Real Estate Transfer Taxes and the Spanish Housing Market

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Motivation

- Real estate transfer taxes (RETT) are a widely used tool for raising revenues for Spanish regional governments.
- Higher transaction costs may distort an economically essential market.
- What are the effects of RETT reforms on housing markets?

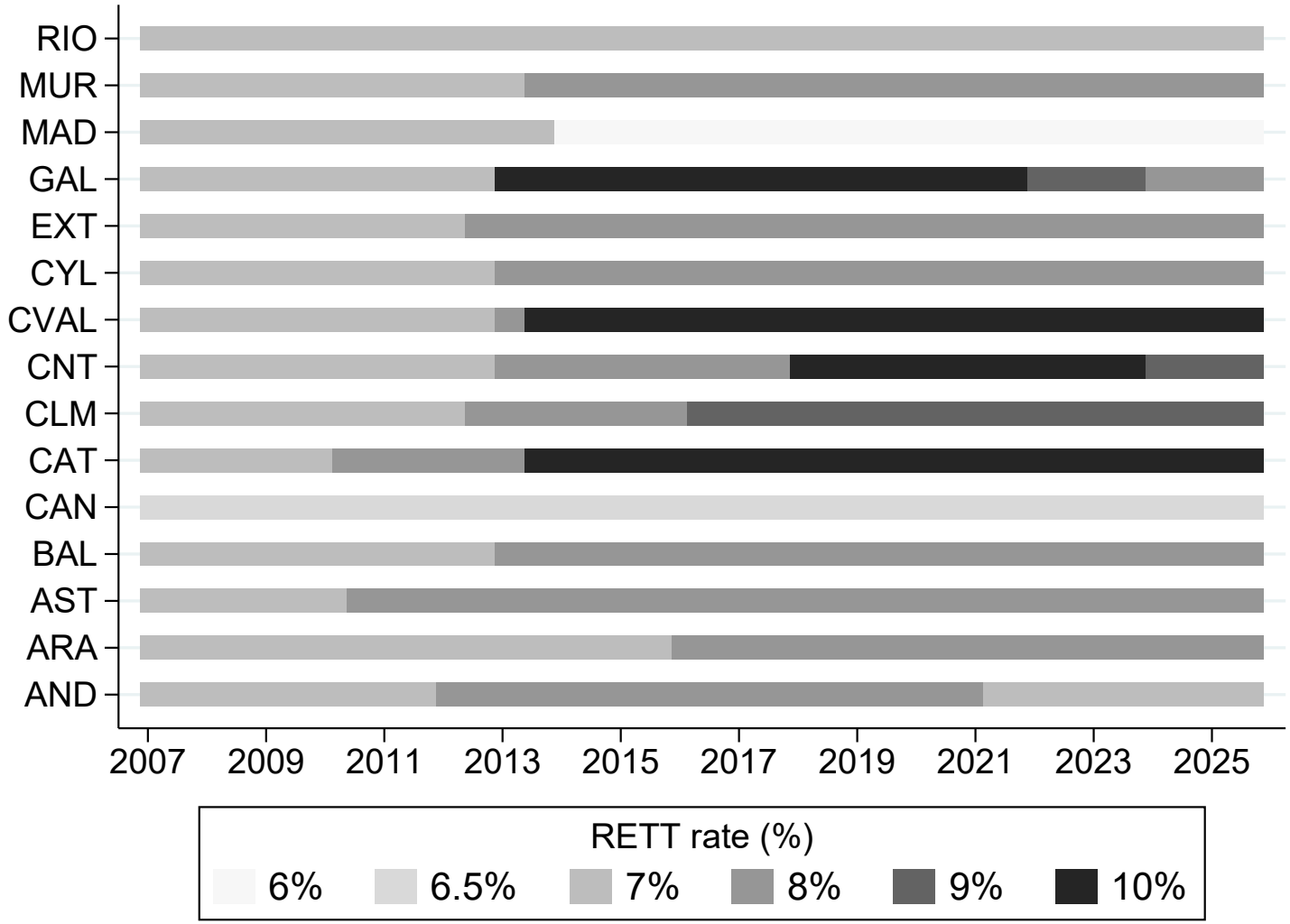
This paper

- Quarterly data for 15 Spanish regions, 2007–2025.
- Narrative analysis of stated motivations behind regional RETT reforms.
- Impulse responses via local projections
- Documents that RETT reforms affect housing transaction volume but not prices.

Institutional Background

- RETT (TPO) applies primarily to existing homes.
- Rates are set by Spain's regional governments; revenues accrue to the Autonomous Communities (CCAA).
- The default base rate is 7% where no different regional rate applies.
- Since the first regional changes in 2010:
  - 21 base-rate reforms.
  - 13 of 15 regions implemented at least one reform.
  - 16 rate increases and 5 decreases.

