Housing Wealth and Tax Preferences Across Europe

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Workshop on Wealth Inequality, Intergenerational Mobility, and Equality of Opportunity

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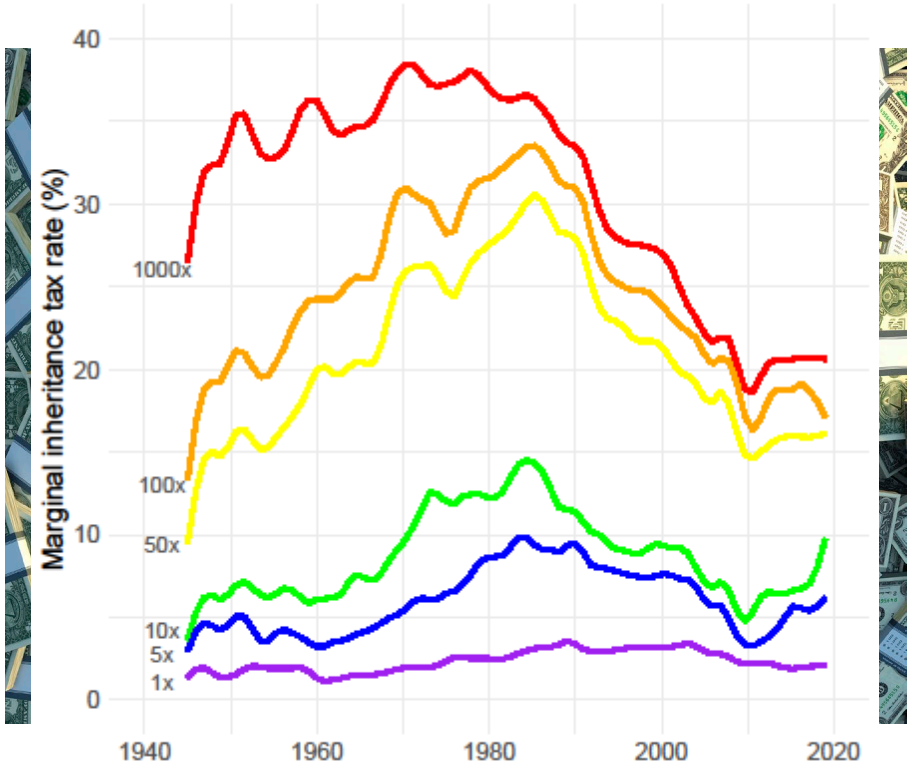


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The puzzle

- Wealth inequality is high and rising…
- „Polycrisis“ is putting pressure on state budgets…
- Yet, taxes on assets of the wealthy play a marginal role and have even declined in many places



Existing literature

- Structural reasons for the decline of taxes on assets
  - Marginal contribution to overall tax revenue (Limberg & Seelkopf 2022; Genschel et al. 2023)
  - Increasing global mobility of capital (Lierse 2022)

- Who gets their way in democratic redistributive politics?
  - The rich (Bartels 2008; Gilens 2012; Streeck 2016) or
  - The middle class (Elkjaer & Iversen 2020, 2023)?



Our argument

- **Micro-foundations of individuals‘ tax preferences**: who forms preferences in the first place, and what are they?

- **Information asymmetries** prevent low-wealth individuals from forming preferences
  - Rich people are more exposed to, and face incentives to acquire, relevant information (Berinsky 2004; Kahneman & Tversky 1979)
- **Material self-interest** shapes the preferences of homeowners (Meltzer & Richard 1981)
  - Wealthy individuals have clearly defined preferences corresponding to the tax brackets they will face

This paper

- Test argument for IHT in countries with different approaches to taxing assets: DK, FR, DE, IE, IT, NL, SE

- Test whether the logic extends to other wealth-related issues:
  - Net wealth tax (NWT)
  - Capital gains tax (CGT)
  - Wealth redistribution

- Differences of degree: Information, salience, emotional significance

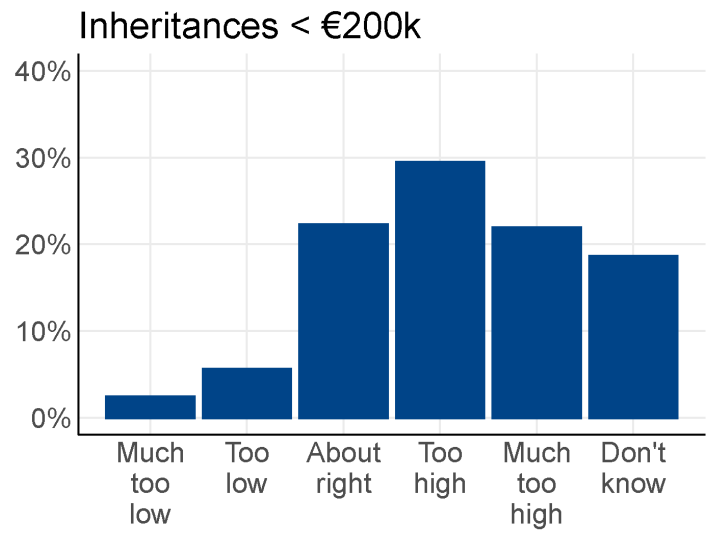
Table 1: Tax rates on net wealth, capital gains, and inheritances (in %)

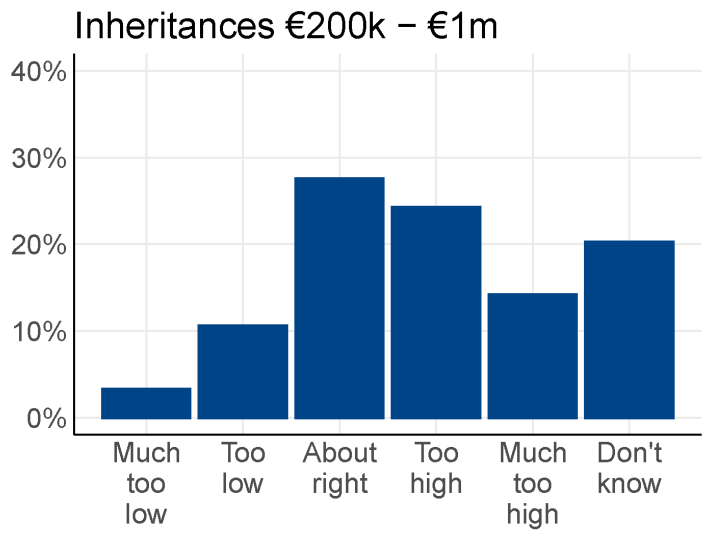
Country	Wealth tax	Capital gains tax	Inheritance tax
Denmark	0	42	15
France	up to 1.5	30	20
Germany	0	25	15
Ireland	0	33	33
Italy	up to 0.76	26	0
Netherlands	0*	31	20
Sweden	0	30	0

