beverly Moran. "Why is there no wealth tax in the United States? If this is a democracy, why is there no wealth tax?" After all, Elizabeth Warren's wealth tax proposal claims the tax (on those with more than $50 million) would only affect about 75,000 households in the U.S. and could bring in a lot of money. Moran said as it stands, the Constitution would have to be amended for that to happen, or a Supreme Court ruling would have to allow it. But even if that happened, Janet Holtzblatt of the Urban-Brookings Tax Policy Center isn't convinced it would work. "A wealth tax is really, really difficult to administer," she said. "And that's been the challenge for many European countries that have tried to do wealth taxes in the past." In 1990, 12 European countries had a wealth tax in place. Only three of them still do. Holtzblatt said one reason for this is that countries that put a wealth tax in place - even a really small wealth tax - saw people's reported wealth drop off a cliff. In Switzerland, a 1% wealth tax eventually resulted in a 43% reduction in reported wealth. Some ultra wealthy people just moved countries to avoid paying; that's reportedly part of what prompted France to cancel its wealth tax. Also, figuring out how much people should pay isn't easy. Income tax is very straightforward: You take a percentage of somebody's paycheck. But how do you figure out the value of a Rembrandt, or a wine collection, or a Louis XIV footstool? It requires specialists and time. "And that raises policy and administrative issues," said Holtzblatt. Those issues that require manpower, which is a tall order these days. The IRS has just had its budget cut by 20% and its staff reduced by about 25%." We will watch this debate with interest.

And finally, a story about "over zealous" property tax collectors from the UK. Although it was a long, drawn out saga that lasted for many years, the short version is that homeowners carried out a relatively small extension to their property. That, in itself, should not have attracted a tax bill. However, when making an application to the local council for approval to carry out the alterations, an adviser forgot to tick a box to confirm that the works did not attract what is known as a "community infrastructure levy" (CIL). CIL is payable for particular types of development and is intended to contribute to the cost of local infrastructure. Shortly after construction began, the couple received a CIL bill for £20,000. Retrospective exemption was not allowed, the council said. They had broken the rules by starting the building work, and so they had to pay the original charge plus daily interest at 2.5 per cent above the base rate. The total owed ballooned to almost £25,000. One morning, after a long period of harassment by council officials sending letters and visiting the home, the homeowners found that the council had hammered a sign into their front garden with their name, address and the precise sum of money they allegedly owed printed in giant type for the world to see. To cut a long story short, after over 10 years, the council finally backed down and withdrew the charge that should never have been issued in the first place! At last, justice was achieved.

Paul Sanderson JP LLB (Hons) FRICS FIRRV
President, International Property Tax Institute