RETT rates and reforms across regions



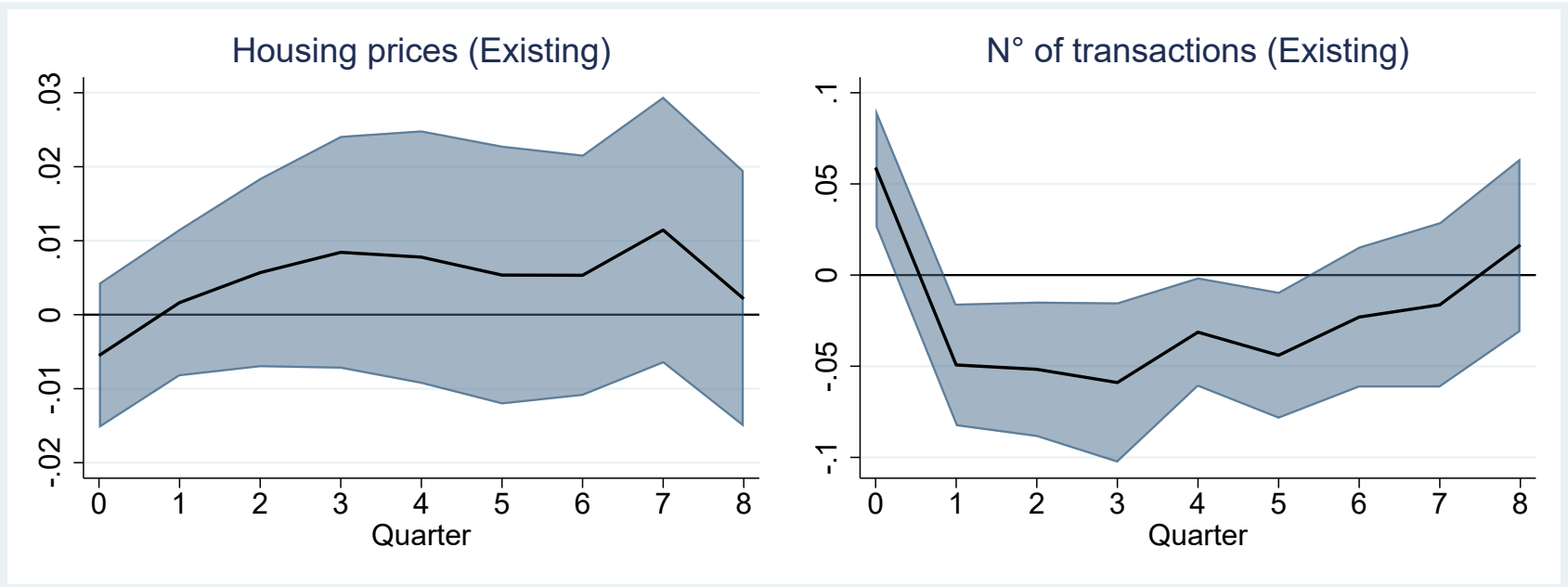
Empirical Strategy

- Narrative identification of stated motivations behind RETT reforms.
- 16 out of 21 reforms are plausibly exogenous. All of these were tax increases.
- We use the exogenous increases to estimate the following panel local projection equation:

$$y_{i,t+h} = \alpha_i^h + \beta^h \Delta RETT_{i,t} + \sum_{k=1}^{K} \gamma_k^h y_{i,t-k} + \sum_{l=1}^{L} \Theta_l^h X_{i,t-l} + \epsilon_{i,t+h}, \tag{1}$$

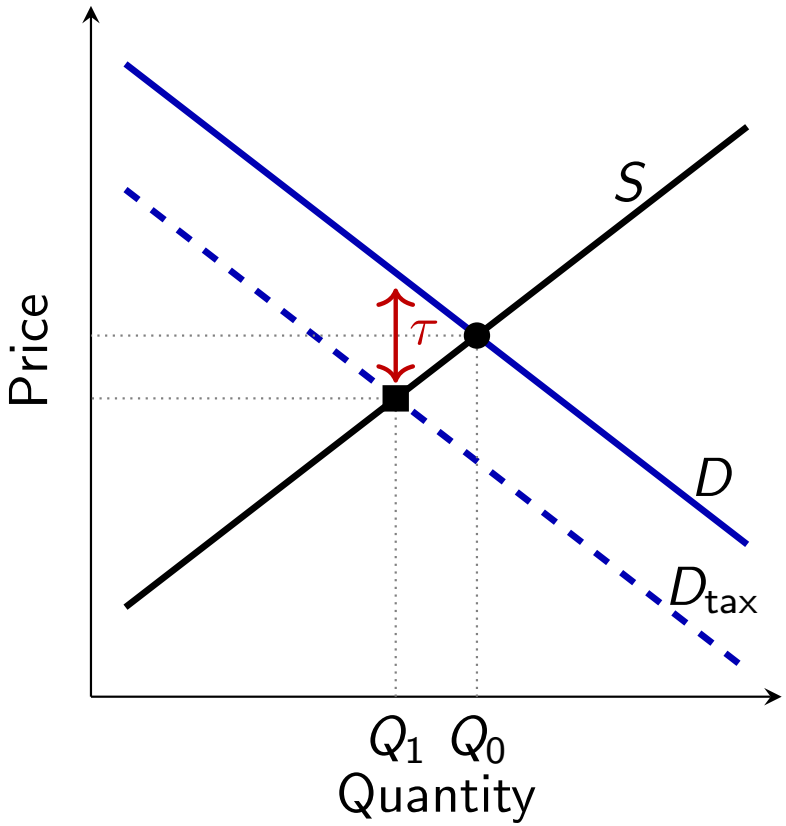
where $y_{i,t}$ is the (log) level of the outcome variable for region i in quarter t, α_i^h is a region-specific constant, $\Delta RETT_{i,t}$ is the shock series of RETT reforms, $X_{i,t}$ is a control vector with region-specific controls, and $\epsilon_{i,t}$ is an error term clustered at the region level.