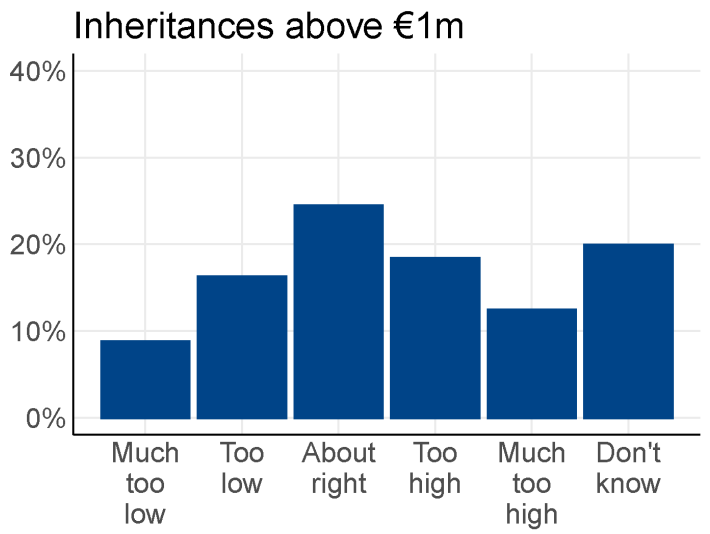
Note: **Wealth tax**: on real estate assets in FR; on assets owned outside the country in IT. **Capital gains tax**: top marginal rate without additional surcharges. **Inheritance tax**: marginal tax rate on inheritances worth 10 times GDP per capita in 2019. *CGT in the Netherlands is effectively equivalent to a wealth tax, as it is levied on a deemed rate of annual return on the net asset value.

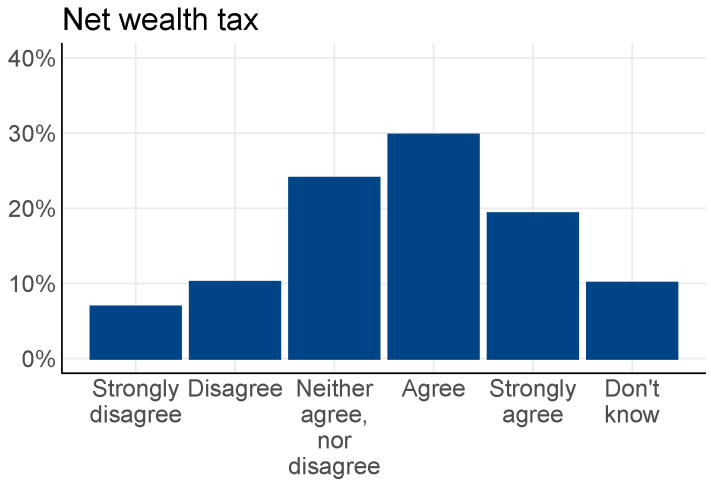
Data & analytical approach

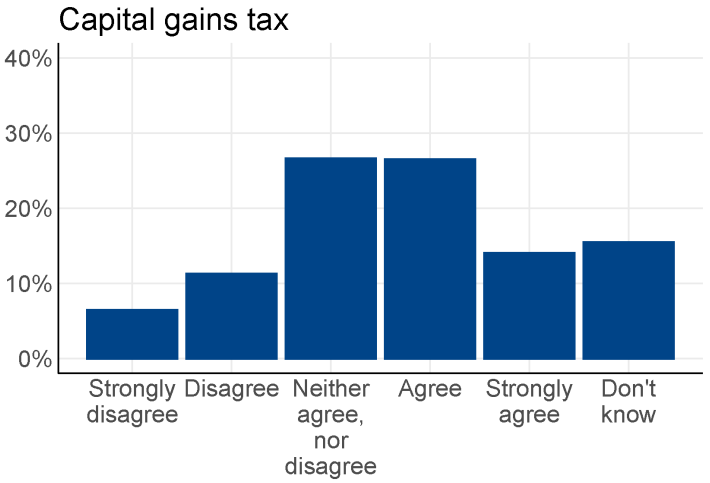
- Original survey in DK, FR, DE, IE, IT, NL, SE
  - Around 1‘250 respondents per country (total N = 8‘699)
- Data on housing situation: homeownership and mortgage status, (estimated) value of own and parents’ house
- Attitudes regarding inheritance tax, net wealth tax, capital gains tax, wealth redistribution
- Linear probability models with individual controls, country dummies, and clustered standard errors

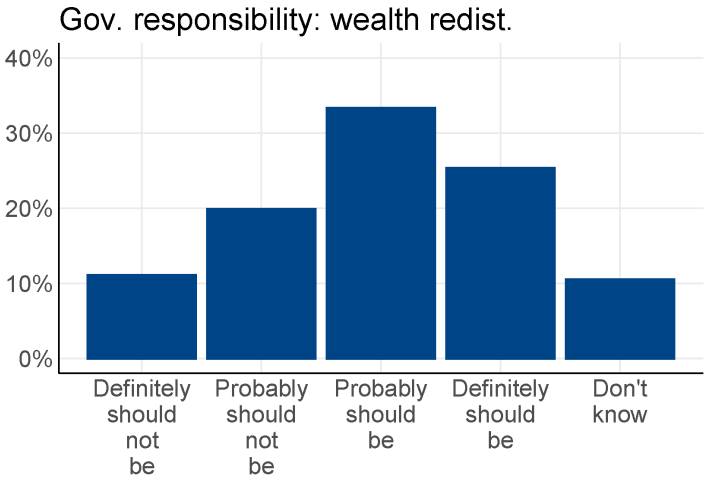

Inheritances < €200k
40%
30%
20%
10%
0%
Much too low
Too low
About right
Too high
Much too high
Don't know


Inheritances €200k − €1m
40%
30%
20%
10%
0%
Much too low
Too low
About right
Too high
Much too high
Don't know


Inheritances above €1m
40%
30%
20%
10%
0%
Much too low
Too low
About right
Too high
Much too high
Don't know

