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Inflation Influential to Consumption Tax and Individuals' welfare

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Title: Inflation influential to consumption tax and individuals' welfare**Abstract**

The aim of this research is to investigate the influence of inflation on tax equity experienced by individuals as well as the effect of taxation on welfare of people especially after the situation of Covid-19 easing. With regard to research finding, it was revealed that inflation is significantly responsible for making Thais more troubled on taxation expansion by the government, which uses incomes from taxation to spend on healthcare treatment and public services during the spreading of pandemic. According to the theory of ability to pay as well as neutrality, consumption tax and tax imposition by the government make Thai people especially those low income earners to get more troubled on taxation that certainly undermines their purchasing power. Nevertheless, based on benefit of received theory, it becomes clear that tax equity is in accordance with the government spending on public medical services during the striking of Covid-19 when people were paying more taxation so as to receive more medical services and public services by the government in an exchange. Finally, it is recommended that the government finds it necessary to modify taxation structure with an aim for assisting Thais in lightening cost of living on daily basis when the Covid-19 pandemic is being under control from now on.

Introduction

Although, the spreading of Covid-19 pandemic is being gradually under control, there are quite a few low to middle income earners who find it demanding to make their living as normal after having experienced long-run lockdown measures forced by the government. At the same time, one of the most efficient measures with an aim to help lighten economic hardship of these low to middle income Thais is expansionary fiscal policy, especially in form of financial subsidies to people in need. Nonetheless, it is important to know that the main sources of fiscal spending comes from revenues from taxation. This mean, the more the government spends fiscal budgets, the more low to middle income earners are burdened with taxation. However, during the economic hardship triggered by the pandemic, these low to middle income earners are qualified to receive tax deduction and other economic privilege related to taxation. Concurrently, another vital aim of taxation by the government is to boost aggregate demand and national incomes with an aim for recovering Thai economy as much as possible after being hit hard by international and domestic lockdown measures. In the meantime, the use of taxation policy is to help distribute income as well as to promote tax equity nationwide. Though, Covid-19 pandemic has still has adverse impact on livelihood and economy at this time. At the same time, the spreading of pandemic remarkably distorts the use of taxation by the government because the revenues from taxation are changed to spend on public healthcare and financial assistance to people in need as the main priority instead of investing on public infrastructure to boost aggregate demands and national incomes of the country. However, it is undeniable that the external factors especially Covid-19 outbreak has an adverse impact on the ongoing of SMEs, along with causing unemployment (Anderson, 2020).

Dated back to the past, Thai economy could be facilitated especially by fiscal measures of which the main incomes come from taxation; in the meantime, the period before being affected by Covid-19 allowed Thai people to have normal purchasing power while the average prices of good, products, and services were ceaselessly increasing in the context of inflation. It is not too difficult to think that the more the government generates public spending together with an increase in private investment and consumption, the more the government can impose more taxes on people and private sectors to help balance national aggregate demands. Meanwhile, it is economically legitimate for the government to levy progressive taxation on low to high income

Thais and private sectors by targeting at stimulating economy as well as controlling inflation levels at the same time. As a result, low to high income earners have inevitably to pay more taxation while inflation of the country was running higher.

Subsequently, when the world economy confronted the first and second influxes of COVID-19, the public authority of numerous nations around the world, including Thai government, need to uphold lockdown strategy and state quarantine measure and furthermore self-quarantine strategy to save their kin from contaminating and communicating COVID-19 pandemics. Tragically, what followed is the lemon and impermanent conclusion of numerous friendliness organizations, along these lines prompting higher business along with a diminishing of buying force of individuals. Notwithstanding, when thinking about the genuine circumstance, in the extremely not so distant future, researchers are finding the most impact immunization against COVID-19, trailed by building group invulnerability in numerous nations, for example, United Kingdom which is drawing nearer to construct crowd insusceptibility when almost three quarter of all out populace become built up with antibodies against this flare-up (Bangkok Post, 2021). Investigating the not so distant future, numerous nations including Thailand are probably going to give immunization against COVID-19 followed by effectively constructing group resistance against this infection. In result, the world economy including Thai economy will before long be recuperated predominantly in light of the fact that individuals will be expanding their buying power along with easing business, accordingly supporting requests for merchandise and items once more. In the interim, it is profoundly conceivable that the expense of creation at worldwide levels will be expanding because of an expansion in labor cost and oil costs. In this condition, emptying will before long be rising again predominantly because of cost push and request pull (Hall, 2021). At the point when individuals have expanding salaries, shopper spending and private venture will be improving subsequently. In any case, what follows will be more imposes of tax collection on individuals and private areas. Accordingly, this research is intent to investigate the influence of inflation on consumption tax including tax equity that helps to promote welfare of Thai people while the spreading of Covid-19 is gradually easing.

Research Objectives

1. This research is intent to investigate the influence of inflation on tax equity.
2. This research is intent to the influence of consumption tax and taxation on welfare of people while the economy is gradually recovering together with increasing inflation especially due to the easing of Covid-19.
3. This study aims to provide efficient guidelines on using efficient taxation contributing to economic recovery.

Scopes of research

The scope of this research is to investigate the influence of inflation and increasing taxation and also consumption tax on welfare of low to high income earners in Thailand. As for methodology, the researcher places the top priority on using secondary data and information that come from electronic media, such as electronic journals and articles that are relevant to the subject matter in this study.