Effects on existing housing markets

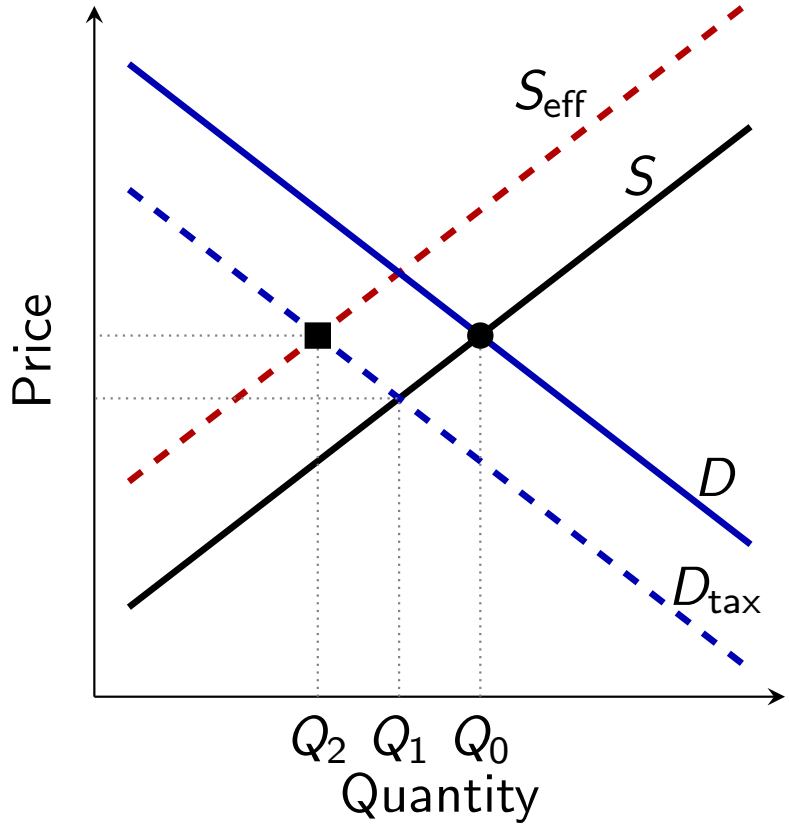


A potential mechanism: seller participation

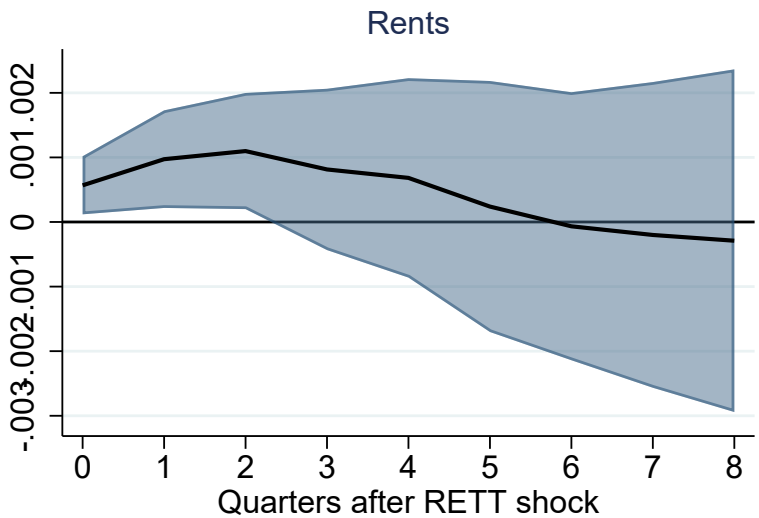
1. RETT reduces demand

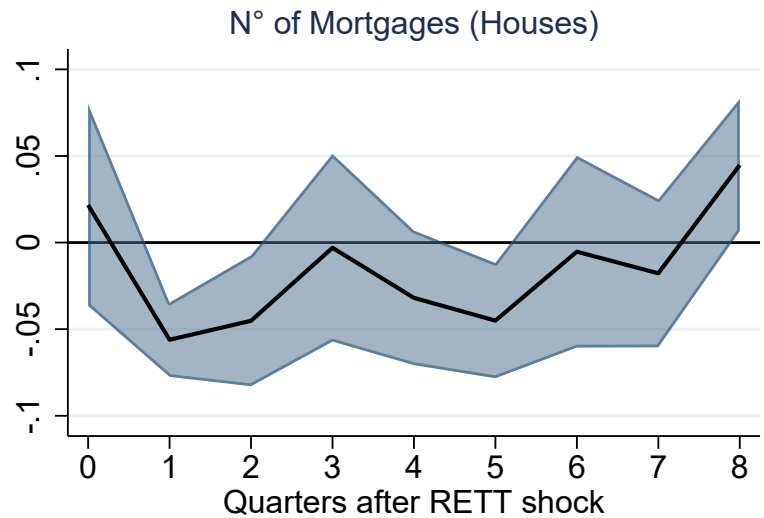


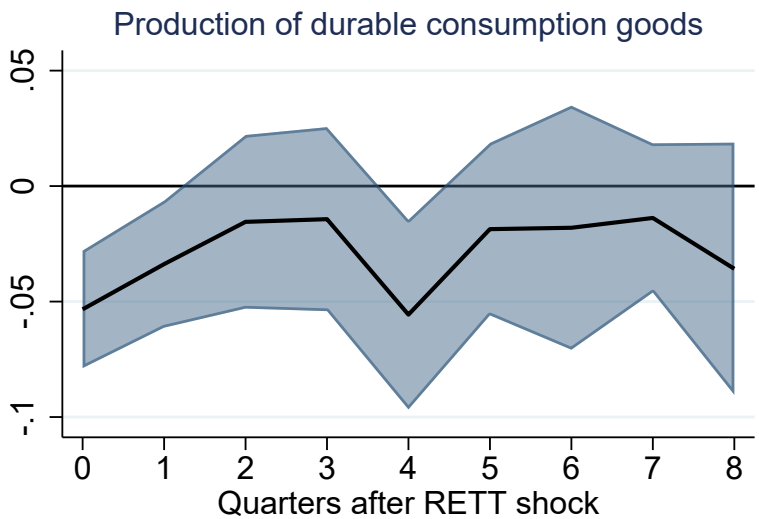
2. Seller participation falls

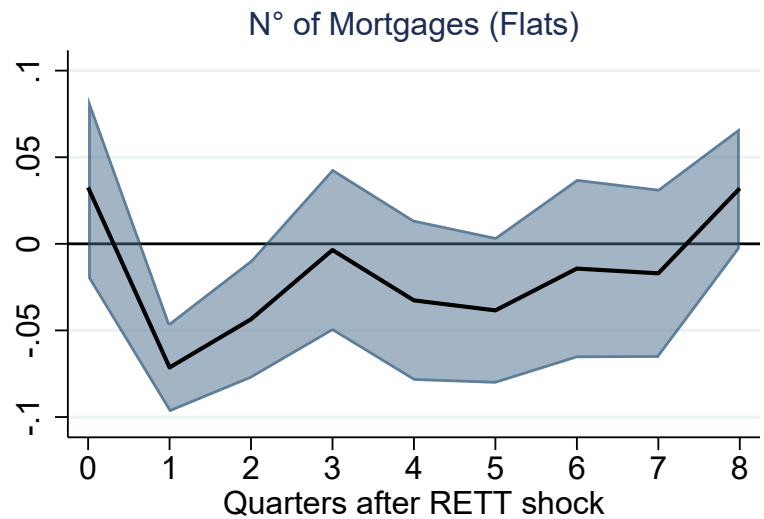


Spillovers

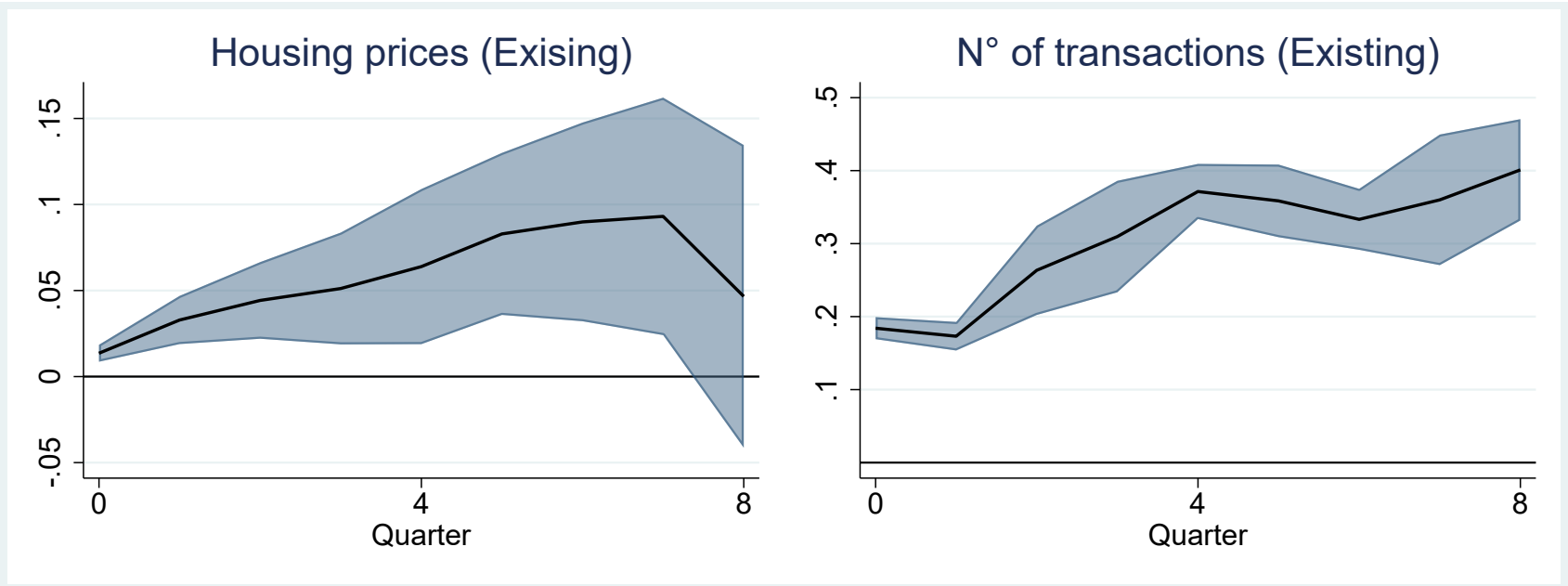

Rents
-.003
-.002
-.001
0
.001
.002
0
1
2
3
4
5
6
7
8
Quarters after RETT shock