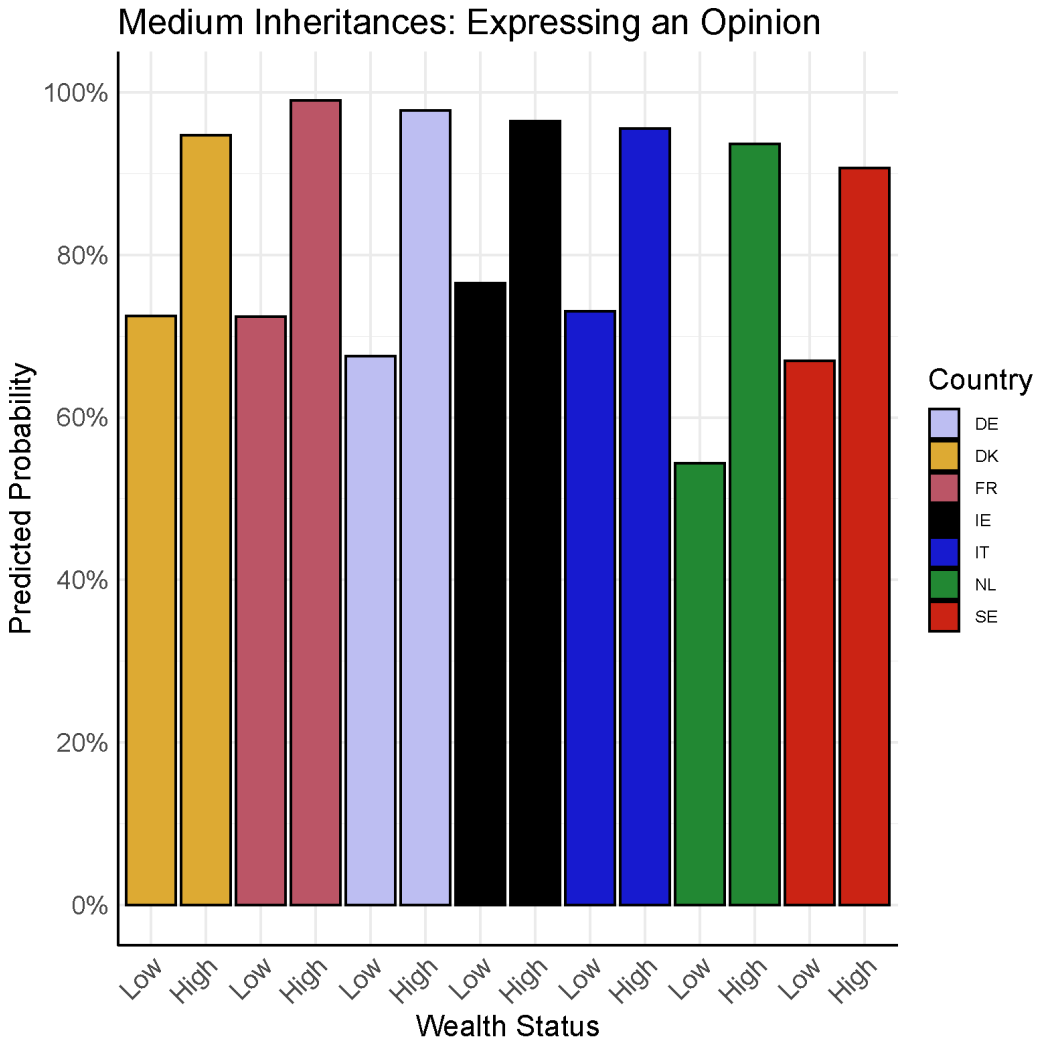

Net wealth tax
40%
30%
20%
10%
0%
Strongly disagree
Disagree
Neither agree, nor disagree
Agree
Strongly agree
Don't know


Capital gains tax
40%
30%
20%
10%
0%
Strongly disagree
Disagree
Neither agree, nor disagree
Agree
Strongly agree
Don't know


Gov. responsibility: wealth redist.
40%
30%
20%
10%
0%
Definitely should not be
Probably should not be
Probably should be
Definitely should be
Don't know

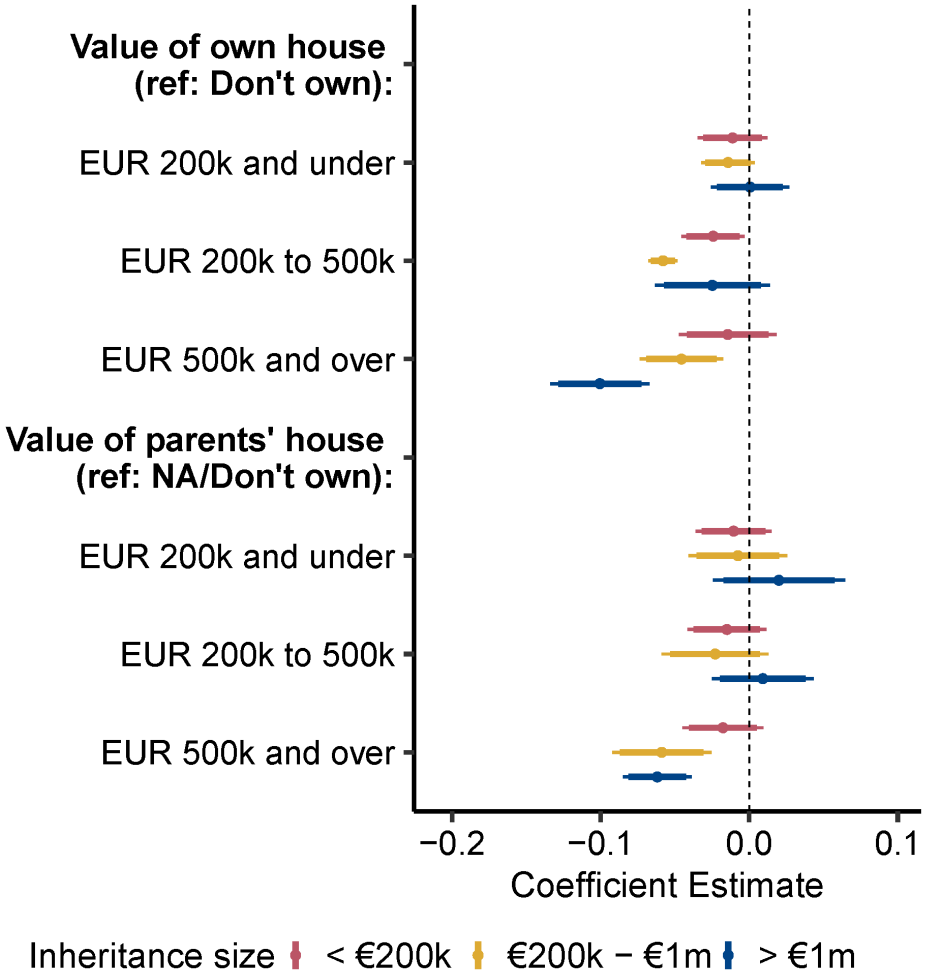
Housing wealth predicts who expresses an opinion on IHT

