

CONSUMER SPENDING AND PROPERTY TAXES

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Abstract

A sudden and temporary change to the Italian property tax system in 2011 generated significant variation in the amount of taxes paid across home-owners. Using new questions appositely added to the Survey on Household Income and Wealth (SHIW), we exploit this cross-sectional variation to provide an unprecedented analysis of the consumption effects of a tax on housing wealth. A tax hike on the main dwelling leads to large expenditure cuts among mortgagors, who hold low liquid wealth despite owning sizable illiquid assets. In contrast, higher tax rates on other residential properties affect affluent households, thereby having a modest impact on their consumer spending. Our results provide novel and direct evidence in favor of recent theories that highlight the role of household debt in the transmission of economic policies. (JEL: E21 E62)

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