N° of Mortgages (Houses)
-.1
-.05
0
.05
.1
0
1
2
3
4
5
6
7
8
Quarters after RETT shock


Production of durable consumption goods
-.1
-.05
0
.05
0
1
2
3
4
5
6
7
8
Quarters after RETT shock


N° of Mortgages (Flats)
-.1
-.05
0
.05
.1
0
1
2
3
4
5
6
7
8
Quarters after RETT shock

Tax decreases



Potential revenue implications

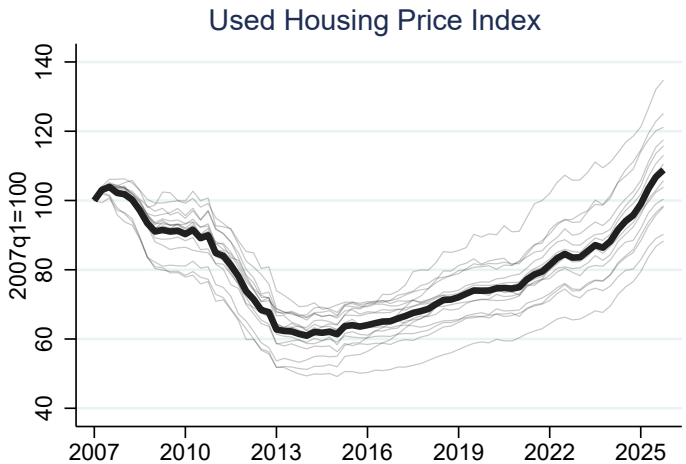
$$\Delta R_{t+h} = \frac{\tau_{post}}{\tau_{pre}}(1 + \Delta P_{t+h})(1 + \Delta Q_{t+h}) - 1$$