- Owners of houses worth over €500k are 10 percentage points more likely to express an opinion than renters
- Clear wealth gradient, but no difference between inheritance sizes
- People who expect to inherit a house are up to 6 percentage points more likely to offer an opinion
- Strong gradient by wealth status

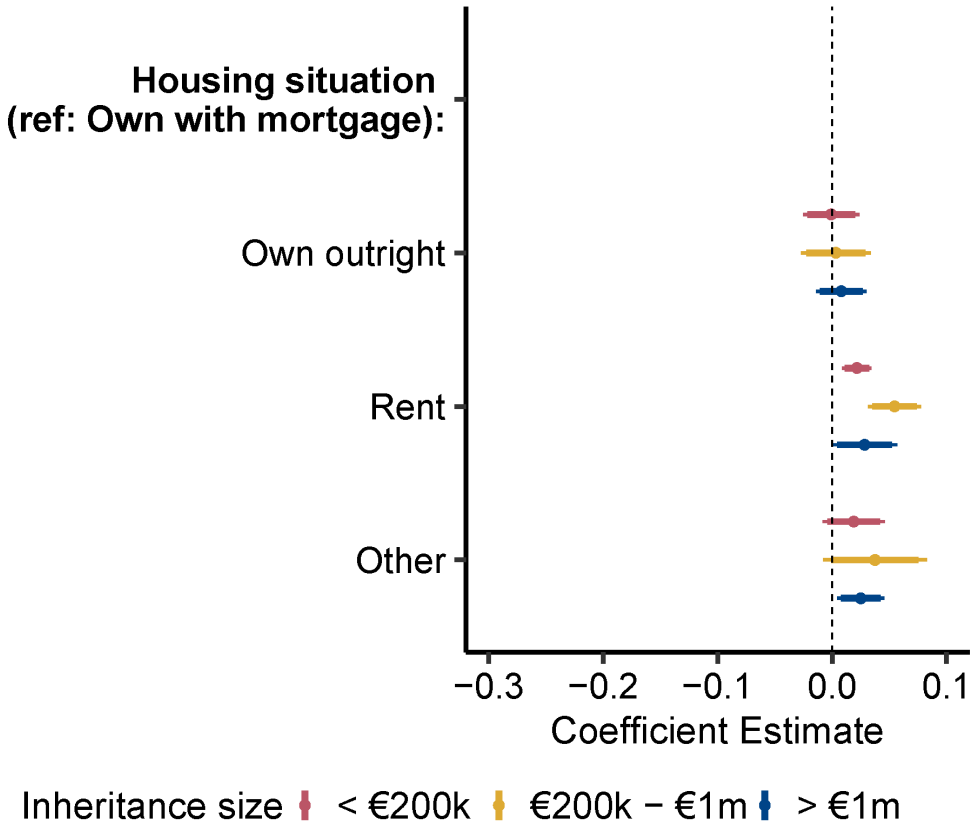


Housing wealth predicts opposition to raising IHT

- Owners of valuable houses are more opposed to raising inheritance taxes
- Opposition is strongest for brackets that would most affect respondents
- People whose parents‘ house is worth > €500k oppose taxing medium-large bequests



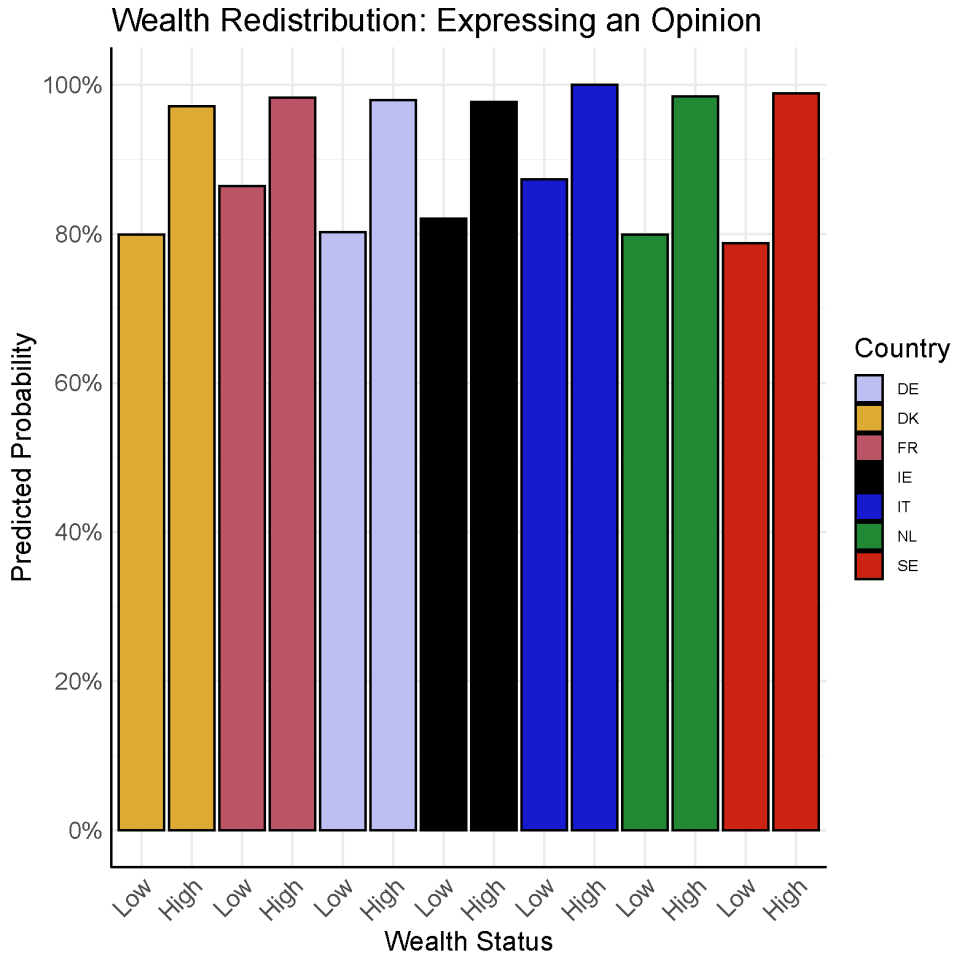
Mortgage holders act like outright owners on IHT



- Outright owners and owners with a mortgage are indistinguishable
- Likely reflects anticipated full ownership by the time IHT would be due

