



First-home stimulus measure may have limited impact on Thailand's housing market.

The Thai government has released a housing stimulus measure which grants personal income tax allowance for buyers of first homes worth up to 5 million baht during April 30-December 31, 2019. This measure will help reduce housing costs based on the personal income tax rate of each purchaser. Although houses with the prices under 5 million baht are account for about 80% of the residential properties in the market today, EIC expects the benefits from this measure to be rather insignificant as (1) the stimulus is limited to the first home buyers, (2) the latest tax privilege being granted has lower degree and shorter runtime than the measures in the past, (3) housing loans from financial institutions are becoming more strict especially with the new LTV criteria, and (4) the household debt is still high while household income expands poorly. Nevertheless, residential developers may take this opportunity to offer more sales promotions to attract home buyers who gain from the new government's measure in order to run down their unsold completed units

Event

- Thailand's government issued a tax incentive to promote the public's residential ownership, granting personal income tax allowance for the people who purchase houses and lands or condominiums worth up to 5 million baht. The given allowance is based on the actual paid amount but not exceeding 200,000 baht each. This measure can only apply to those who register themselves as first-home buyers during April 30 – December 31, 2019, and hold the property ownership for over 5 consecutive years since the registration date. The government anticipated that this housing stimulus measure would cost them to lose tax revenue of about 1,350 million baht.



Analysis

- EIC expects that this stimulus will help ease housing expenses of a number of first-home buyers. The level of support will depend on each individual's tax base. The first-home buyers who make less than 25,000 baht per month however will not benefit from this scheme. The reducing housing costs are due to the additional allowance for personal income tax calculation. The tax deductible amount will be defined by each payer's tax rate. Being responsible for higher tax base, individuals with higher numbers of income will be benefited more. For instance, a purchaser of the first home of under 5 million baht, who pays tax at a rate of 35%, will be supported by the government's measure at the amount of 70,000 baht while a payer of 5% tax rate will earn 10,000 baht tax exemption. Meanwhile, individuals who make less than 25,833 baht a month (single, receiving no other allowances apart from the lawfully deductible 60,000 baht, and not contributing to the social security fund) will not earn any benefit from this stimulus (Figure 1).

Figure 1 : Tax benefits for buyers of first homes of not more than 5 million baht

Payers of personal income tax at...	Will get tax allowance at the amount of...	Housing cost saved (% of house value)	
		House of 3 MB	House of 5 MB
0% *	No benefit	0%	0%
5%	10,000 baht	0.3%	0.2%
10%	20,000 baht	0.7%	0.4%
15%	30,000 baht	1.0%	0.6%
20%	40,000 baht	1.3%	0.8%
25%	50,000 baht	1.7%	1.0%
30%	60,000 baht	2.0%	1.2%
35%	70,000 baht	2.3%	1.4%

Remark : * Those who earn less than 25,833 baht a month (In case of a single person, with no other allowances apart from the lawfully given of 60,000 baht, who does not contribute to the social security fund.)

Source : EIC analysis based on data from FPO and the Revenue Department.

- Although this year's housing stimulus measure is similar to those issued in 2011 and 2015, the positive effects on taxpayers who spend on their first homes could be less. The earning from tax saving in 2019 is lower than in 2011 and 2015. Furthermore, the effective period of the current measure is relatively shorter. In 2019, the measure will run for only 8 months while in 2011 and 2015, the stimulus plans were on for 19 months and 14 months respectively. (Figure 2)
 - In 2011, buyers of first homes of under 5 million baht were able to use the whole amount of 10% of the actual paid value but not exceeding 500,000 baht to deduct their personal income tax. By dividing the actual spending into 5 equal amounts, they were granted tax credits for 5 tax years. For instance, Mr. A buys his first home at 5 million baht. He will be able to redeem his tax at the amount 100,000 baht per year, for 5 tax

years. This means that Mr. A would spend 10% less on his first house, or only 4.5 million baht.

- In 2015, purchasers of first houses of not more than 3 million baht were able to use 20% of the actual paid amount to deduct from their taxable income in personal income tax calculation; not exceeding 600,000 baht per 5 tax years or 120,000 baht per year. The mechanic of 2019 measure is similar to the 2015 version however tax allowance given in 2015 was larger in comparison.

Implication

- EIC expects the positive impacts on Thailand's housing market from the 2019 housing stimulus measure to be rather insignificant. The projection of the value of the country's housing ownership transfer in 2019 remains with 10% downturn.

Although the given tax allowance for first homes spending could help minimize taxpayers' housing expenses, the advantage gained by the overall housing market could be low due to the following reasons:

- Only a certain group of people will benefit from the measure. Those who will gain from the stimulus must make at least 25,000 baht per month and must never owned any housing property before. The government has already issued many first-home measures in the past 7-8 years, leading to a lower number of taxpayers who shall be qualified for the stimulus.

The transfer and mortgage fees reduction measure on the other hand could influence the target audience more effectively and therefore support the whole housing market more substantially. As per in 2015, the government activated the decrease in transfer and mortgage fees for the period of October 2015-April 2016, along with the first-home stimulus measure. Such move led to an accelerating increase in the volume of residential ownership transfer in that period of time. However, when the fees reduction policy ended while the housing stimulus measure were still running, the transfer volume clearly slowed down (Figure 3).

- The financial institutions have tightened housing loans in regard to the new LTV (Loan-to-value) criteria effective since April 1, 2019. The new LTV criteria is different from the measures in 2008 and 2015 which shared similar aspects. These past measures were with more loosened LTV than of the present. In the year 2015 in particular, the government demanded the housing bank to relax the debt-to-income (DIT) ratio for the loan applicants from 33% to 50% (Figure 2).
- Household debt which remains high is pressuring the ability to apply for home loans. Meanwhile household income grows weakly.

