

Effects of the 1999 Expansion of Home Mortgage Tax Deduction

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The purpose of this research is to investigate the effects of the 1999 expansion of the home mortgage tax reduction on the house acquisition. The home mortgage tax reduction was a tax subtraction system, of which amount is proportional to the home mortgage. Its subtraction ceiling and the subtraction period were expanded in 1999.

In this study, the effects of the tax reduction were evaluated not with house construction but with the home ownership. The share for owner-occupier rose with the extent of 1.8% to 5.4% after the expansion. That can be confirmed with all of the major household surveys: Population Census; Housing and Land Survey; Family Income and Expenditure Survey; National Survey of Family Income and Expenditure. The 1.8%-5.4% change is almost corresponding to that additional 1-3 million households got their house, since the number of households was about 50 million.

However, the housing investment has been around 20 trillion yen after 1998, while it marked 27 trillion yen in 1996. This implies that the home mortgage tax reduction had small effects on the effective demand.

In addition to the size of the impact, characteristics of households that bought a house during the period have been specified. The tax deduction affected those: who were singles or nuclear families; who lived in the rented house; whose head was younger (under age 40) or middle age (around 45-55); who lived in the urban area of Tokyo now. Furthermore, households who purchased an apartment in 1999 earned higher income on the average than those who did in 1998, while households who purchased a resale house in 1999 earned lower income on the average than those who did in 1998.

Some of observations are consistent with "the liquidity constraint" literature. However, the fact that higher income households were more likely to buy an apartment with the tax deduction would not be understood with the literature. On the other hand, it would be consistent with recent literature in which acquisition of house is regarded as a portfolio selection. Investigating theoretical aspect more in details should be a future topic.