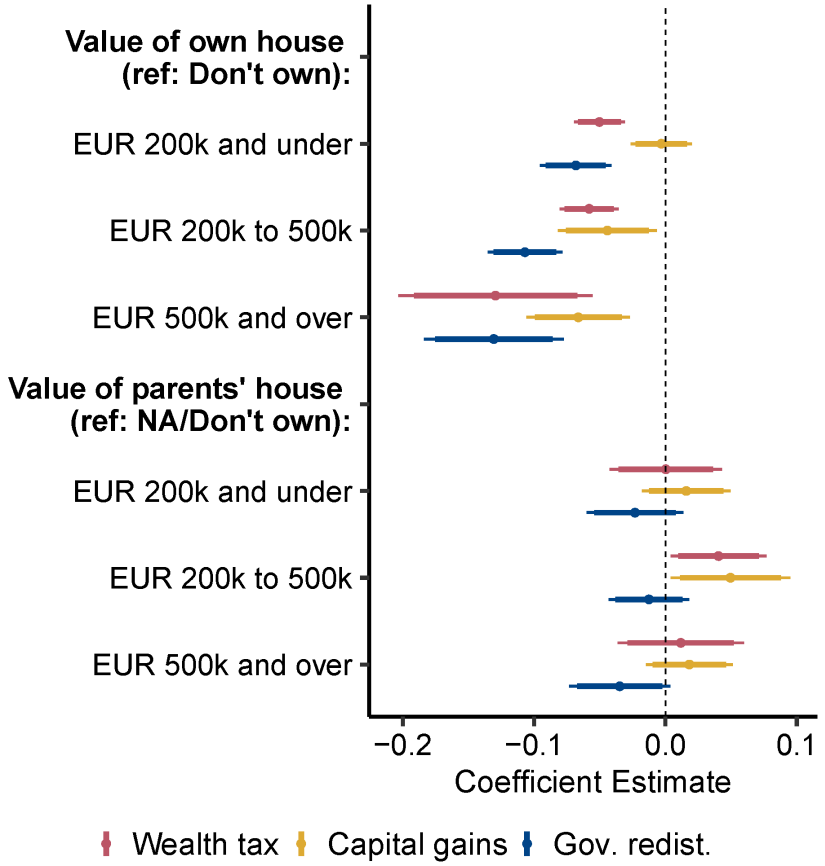
Housing wealth predicts who expresses an opinion on NWT, CGT, redistribution

- Homeowners are up to 5 percentage points more likely to express an opinion than renters
- No clear wealth gradient as for IHT
- People who expect to inherit a house are substantially more likely to offer an opinion
- Moderate gradient by wealth status

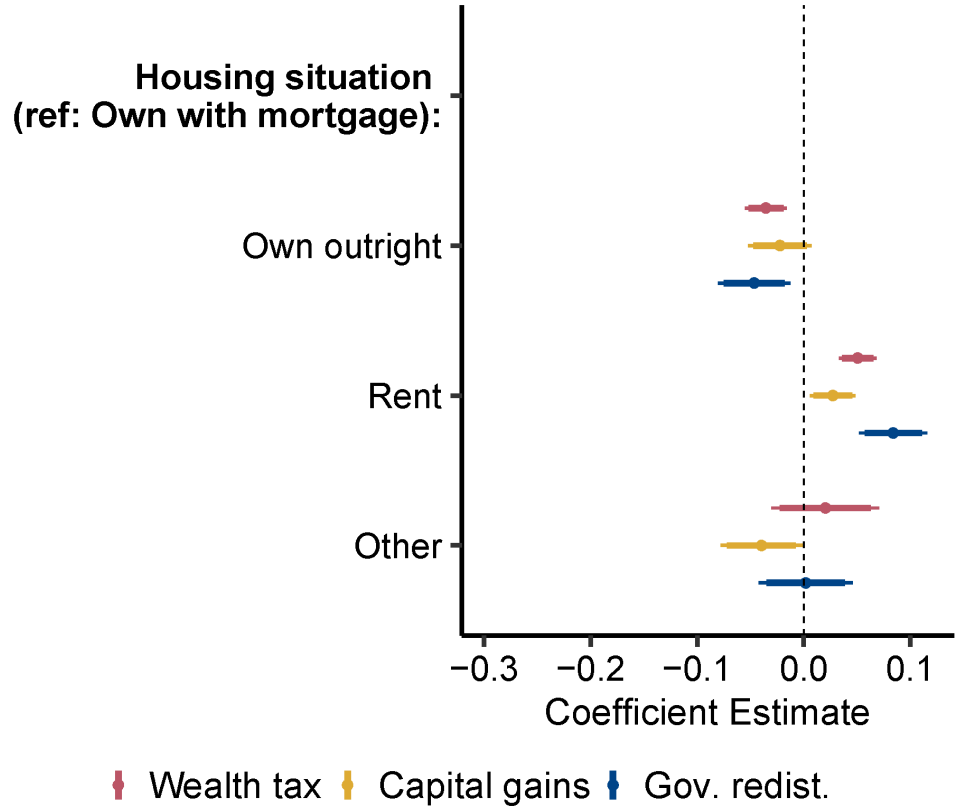


Housing wealth predicts lower support for NWT, CGT, redistribution

- Very strong relationship between housing wealth and opposition to NWT, redistribution
- Weaker (but still substantial) relationship with support for CGT
- Small/inconsistent relationships with value of parents‘ house



Mortgage holders are distinct from outright owners on NWT, CGT, redistribution



- Owners with a mortgage occupy an intermediate position between outright owners and renters
- Likely reflects tension between short-term and long-term interests

Summary

- Housing wealth shapes wealth-related tax preferences of Europeans
  - Despite different tax systems, we observe similar patterns across 7 countries

- Preferences are generally in line with material self-interest, but wealthier individuals are more likely to express preferences in the first place

- Information asymmetries are key to understanding unequal preference formation

- Political economy of wealth inequality is not conducive to higher taxes on wealth (especially IHT): losers fight harder against the tax, than winners fight for it

Thank you for your attention and feedback!

