

# NEW PROPERTY TAX INCENTIVE FOR HOMEBUYERS BUYING IN 2009

Individual taxpayers can deduct the interest paid on their mortgages during a given tax year from their taxable income.

From the 2008 tax year onwards, the maximum mortgage interest allowance has been increased to 100,000 baht from 50,000 baht.

The current global economic crisis has had a considerable effect on Thailand's real estate market, and house purchasing demand has decreased accordingly. The stagnant housing market will have an impact on many businesses, especially real estate developers, financial institutions, construction companies, and construction material suppliers.

To address this issue, on Jan 20, 2009, the cabinet passed a resolution that provides tax measures intended to stimulate the Thai economy. One measure is a personal income tax deduction on mortgage loan principal payments of up to 300,000 baht. The cabinet resolution is not yet law, but is expected to be announced in the Government Gazette in the near future.

Current rules allow only interest payments of up to 100,000 baht per year to be deducted from personal income tax. Although existing homeowners will still be eligible for this mortgage interest deduction, the new property tax incentive will be a one-time deduction only applying to homebuyers who make purchases in the 2009 tax year.

As Thai individual income tax is imposed at the progressive rate of 5-37% on net assessable income (which is arrived at by deducting all applicable expenses and allowances from gross income earned in a given tax year), with a tax exemption for the first 150,000 baht of net assessable income, the benefits of the new property tax incentive will depend on the taxpayers income.

Taxpayers earning less than 20,000 baht a month will not obtain any benefit from the new property tax incentive as there is no remaining taxable income



after deduction of expenses and other allowances. On the other hand, taxpayers who earn more than 20,000 baht per month will benefit from the new property tax incentive if they have personal income tax liabilities before deduction of mortgage loan principal payments for property purchased in 2009.

However, it would appear on the surface that the new property tax measure may only provide an incentive to homebuyers who have already decided to purchase a house in 2009. The new property tax incentive may not attract additional homebuyers as the deduction of mortgage loan principal payments will only apply to the 2009 tax year, but the responsibility to pay for principal payments will last the entire life of the mortgage loan. So it may not be enough to change the minds of those without plans to buy a house in 2009.

As the deduction of mortgage loan principal payments under the new property tax incentive applies only to buyers in 2009, this may lead to speculation as to whether such new property tax incentive can help spur the real estate market in the long run.

In the short run, however, it will at least encourage some buyers, particularly those in the middle and upper class, who can enjoy tax savings and who want to invest in real estate.

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