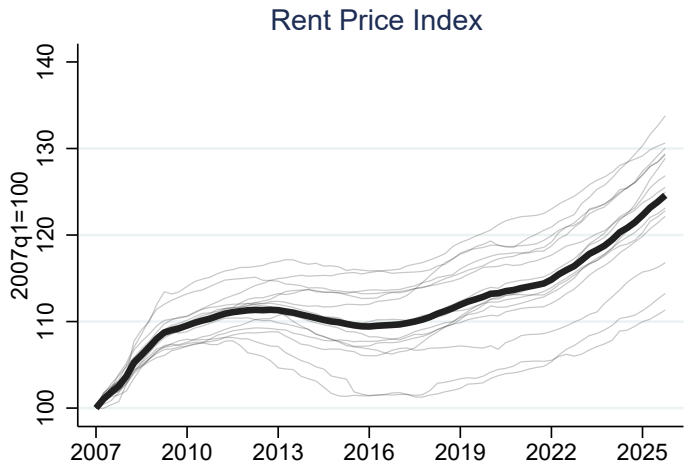


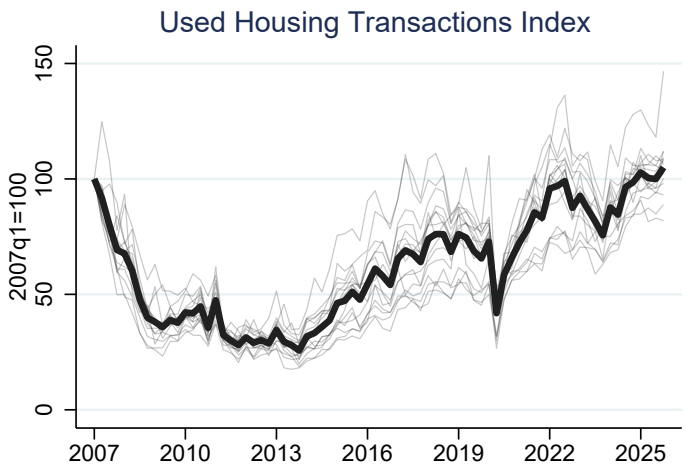
Conclusions

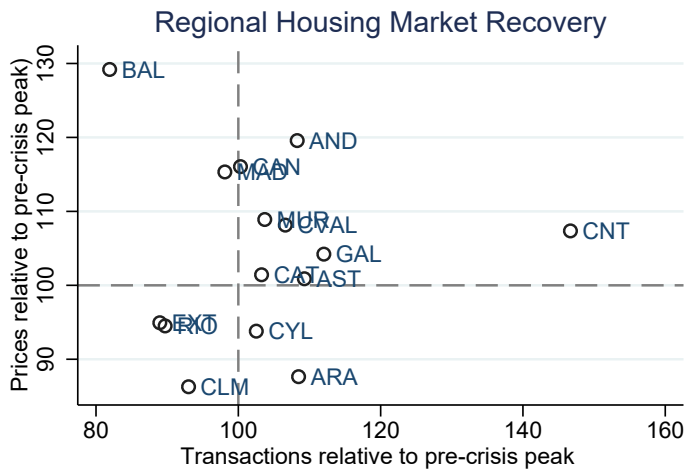
- Higher transaction costs reduce housing transactions rather than sale prices.
- Rents and mortgage activity respond in ways consistent with changes in housing-market decisions.
- Tax decreases are associated with stronger housing-market responses, but are less plausibly exogenous.
- Revenue objectives should be weighed against housing-market frictions.

