

The impact of the 2014 increase in the real estate transfer taxes on the French housing market*

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Key question

What is the impact of a change in taxes on the volume of housing transactions? This paper estimates the effects of an increase in the real estate transfer taxes (RETT) rate from 3.80% to 4.50%, following an optional reform implemented in March 2014 by French *départements*. The RETT, or *droits de mutations* in French, are taxes levied on all transfers of ownership of real estate or land. The RETT are an important source of revenue for the French *départements*: they represent around €10 billion per year.

Methods

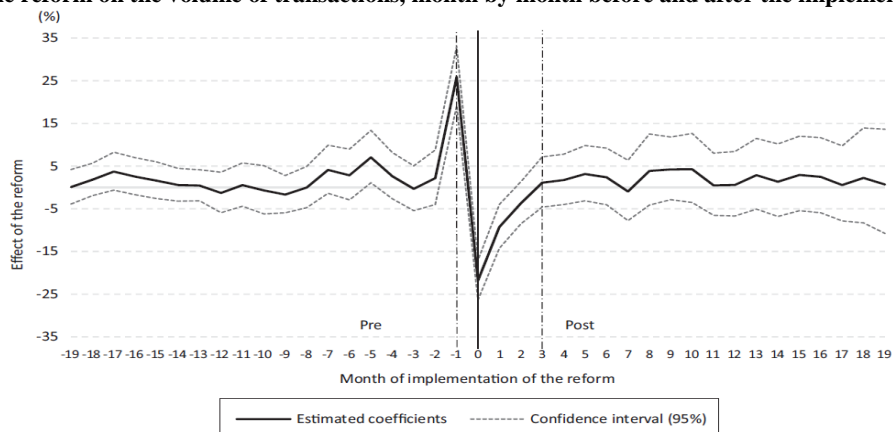
The fact that not all the *départements* implemented the RETT increase, and not at the same time, is used as the starting point for a natural experiment. A difference-in-differences design is applied to estimate the impact on the volume of transactions. The estimations use various datasets on property transfer taxes and local taxes (DGFIP, Insee), on new building projects (*Sit@del2*), and regional budgets from 2012 to 2015.

Main results

The estimations show compelling evidence of a short-term effect of a RETT increase.

- An anticipation effect of 26% just the month before the implementation of the reform in order to avoid the RETT increase (timing response).
- A retention effect in post-reform period – a classic depressing effect of a tax on the equilibrium quantity or extensive margin response, augmented here by a re-timing effect – estimated to be 14% on average per month over the three months following the implementation.
- The two effects do not cancel out. All in all, the net effect (extensive margin response solely) corresponds to an average monthly drop of the transactions of around 6% over the three initial months. The corresponding rough estimate of the lost transactions is around 15,000, a conservative figure.
- It is not found any evidence of medium- or long-term effect of the tax increase, thus showing a strong resilience of the housing market.
- The corresponding elasticity of the tax bases to the tax increase is about - 0.42, meaning that the behavioral response reduces the potential gain of tax revenues for *départements* of 42% over the first quarter after the reform. We conclude that *départements*' tax revenues are still on the increasing side of the Laffer curve (the relation between tax revenues and tax rate).

Effect of the reform on the volume of transactions, month by month before and after the implementation date



Month 0 is the month of implementation of the reform in a given *département*. The effects are estimated from monthly total tax bases by *département*, thus represent the change in the volume of transactions assuming unchanged prices. Sources: CGEDD from DGFIP (MEDOC), Assiettes des droits de mutation immobiliers par département, Insee, construction de logements (*Sit@del2*), Taux de chômage localisés, Estimation de population au 1^{er} janvier, DGFIP, Taux de fiscalité directe locale (TFPB), DGFIP-DGCL, *Les budgets primitifs des départements*, from 2012 to 2015; authors' computation.

Main message

These results might be used to discuss the impact of future RETT's reforms in link with their effect on the housing market. Even if the RETT rise was a "good deal" for the *départements* in terms of tax revenue, the distorting effect of the tax reform was assessed: some people who could have become owners or moved from one place to another did not because of the reform (i.e. lock-in effect). Consequently, we conclude that the RETT increase has a negative sizable (short-term) impact on mobility and well-being.