- The measure supports the sales of houses of under 5 million baht which are account for over 80% of the unsold residential properties in Bangkok metropolitan region, but may not ease the number of the unsold units



much.

According to AREA, the number of unsold houses (finished and under-construction) in Bangkok metropolitan region as of end of 2018 is almost 200,000 units. About 80% of all the unsold homes or 160,000 units are under 5 million baht. 95,000 of these units are horizontal houses and 65,000 units are condominiums. Although the current government's stimulus plan plays a part in supporting the key housing projects in the market, the highly strict lending criteria and limitations of the measure as stated earlier may delay the home-buying decisions of the consumers and could be helpless to the sales of the remaining unsold properties.

- Property business owners with a large number of unsold houses of under 5 million baht could offer more promotions to attract buyers who benefit from the government's measure.

Even though the measure may not be highly substantial to the overall housing market, the property owners can help encourage the consumers to buy their first homes. By offering additional sales promotions while the government's measure is being run, deals of the unsold units could be closed more successfully.

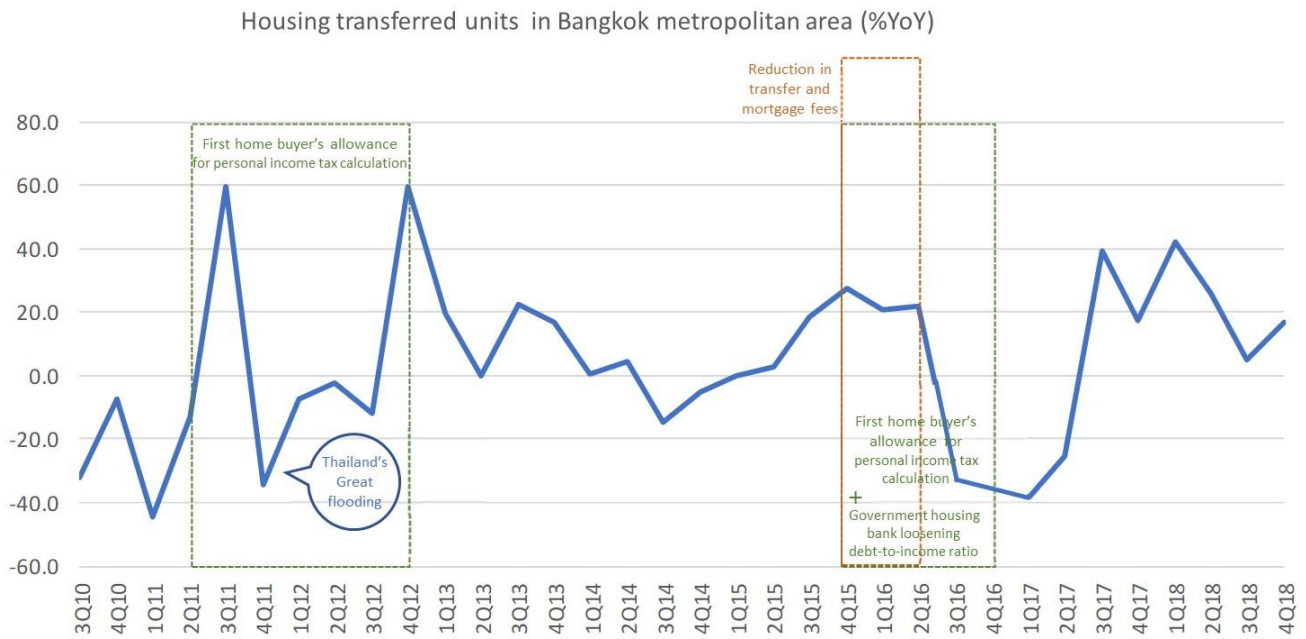
Figure 2 : The government's first-home stimulus measure 2011-2019

Period	First-home stimulus measure	Condition	Other measures during the same period of time	LTV criteria for first home	New home loans top-up included LTV > 100%	Household debt (% of GDP)
21 May 2011 – 31 Dec 2012	Tax credits for personal income tax payers at the amount of 10% of the actual housing purchase but not exceeding 500,000 baht per 5 tax years. (100,000 per tax year)	First home at the maximum price of 5 MB	n.a.	LTV 90% RW* Condominiums of less than 10 MB	n.a.	66% (as of end of 2011)
29 Oct 2015 – 31 Dec 2016	Allowance for personal income tax payers at the amount of 20% of the actual housing purchase but not exceeding 600,000 baht per 5 tax years. (120,000 per tax year)	First home at the maximum price of 3 MB	- Reduction in transfer and mortgage fees - Government housing bank loosening debt-to-income ratio for loan applicants from 33% to 50%	LTV 90% RW* Condominiums and 95% RW Horizontal houses of less than 10 MB	About 20% of all new loans	81% (as of end of 2015)
30 Apr 2019 – 31 Dec 2019	Allowance for personal income tax payers at the amount of the actual housing purchase but not exceeding 200,000 baht per tax year.	First home at the maximum price of 5 MB	n.a.	LTV 90% RW Condominiums and 95% RW horizontal houses of less than 10 MB	Loans including top-up that have LTV > 100% cannot be offered.	79% (as of end of 2018)

Remark : * RW means risk weight. In case the financial institution offers loans with LTV within the given threshold, RW will be 35%. In case, LTV exceeds the threshold, RW will be 75%.

Source: EIC analysis based on data from REIC, FPO and BOT.

Figure 3 : Housing transferred units in Bangkok metropolitan area during the government's first home stimulus measure



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