1275 First Street NE, Suite 1200
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

Updated July 19, 2024

Taxing Very High-Value Home Sales Is an Equitable and Effective Strategy to Raise Revenue and Fund Affordable Housing

By Mari Castaldi

Our states and communities are stronger when prosperity is broadly shared — which includes ensuring that everyone has access to housing they can afford. Yet throughout the country, more people than ever face housing insecurity or homelessness because they cannot afford housing. While housing costs increased by almost 19 percent between 2001 and 2022 (adjusting for inflation), median renter incomes only increased by 4.3 percent. (See Figure 1.) Federal programs to help people afford housing remain drastically underfunded compared to need,[1] leaving more than 8.53 million people with very low incomes paying over half their income to housing costs in 2023 — and with Black and Latine renters more likely to face these housing cost burdens.[2]

Key Findings

- 33 states and the District of Columbia tax real estate sales, and 7 states add an additional tax on very high-value homes
- At least 16 states earmark revenue collected from so-called "mansion taxes" to fund affordable housing programs
- Taxing the sale of high-value homes to fund affordable housing can ensure that people with low incomes share in the benefits of skyrocketing home prices

In response, many states and localities have sought to increase their investment in affordable housing solutions, including through raising additional revenue to sustainably expand access to housing assistance that can making housing more affordable and reduce housing instability and homelessness. One sound way to raise revenue is through a tax on the sale of real estate. Thirty-three states and the District of Columbia have some kind of tax on the sale of property, and seven states include an additional, progressive tax on very high-value properties — also known as "mansion taxes."[3] Some of these

[1] CBPP, "Families with Children and Non-Elderly Adults Without Children Have the Greatest Unmet Need for Rental Assistance," https://www.cbpp.org/research/housing/three-out-of-four-low-income-at-risk-renters-do-not-receive-federal-rental-assistance.

[2] Thyria A. Alvarez and Barry L. Steffen, "Worst Case Housing Needs: 2023 Report to Congress," September 21, 2023, https://www.huduser.gov/portal/publications/Worst-Case-Housing-Needs-2023.html.

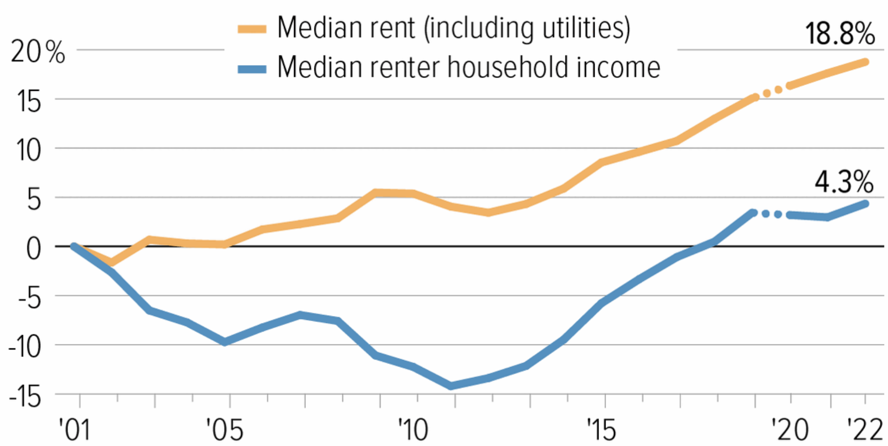
[3] Samantha Waxman, Carl Davis, and Erika Frankel, "States Should Enact, Expand Mansion Taxes to Advance Fairness and Shared Prosperity," CBPP and Institute on Taxation and Economic Policy (ITEP), June 26,

states and localities specifically earmark revenue from these taxes to fund affordable housing supply and housing affordability initiatives.

FIGURE 1

Renters' Incomes Haven't Caught Up to Rising Housing Costs

Percent change since 2001, adjusted for inflation



Source: CBPP tabulations of the Census Bureau's American Community Survey

Note: Dashed line indicates missing 2020 1-year ACS data due to pandemic-related data collection issues.

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Progressive real estate transfer taxes on high-value homes serve the dual purpose of making tax systems fairer and raising revenue to support increased access to affordable housing. Additional states and localities should consider instituting mansion taxes — and states with existing taxes should implement progressive marginal rates — to ensure that the gains from the highest end of the real estate market can help close the significant gap in housing access that most acutely impacts people with low incomes, especially people of color with low incomes.