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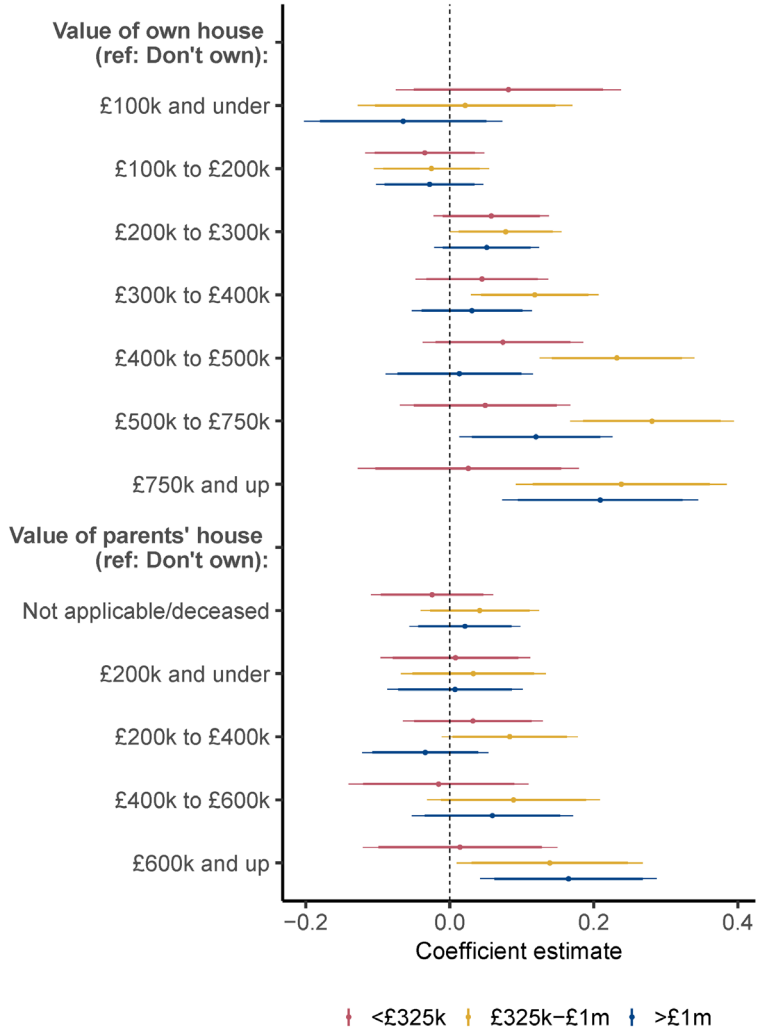
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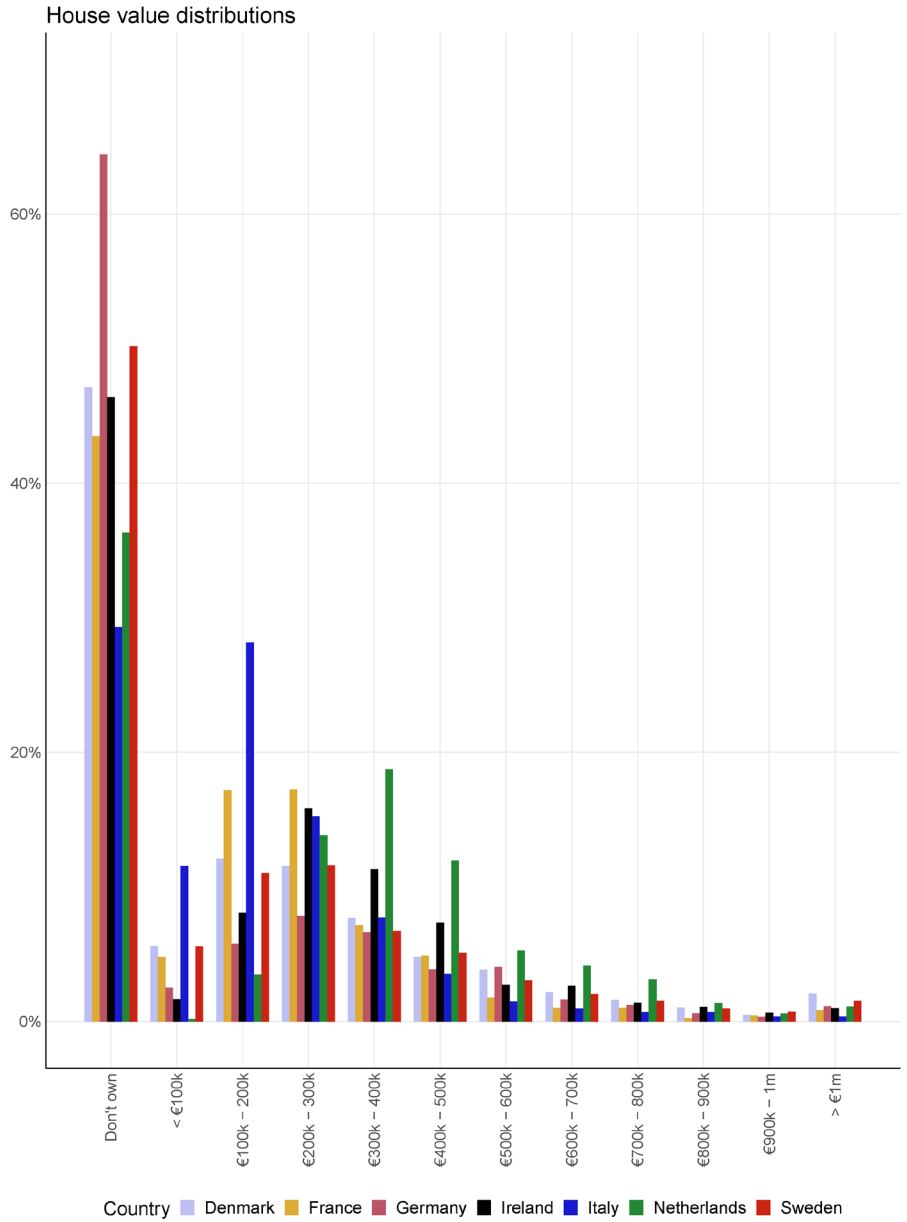
Our previous work