The Spanish housing market





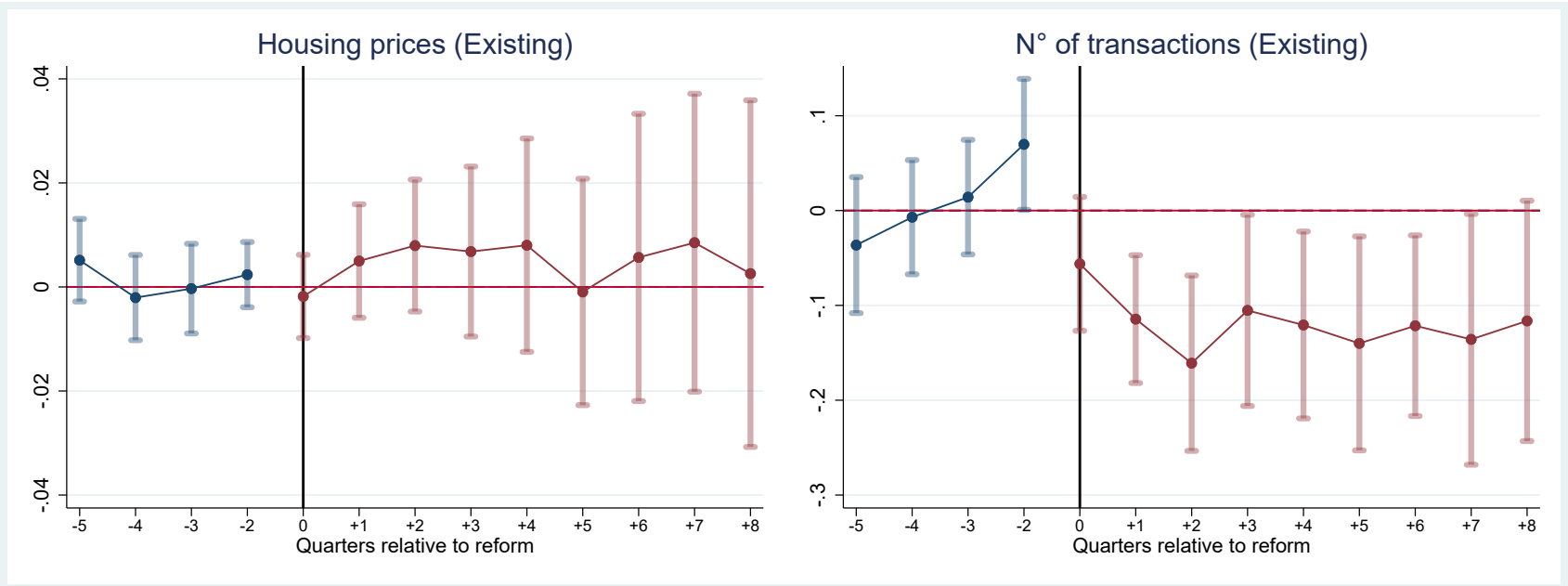




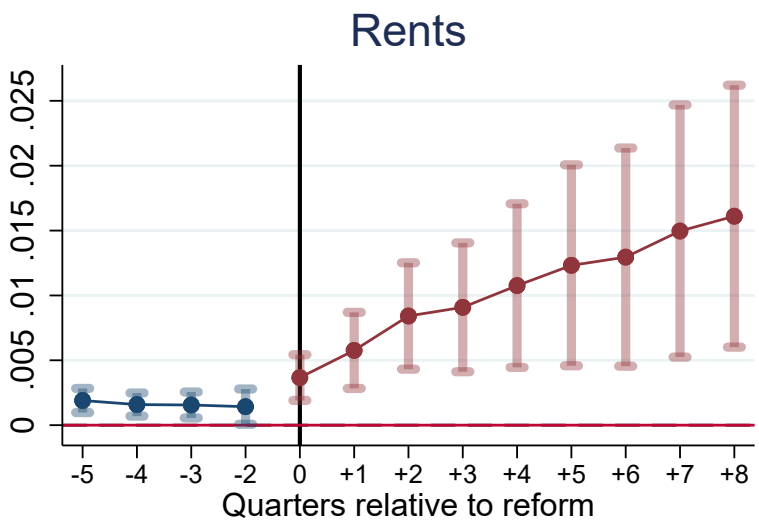
Empirical Strategy

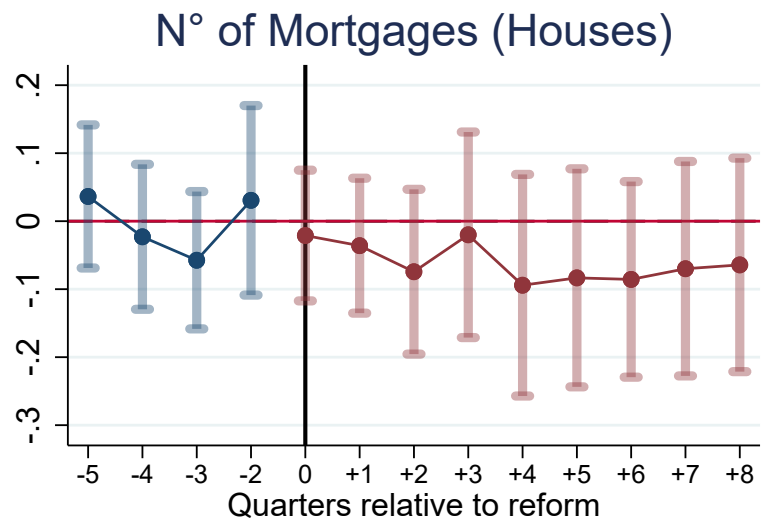
	Event Study	**Narrative identification and Local Projections**
Method	Callaway and Sant'Anna (2021)	Romer and Romer (2010), Jordà (2005)
Identification strategy	First regional RETT increase; relies on parallel trends	Narratively identified RETT increases; narrative analysis supports the plausibility of exogeneity
Estimated effect	Effect of experiencing a first RETT increase	Dynamic response to a 1pp increase in the RETT rate

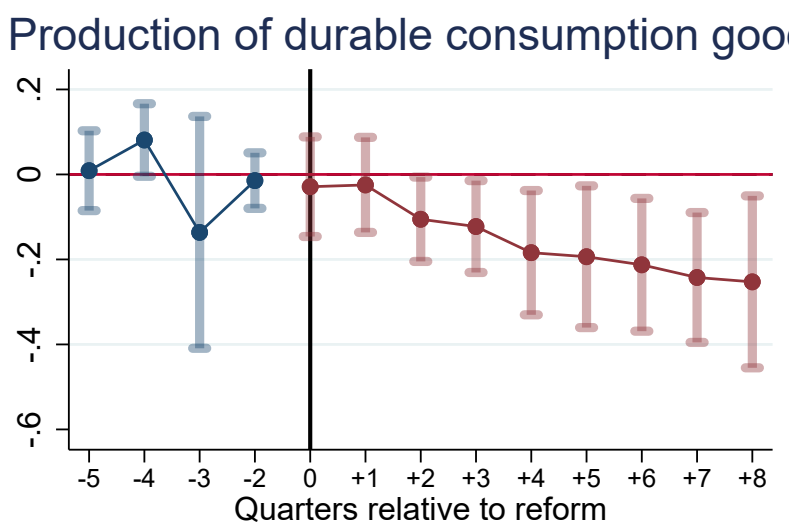