People With Low Incomes Pay More of Their Income in Taxes, Face Greater Housing Cost Burdens

In most states, people with low incomes pay a higher proportion of their income in state and local taxes, including property taxes; while renters do not pay property taxes directly, they are indirectly included as part of the cost of rent.[4] In addition to paying more of their income in taxes, people with low incomes are much more likely to face an extreme housing cost burden — meaning they pay over half their income in rent and/or live in poor-quality housing.[5] This puts these families at much

2024, https://www.cbpp.org/research/state-budget-and-tax/states-should-enact-expand-mansion-taxes-to-advance-fairness-and.

[4] ITEP, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 7th Edition," January 2024, https://sfo2.digitaloceanspaces.com/itep/ITEP-Who-Pays-7th-edition.pdf.

[5] Alvarez and Steffen, *op. cit.*

higher risk of housing instability or homelessness and makes it difficult to pay for necessities, like food and health care. Black and Latine people are more likely to be renters and have extremely low incomes,[6] an outcome of long-standing systemic racism and discrimination in employment, education, and housing systems. As a result, they are disproportionately harmed by the combination of rising housing costs and renter incomes that haven't kept pace.

Meanwhile, public resources to help people afford the cost of housing fall far short of the need. For example, 3 in 4 people who would be eligible for federal rental assistance do not receive support because of severe underfunding.[7] Additionally, there is not enough housing in the market anywhere in the country that is priced at a level that people with low incomes can afford. States and cities have a role to play in addressing these severe housing affordability problems by dedicating state and local funding to help expand access to affordable housing.

One approach to addressing this shortage in affordable housing is providing public funds to incentivize the development and rehabilitation of affordable-rate housing by subsidizing the capital and operating costs for that lower-cost housing. Communities can also create rental assistance programs that mirror the federal Housing Choice Voucher program, which has proven, for the few who receive vouchers, to prevent evictions and homelessness.[8] Establishing a tax on the sale or transfer of the highest-value properties is one approach to financing these critical investments.

Numerous State and Local Governments Are Using or Considering Using Revenue From Mansion Taxes to Fund Affordable Housing

Investing housing-related tax revenue into affordable housing solutions is already happening and having an impact. Numerous states and cities use revenue collected through mansion taxes as dedicated funding to expand access to affordable housing. Of the 33 states (plus the District of Columbia) with an existing real estate transfer tax, at least 16 earmark part or all of the revenue collected to fund some combination of affordable housing development, rehabilitation, and ongoing operating costs (such as rent subsidies, utilities, and property management costs.) (See Figure 2.) This is often done through resourcing the state's affordable housing trust fund,[9] according to the State and Local Rental Housing Programs Database from the National Low Income Housing Coalition.[10]

---

[6] National Low Income Housing Coalition, "The Gap: A Shortage of Affordable Homes," March 2024, https://nlihc.org/sites/default/files/gap/2024/Gap-Report_2024.pdf.

[7] Erik Gartland, "Chartbook: Funding Limitations Create Widespread Need for Rental Assistance," CBPP, February 15, 2022, https://www.cbpp.org/research/housing/funding-limitations-create-widespread-unmet-need-for-rental-assistance.

[8] Will Fischer, Douglas Rice, and Alicia Mazzara, "Research Shows Rental Assistance Reduces Hardship and Provides Platform To Expand Opportunity for Low-Income Families," CBPP, December 5, 2019, https://www.cbpp.org/research/housing/research-shows-rental-assistance-reduces-hardship-and-provides-platform-to-expand.