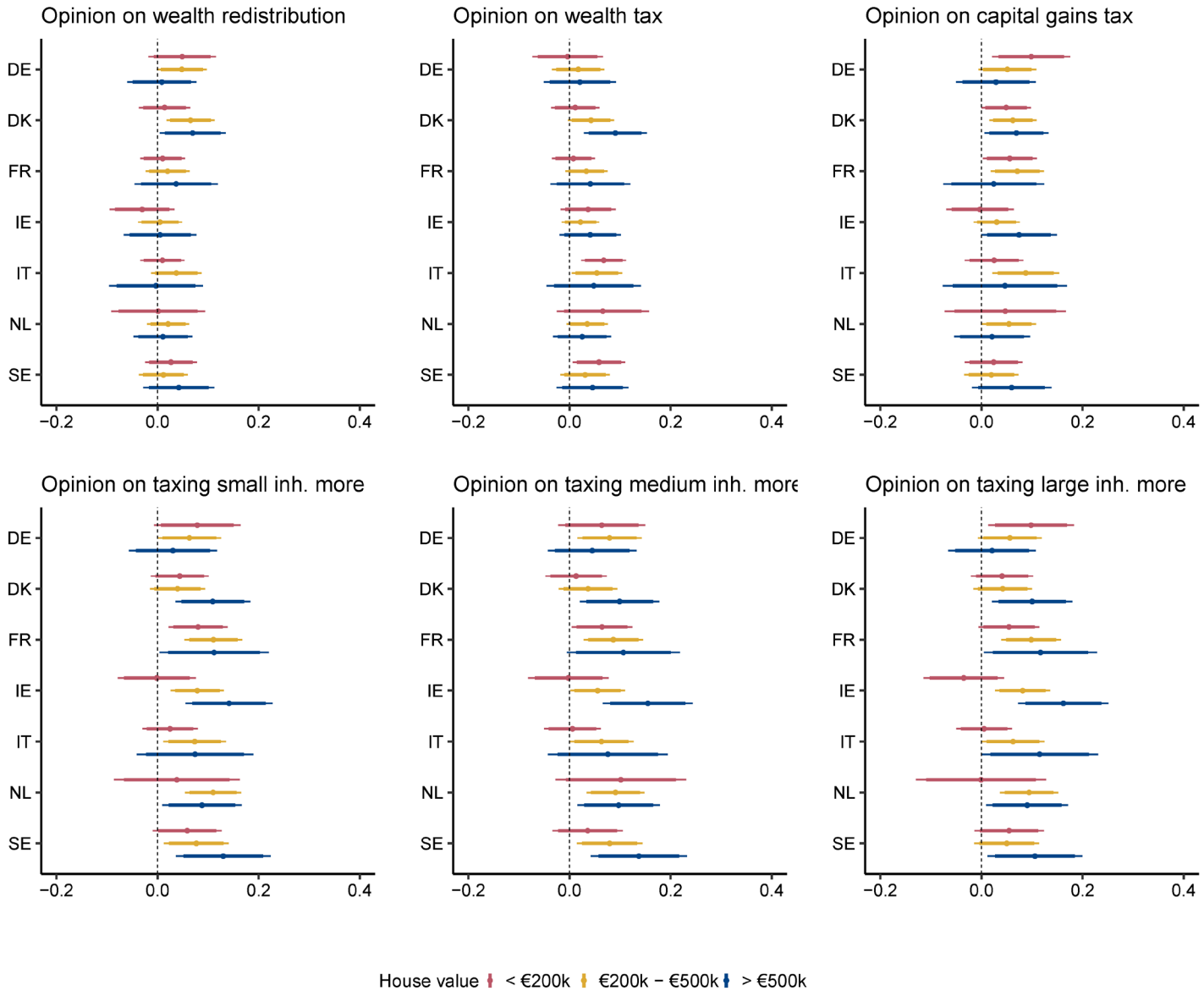
- Why Is It So Hard to Counteract Wealth Inequality? Evidence from the United Kingdom (forthcoming in *World Politics*)
- Housing wealth makes people more likely to have an opinion on inheritance tax (IHT)
- Opposition to IHT increases with house value

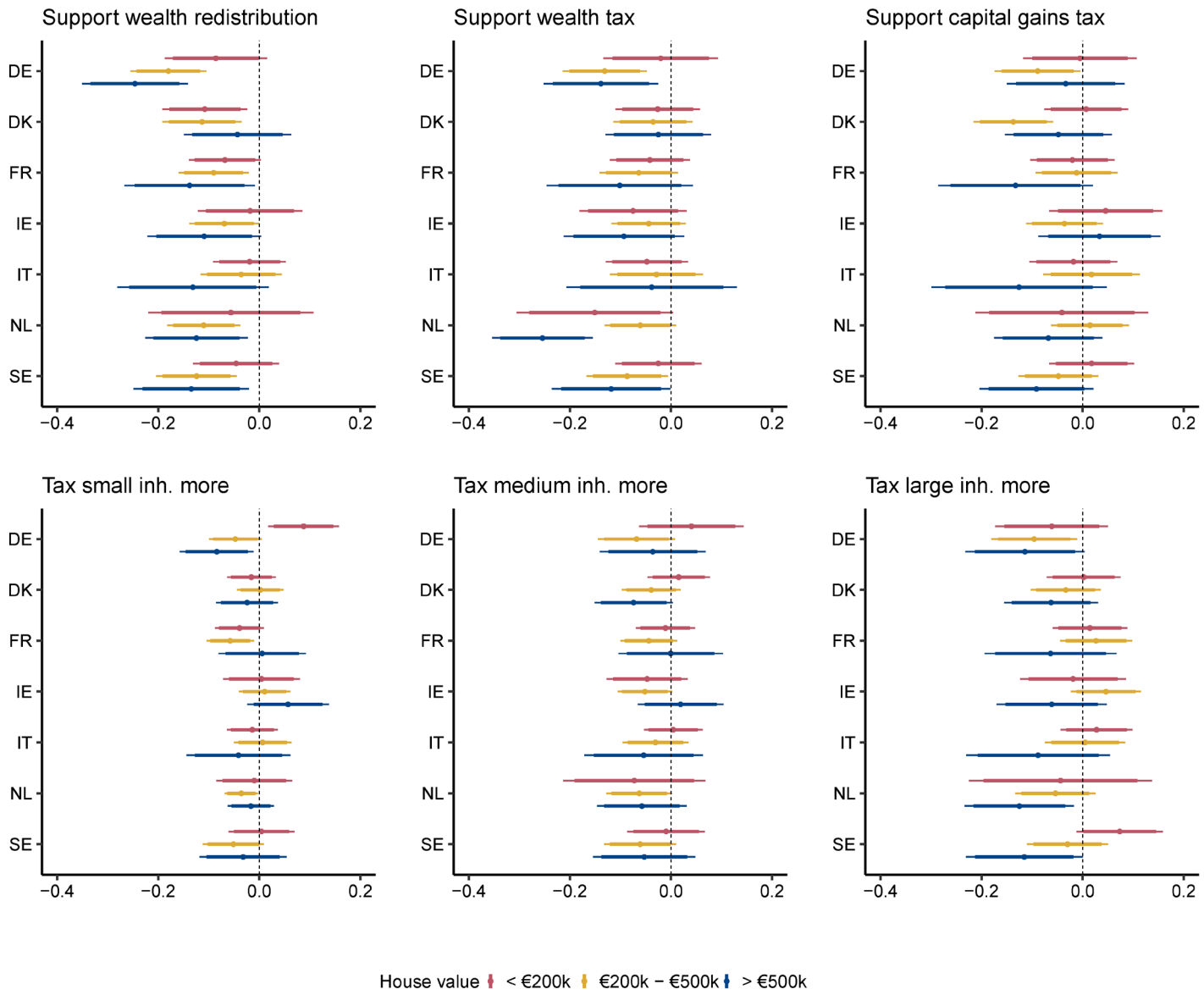


Why housing wealth?