Event Study: Existing Housing

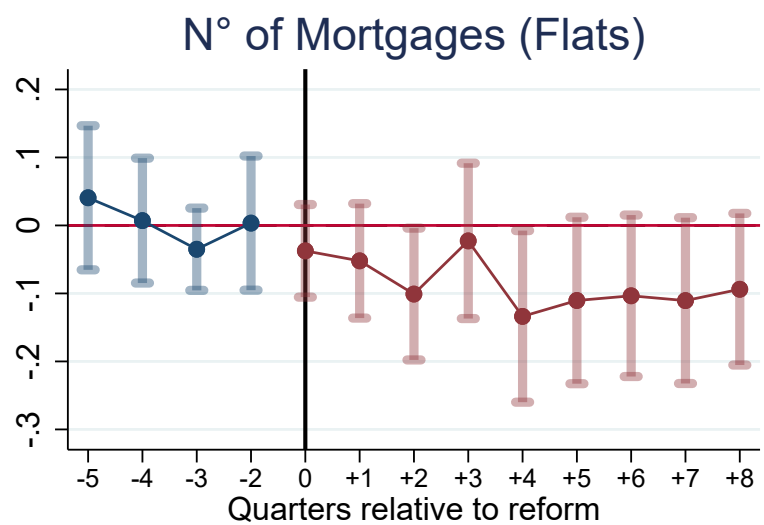


Event Study: Spillovers









Identification: Narrative Coding of RETT Reforms

Region	Quarter	Rate	General	Specific	Primary class.	Spec.	Exog.
Asturias	2010Q3	7% → 8%	FC	RR, PS	FC	2	1
Catalonia	2013Q3	8% → 10%	FC	FC, TH	FC	1	1
Aragón	2016Q1	7% → 8%	FC, EG	RR, TH, PS	PS	2	1
Andalusia	2021Q2	8% → 7%	EG, HM	HM, HA	HM	1	4
Cantabria	2024Q1	10% → 9%	EG, SP	SP, HA	SP	1	3
Madrid	2014Q1	7% → 6%	EG	EG, HM	HM	1	4

Codes: FC = fiscal consolidation; RR = revenue raising; PS = public services; TH = tax harmonisation; EG = economic growth; SP = social policy; HM = housing market; HA = housing affordability.