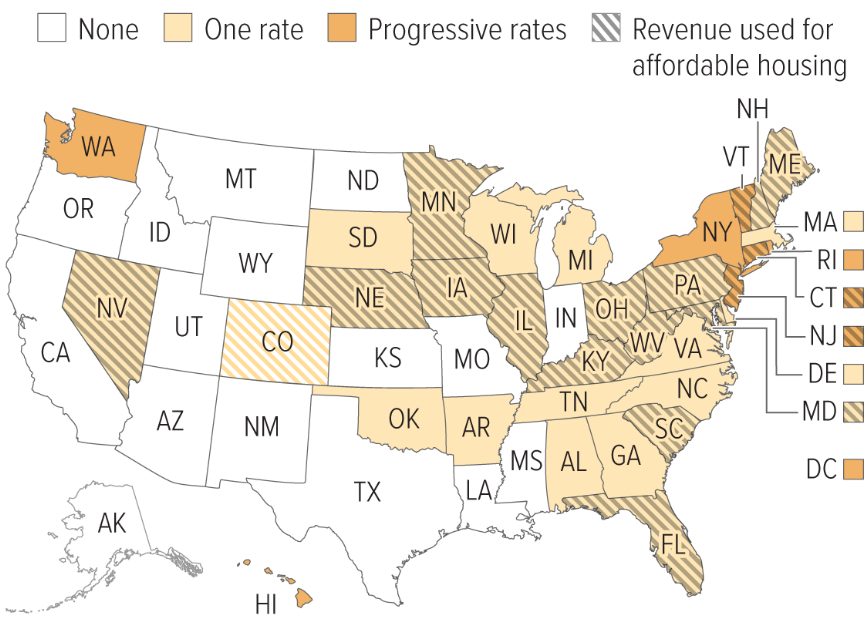
[9] Michael Anderson, "State and Local Housing Trust Funds," National Low Income Housing Coalition, 2023, https://nlihc.org/sites/default/files/AG-2024/5-9_State-and-Local-Housing-Trust-Funds.pdf.

[10] CBPP analysis of the National Low Income Housing Coalition's "Rental Housing Programs Database," updated November 2023, https://nlihc.org/rental-programs. We filtered programs in the database according to state-level programs that listed "real estate transfer tax" as a funding source.

For example, starting in 2015, by earmarking a portion of the annual revenue from its realty transfer tax, Pennsylvania was able to expand its Housing Affordability and Rehabilitation Enhancement fund to all 67 counties within the state. Increased investment from the tax also funded the capital and operating expenses for hundreds of affordable housing projects and programs to provide targeted homelessness prevention services to Pennsylvania residents.[11]

FIGURE 2

16 States Earmark Revenue From Real Estate Transfer Taxes to Fund Affordable Housing



Note: This map only includes real estate transfer taxes levied at the state level, not those wholly levied by localities (for example, those in California). Some states split revenue between states and localities. While Colorado's Taxpayer Bill of Rights (TABOR) has prohibited real estate transfer taxes since 1992, the state has a documentary stamp tax that functions similarly to a real estate transfer tax.

Source: CBPP analysis of state tax laws

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

[11] Pennsylvania Housing Finance Agency, "2024 Housing Affordability and Rehabilitation Enhancement Fund (PHARE) Plan – Final," February 2024, https://www.phfa.org/forms/phare_program_phare_fund/2024_phare_plan_final.pdf.

Several states considered promising legislative proposals in their 2024 legislative sessions to establish progressive real estate transfer taxes to fund affordable housing priorities, including:

- In **Hawai'i**, increasing the top marginal rate of the state's conveyance tax and allowing more of the revenue to go toward affordable housing programs.[12]
- In **New Hampshire**, doubling the amount of transfer tax revenue that is directed toward affordable housing programs.[13]
- In **Massachusetts**, authorizing the establishment of Real Estate Transfer Fees at the local level and establishing significant revenue for communities to unlock new affordable housing investments.[14]
- In **Rhode Island**, increasing the real estate conveyance tax for properties over $2 million to fund affordable housing for older adults.[15]
- In **Washington**, increasing the marginal tax rate under the existing real estate transfer tax for properties over $5 million and dedicating that funding toward numerous affordable housing programs, including to provide ongoing operating subsidies for permanent supportive housing for people exiting homelessness.[16]

Seventeen local governments also have so-called "mansion taxes," and almost half of them earmark revenue from those taxes to address housing affordability for residents.[17] Several examples of recently passed local policies include:

- **Montgomery County, Maryland**: Montgomery County instituted a progressive "recordation tax" in 2023 and earmarked one-third of it to support rent assistance programs that disproportionately benefit Black, Latine, and lower-income tenants.[18]

---

[12] Arjuna Heim, "Preserving Hawai'i: How the State Conveyance Tax Can Re-invest Non-Resident Wealth Into Our Island Communities," Hawai'i Appleseed Center For Law And Economic Justice, February 2024, https://static1.squarespace.com/static/601374ae84e51e430a1829d8/t/65cadb47181c337e13aa61db/1707793227150/Convayance+Tax+Brief_FINAL.pdf.

[13] New Hampshire Senate Bill 454-FN, 2024 session, https://gencourt.state.nh.us/bill_Status/pdf.aspx?id=22696&q=billVersion.

