

5.1 Broadening the income concept: imputed rents

Context

- Imputed rents are estimates of the value of the benefits accruing to an household that is not paying full rent, due to home ownership or rent below prevailing market rates
- Including imputed rents in household disposable income is a step towards a more complete and accurate definition of material well-being, and will affect disproportionately some groups (elderly)
- Now included in the ‘operational ‘ and ‘practical definition for international comparison’ of the [Canberra Handbook](#) (2011); also included in [SNA 98](#) (component of gross operating surplus in household income account)
- Imputed rents are included in the income definition of several OECD countries (e.g. Australia, EU); estimates available for 80% of European Households in [EU-SILC](#)
- But rent imputations should be made in a consistent manner to avoid compromising cross-country comparability

Technical issues

- Which framework?
 - User cost method: housing expenditure model (estimation of rents using housing cost covariates)
 - Rental equivalence method ([EU-SILC recommendation](#)): rental prices model (matching of the rent level with an equivalent dwelling using external price statistics or rental prices and others covariates)
- Which estimation method?
 - Linear econometrics
 - Heckman model to account for selection bias
 - Simple cell-mean imputations
- Completeness for the set of covariates: not all countries record the same covariates that could be used in model estimation
- No international guidelines, general agreement or sensitivity test to ensure a sufficient level of cross-country comparability



Impact on inequality and poverty

Several factors shape the impact of imputed rents on inequality and poverty

- Tenure structure
- Correlation between household disposable income and imputed rents
- Shape of the original distribution of disposable income
- Level and distribution of mortgage indebtedness

Generally, inclusion of imputed rents in the income definition leads to:

- Income levels: higher
- Income inequality: lower (i.e. distribution of imputed rents is less spread out, amounts of income added represent higher share of the disposable income of the middle class)
- Poverty headcount: lower (i.e. while median income and poverty threshold increase, more older people exit from poverty than young people enter, reflecting the life-cycle structure of homeownership)
- Changes in key indicators based on income definition that include imputed rents follow the same patterns as those without

But magnitude of such effects depends on the methodological framework retained



For discussion

- Should imputed rents be included in the income definition of the OECD database or does this risk reducing comparability?
- Should we introduce two income definition and two sets of figures for key indicators?
- Should a pilot study be conducted to:
 - Clarify the concept and measurement approaches
 - Review countries' experiences in this field
 - Perform sensitivity test among a large set of countries in order to understand what is the impact of alternative methodologies
 - Assess the best way to inform users on data quality in this area