Spec. = specificity score; Exog. = exogeneity score.

Identification: Evolution of RETT Reform Motivations

	2010–2013	2014–2018	Post-2020
Number of reforms	**13**	**4**	**4**
Fiscal motivations			
Fiscal consolidation	7	1	0
Revenue raising	8	1	0
Public services	4	1	0
Tax harmonization	4	1	0
General motivations			
Economic growth	0	1	2
Social policy	1	0	1
Housing motivations			
Housing market	0	1	3
Housing affordability	0	0	2

Mechanism: A Simple Framework for Seller Withdrawal

Demand

$$Q_t^d = A - B(1+\tau_t)P_t, \qquad A, B > 0$$

Supply

$$Q_t^s = c + \delta\tau_t + DP_t, \qquad D > 0, \quad \delta < 0$$

Market equilibrium: $Q_t^d = Q_t^s$

$$\boxed{P_t^* = \frac{A - c - \delta\tau_t}{D + B(1+\tau_t)}}$$

- τ_t: RETT rate; P_t: seller price.
- $\delta < 0$: reduced-form seller-participation response.

Mechanism: How RETT Affects Prices and Transactions

Price response

$$\frac{\partial P^*}{\partial \tau} = \underbrace{\frac{-B(A-c)}{[D+B(1+\tau)]^2}}_{\text{Demand effect}} + \underbrace{\frac{-\delta(D+B)}{[D+B(1+\tau)]^2}}_{\text{Seller-participation effect}}$$

Transaction response

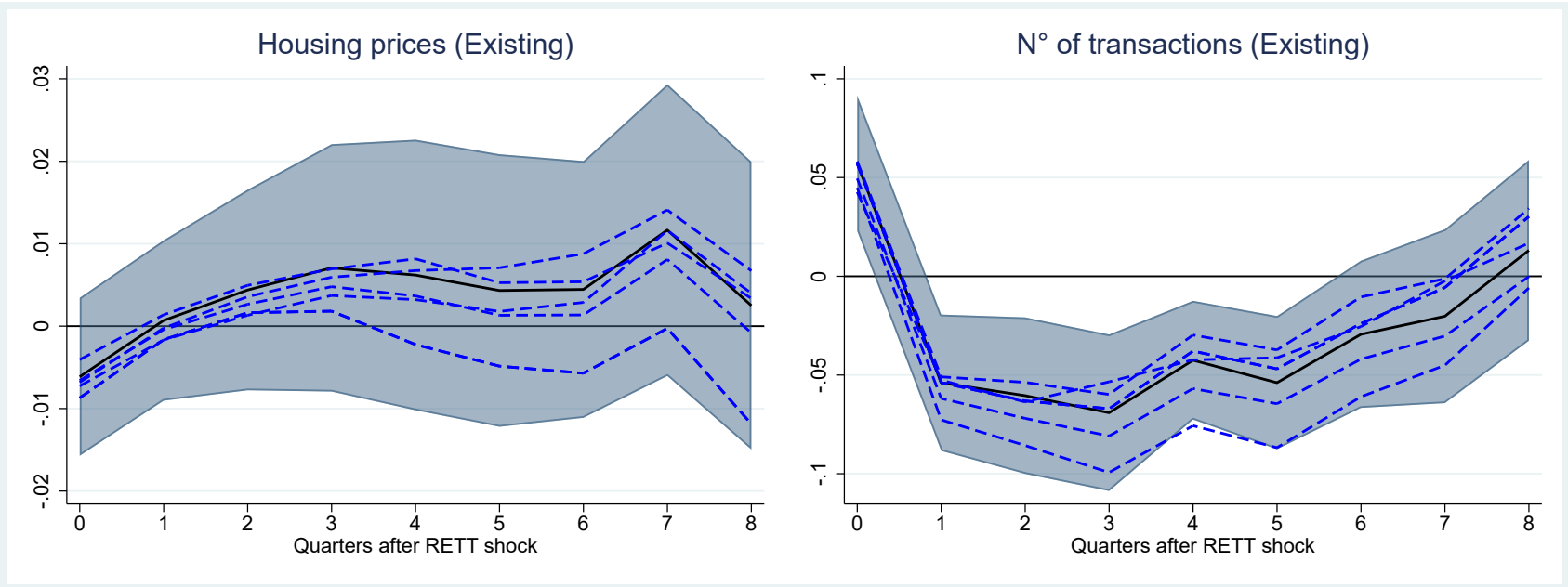
$$\frac{\partial Q^*}{\partial \tau} = \underbrace{\frac{\delta B(1+\tau)[B(1+\tau)+D]}{[D+B(1+\tau)]^2}}_{\text{Seller participation}} - \underbrace{\frac{DB(A-c)}{[D+B(1+\tau)]^2}}_{\text{Demand}}$$

The two channels exert opposing pressures on prices, potentially limiting the net price response, while reducing transaction volumes.

Robustness

- Alternative control-group definitions.
- Alternative lag lengths and control sets in local projections.

Robustness: Alternative Controls



Robustness: Alternative Lags