[14] La-Brina Almeida, "Testimony on the Affordable Homes Act," Massachusetts Budget and Policy Center, January 2024, https://massbudget.org/2024/01/18/affordable-homes-act-testimony/.

[15] Rhode Island Senate Bill 2372, 2024, https://legiscan.com/RI/bill/S2372/2024.

[16] Laurel Demkovich, "New tax on real estate sales over $3M moves ahead in Legislature," Washington State Standard, February 23, 2024, https://washingtonstatestandard.com/2024/02/23/new-tax-on-real-estate-sales-over-3m-moves-ahead-in-legislature/.

[17] Andrew Boardman, "Local Mansion Taxes: Building Stronger Communities with Progressive Taxes on High-Value Real Estate," Institute on Taxation and Economic Policy, March 14, 2024, https://itep.org/local-mansion-taxes/#:~:text=Santa%20Fe%27s%203%20percent%20tax,of%20the%20federal%20income%20tax..

[18] Montgomery County Council, "Bill 17-23, Taxation – Recordation Tax Rates – Amendments," May 9, 2023, https://www.montgomerycountymd.gov/council/Resources/Files/agenda/col/2023/20230509/20230509_2A.pdf.

- **Los Angeles, California**: Los Angeles' "United to House LA" (ULA) measure created a progressive real estate transfer tax that funds programs to develop and preserve affordable and supportive housing, prevent evictions with legal and financial support, and establish an income support program for older adults and people with disabilities at risk of homelessness due to financial hardship.[19] Measure ULA also funds a "social housing" model that would fund mixed-income housing, including permanently affordable units and requirements that empower resident leadership in the management and ownership decisions of projects.[20] In the first ten months of the program, Measure ULA raised $192 million in revenue for these programs, which is more than double the annual funding that Los Angeles receives directly from the federal government for affordable housing.
- **Santa Fe, New Mexico**: Santa Fe's mansion tax established a transfer tax on the sale of properties over $1 million to fund the city's Affordable Housing Trust Fund, which funds a suite of programs aimed at developing new and preserving existing affordable housing.[21] (Note: implementation of this policy is currently on hold pending a lawsuit from the real estate industry.[22])

Mansion Taxes Could Generate Billions Nationally Each Year

States with existing mansion taxes should increase their rates on the highest-value homes. States without these taxes should enact them, with rates that get progressively higher as the value of the house goes higher. If every state enacted progressive transfer taxes on high-value homes, billions of dollars could be generated for state budgets across the country. Taxing the top 10 percent, 5 percent, and 1 percent of home sales in every state could generate a total of $8.7 billion annually.[23] (See Figure 3.)

To give a state-specific example, consider a hypothetical proposal that adds a progressive marginal tax to sales of the top 10, 5, and 1 percent of homes in Virginia (meaning homes sold at or above $900,000, $1.1 million, and $1.9 million, respectively.) Applying a marginal tax rate of 2 percent, 3 percent, and 4 percent to each of those thresholds would generate an estimated $128 million annually. If this funding were earmarked for the state's Affordable Housing Trust Fund, which has received just $18 million since fiscal year 2018, it could increase investment in that fund tenfold in just a single year.[24] Further, since a real estate transfer tax would create an ongoing revenue source, it

---

[19] Los Angeles Office of Finance, "Real Property Transfer Tax and Measure ULA FAQ," https://finance.lacity.gov/faq/measure-ula.

[20] United to House LA, "Alternative Models for Permanent Affordable Housing," https://unitedtohousela.com/app/uploads/2023/11/02-Alternative-Models-One-Pager.pdf.

[21] Morgan Lee, "Santa Fe voters approve tax on mansions as housing prices soar," Associated Press, November 8, 2023, https://apnews.com/article/santa-fe-voters-embrace-mansion-tax-ee98ffdc6a77711f13e91e54568fe690.

[22] Evan Chandler. "Judge Strikes Down Santa Fe Mansion Tax," Santa Fe Reporter, May 22, 2024, https://www.sfreporter.com/news/2024/05/22/judge-strikes-down-santa-fe-mansion-tax/.