- Main source of wealth for most ordinary people (OECD 2021; Pfeffer & Waitkus 2021)
- (Relatively) straightforward to measure
- Country differences in ownership rates and home values




Opinion on wealth redistribution
Opinion on wealth tax
Opinion on capital gains tax
Opinion on taxing small inh. more
Opinion on taxing medium inh. more
Opinion on taxing large inh. more
DE
DK
FR
IE
IT
NL
SE
−0.2
0.0
0.2
0.4
House value
< €200k
€200k − €500k
> €500k


Support wealth redistribution
Support wealth tax
Support capital gains tax
Tax small inh. more
Tax medium inh. more
Tax large inh. more
DE
DK
FR
IE
IT
NL
SE
−0.4
−0.2
0.0
0.2
House value
< €200k
€200k − €500k
> €500k

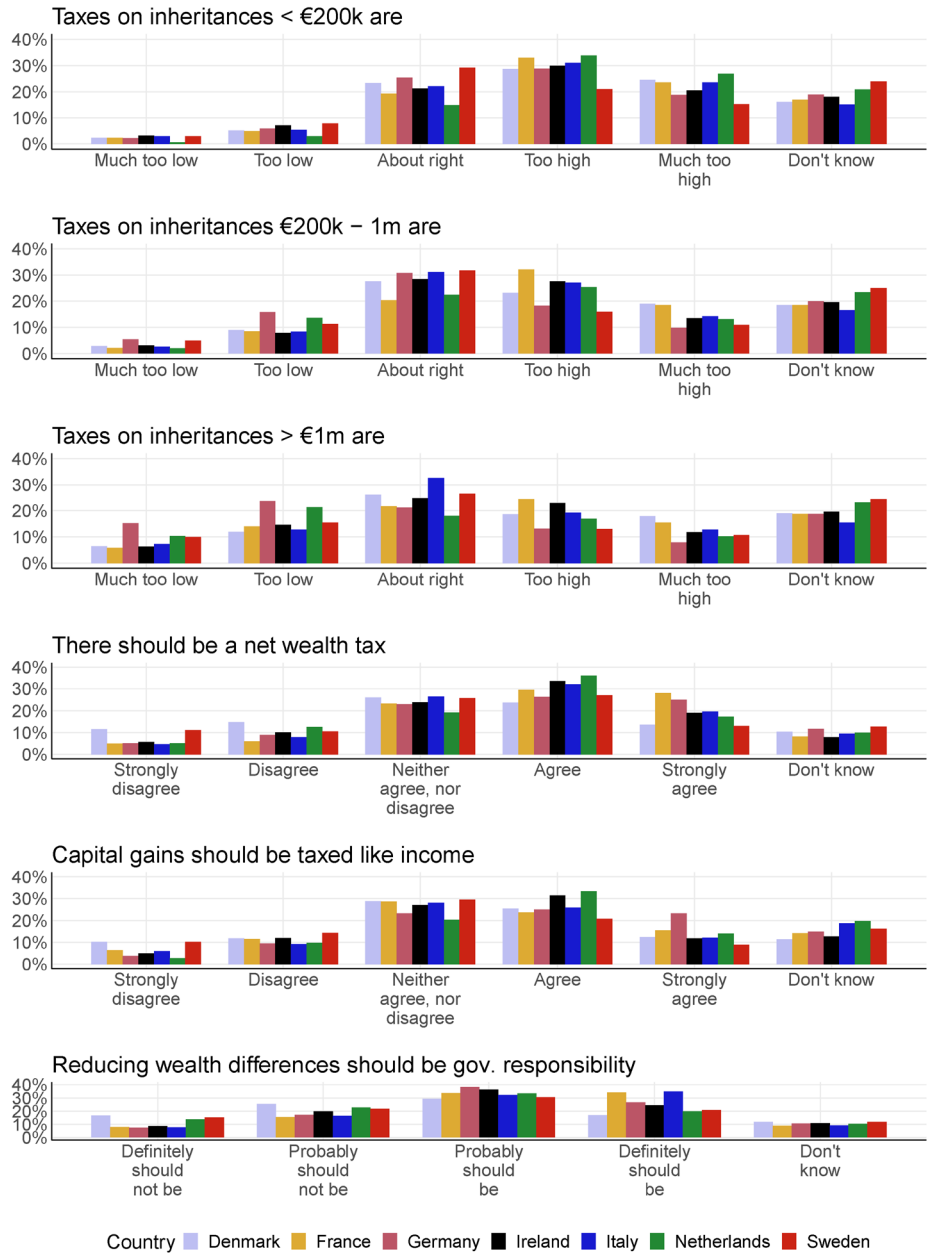

Taxes on inheritances < €200k are
40%
30%
20%
10%
0%
Much too low
Too low
About right
Too high
Much too high
Don't know
Taxes on inheritances €200k − 1m are
Much too low
Too low
About right
Too high
Much too high
Don't know
Taxes on inheritances > €1m are
Much too low
Too low
About right
Too high
Much too high
Don't know
There should be a net wealth tax
Strongly disagree
Disagree
Neither agree, nor disagree
Agree
Strongly agree
Don't know
Capital gains should be taxed like income
Strongly disagree
Disagree
Neither agree, nor disagree
Agree
Strongly agree
Don't know
Reducing wealth differences should be gov. responsibility
Definitely should not be
Probably should not be
Probably should be
Definitely should be
Don't know
Country
Denmark
France
Germany
Ireland
Italy
Netherlands
Sweden

Table A1: Comparing house price estimates from the YouGov survey to those from ONS

Region	Median Price from ONS (June 2021)	Median Price in Survey
East Midlands	£225,824	£210,000
East of England	£323,910	£327,500
London	£506,583	£500,000
North-East	£152,416	£150,000
North-West	£200,568	£200,000
South-East	£359,672	£350,000
South-West	£299,218	£300,000
Wales	£196,536	£200,000
West Midlands	£231,513	£217,500
Yorkshire and Humber	£196,452	£197,500