[23] Waxman, Davis, and Frankel, *op. cit.*

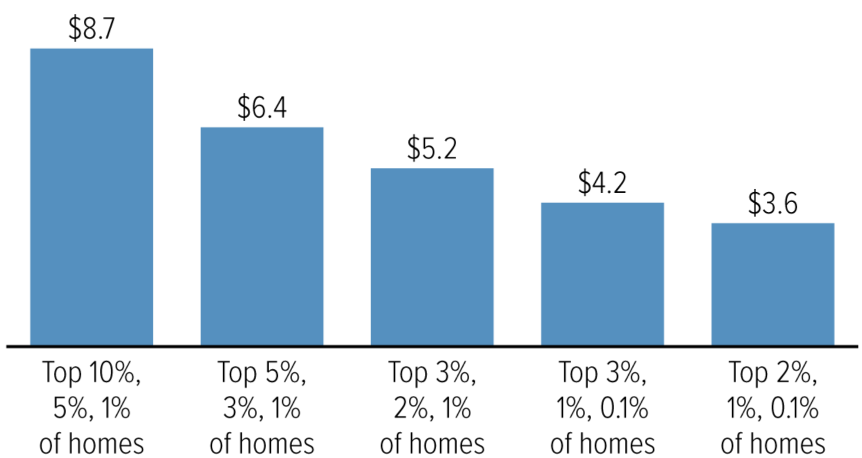
[24] Virginia Department of Housing and Community Development, "Virginia Housing Trust Fund: Allocation of Resources," https://www.dhcd.virginia.gov/vhtf. The trust fund was funded at $11 million in 2018-2019 and $7 million in 2019-2020.

could be used to fund housing initiatives like rental and operating subsidies that are difficult to finance with one-time state investments.

FIGURE 3

Taxes on Sales of Top-Valued Homes Could Generate Billions Nationwide

Revenue potential (in $billions) of real estate transfer taxes with rates of 2%, 3%, and 4% above various price thresholds



Note: Residential property only; rates applied on marginal basis, estimated for 2024.

Source: Institute on Taxation and Economic Policy and Center on Budget and Policy Priorities analysis of data from Zillow, the Nation Association of Realtors, the U.S. Census Bureau, and various state and local agencies.

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Taxing High-Value Property Sales to Fund Affordable Housing Advances Racial Equity

Establishing real estate transfer taxes at the state and local level not only can help expand access to affordable housing, but it can also help advance racial equity. Past and present racial discrimination and bias have left Black, Latine, and American Indian and Alaska Native communities more likely to experience housing cost burdens, evictions, and homelessness, and less likely to own homes and other assets. In contrast, homeowners — who are disproportionately white[25] — experience not just the potential of wealth accumulation from property ownership, but also the benefit of disproportionately large housing-related tax breaks such as the mortgage interest deduction at the federal and state level.[26] That means that leveraging revenue from real estate transfer taxes on the highest-value properties to finance investments in affordable housing and

[25] Boardman, *op. cit.*

[26] CBPP, "Policy Basics: Federal Tax Expenditures," December 8, 2020, https://www.cbpp.org/research/policy-basics-federal-tax-expenditures; Carl Davis, "State Itemized Deductions: Surveying the Landscape, Exploring Reforms," Institute on Taxation and Economic Policy, February 5, 2020, https://itep.org/state-itemized-deductions-surveying-the-landscape-exploring-reforms/.

rental assistance can more equitably distribute resources from those who most benefit from property ownership to communities that have been most excluded from the benefits of housing stability and homeownership.

Notably, real estate transfer taxes are not the only option to collect greater revenue from high-value properties. A few states and localities have considered or are considering proposals to institute graduated property tax rates, including a proposal passed in the fiscal year 2025 D.C. budget that would institute a modest marginal increase in property taxes on the highest-value properties.[27] Advocates have proposed utilizing revenue from a graduated property tax to fund affordable housing, anti-displacement programs, and wealth-building opportunities for Black residents.[28] This kind of financing mechanism ensures that owners of high-value homes contribute to affordable housing efforts even if they don't sell their home in a particular year.

By using this kind of tax to redistribute the gains experienced by a small fraction of the wealthiest property owners to people with low incomes to meet their housing needs, states and cities can take steps to create more pathways to stable housing and economic prosperity.

[27] Council of the District of Columbia, Committee of the Whole, Committee Report, "Report on Bill 25-785, the Fiscal Year 2025 Local Budget Act of 2024," May 29, 2024, https://lims.dccouncil.gov/Hearings/hearings/435.

[28] Eliana Golding, "DC Can Advance Racial Equity and Black Homeownership through the Property Tax," DC Fiscal Policy Institute, October 17, 2023, https://www.dcfpi.org/all/dc-can-advance-racial-equity-and-black-homeownership-through-the-property-tax/.