Benefits of the research

- 1) To be able to understand how fiscal policy contributes to the whole economy especially in the period of economic stagnation and gradual recovery
- 2) To be able to prepare themselves to deal with the situation of inflation
- 3) To be able to prepare individual payment in the period when inflation is gradually increasing

Theoretical framework and methodology of the study

1). Causes of inflation

It is necessary to refer to and explain the crucial economic theories related to inflation; there are three main causes of inflation as follows.

Demand – pull Inflation

One of the most powerful causes of inflation is demand pull. When aggregate demands become exceeding aggregate supplies in the whole economy, the force of demand pull occurs (Amadeo, 2020). During the situation of Covid-19 spreading in the initial phrase, there was a panic buy because the majority of people were afraid that they could go out to buy necessities and foods at the markers due to lockdown policy. As a result, the quantity of products and services by the producers is exceeded or surpassed by the purchasing power of consumers or the demands for products and services in the whole economy during that time that automatically triggers inflation. Nevertheless, in the long run during abnormal economic situation, inflation is likely to be easing because the manufacturers and producers gradually begin to produce products, foods, and services sufficient for increasing demands, thus resulting in easing inflation. Alternatively, the facilitation of using expansionary fiscal policy by the government can lead to more money circulating within the economy as well as a rise of inflation unavoidably.

Structural Inflation

In addition to demand pull, inflation can be significantly attributed to structural change of demand. The situation of structural change of demand can be frequently found in many emerging countries. When people in these emerging can benefit from increasing employment, followed by an increase in private consumption mainly due to their higher incomes while the economy is rapidly prospering. As a result, the demands of goods and services catalyzed by economic perspiring in these emerging countries become much greater than the capacity of producing goods and services, followed by the delay of enough production. In consequence, the prices of goods and services become obviously increasing. This certain condition is known as structural inflation (Amadeo, 2020).

Cost-push inflation

Cost-push inflation occurs when the producers are excessively burdened with the sharply rising cost of production, thus leading them to sell products with higher prices in the same markets (Amadeo, 2020). In some developing countries, for example, there is a sharp shortage of labors causing increasing wages, thus leading the producers to increase the products in the market to compensate increasing labor cost.

2). Taxation Equity

1. Benefits received theory

In the matter of Benefits received theory, it is fair for people as the tax payers who pay tax to the government in an exchange for receiving public services and public goods from the government in return with commensurate proportion (Supriya, 2019). The government has to take responsibility, based on this theory, in providing public goods and public services to people in the fair proportion with taxation revenues paid by people so as to get public goods from the government.

2. Ability to pay theory

Ability to pay theory can reasonably explain tax equity and justice. Based on this theory, people as the tax payers are asked by the government to pay taxation, based on their ability to pay or their capacity of paying tax (Supriya, 2019). In this certain condition, the high income earners should pay more taxation than the low to middle income earners mainly because of their different ability to pay. Put differently, the richer should pay taxation more than the poorer mainly because the former have more ability to earn more incomes than the later. It is certain that tax equity can be promoted by using ability to pay theory that allows people to have the privilege in paying taxation based on their ability to pay. In other words, individuals with inferiority to earning incomes should be levied with less taxation than the ones with higher ability to earn incomes.

3. The principle of equal propositional sacrifice

According to the principle of equal propositional sacrifice, those individuals who are responsible for paying taxation can make use of the sacrifice of utility that is commensurate with their income in order to pay tax to the government (Supriya, 2019). In this condition, the equal proportion of sacrifice encourages the persons with ability to earn high income to pay tax as progressive income tax whereas the persons with lower ability to earn incomes should pay lower progressive income tax.

3) The concept of neutrality in taxation

With respect to the concept of neutrality in taxation, the government should mainly rely on neutral structure by putting full effort on precluding incomes or revenues from taxation from affecting the market mechanism that helps to distribute resources equally and justifiably (Furman, 2008). In consequence, this concept of neutrality in taxation supports that the people as the tax

payers should be abstemious from the impact of taxation on economic decision. In other words, the government should control taxation by keeping the levels of cost and benefits of utility averaged, not too high or too low (Furman, 2008). In addition, excess burden of taxation is significantly related to neutrality in taxation. To explain this matter, it is justifiable for the government who receives income from taxation paid by people to minimize excess burden of taxation as much as they can. With respect to the concept of neutrality in taxation, it is important and prerequisite for the government to minimize the excess burden of tax while precluding opportunity cost from excessive levels. This theory accordingly supports that specific taxation is less than sales tax because sales tax enables the state to have taxation boosted by products, which can result in an increase in prices of products and services. Accordingly, taxation based on the concept of neutrality allows taxation to minimally impact making decision of the consumers including opportunity, in contrast to specific tax.

Methodology

This report is intent to investigate the influence of inflation on consumption tax as well as welfare of the tax payers as ordinary people. It is also intent to investigate the influence on inflation on tax equity and the influence of consumption tax on living standard and economic livelihood of tax payers who have persistently affected by economic recession caused by Covid-19 pandemic, followed by the rise of latent inflation. The author accordingly designed this study as quantitative research by mainly focusing on studying secondary data and information from electronic articles and related research works as to the influence of inflation to welfare and well-being of tax payers as well as to consumption tax. In addition to collecting and gather related information from electronic articles, the author also depended on theoretical concepts with regard to the influence of inflation and taxation on well-being of the tax payers. Once every relevant data and information in this matter was completed, the author had them analyzed, synthesized, and interpreted to yield research results followed by research conclusion and recommendation ad good guidelines on advising the government to use the most appropriate and efficient taxation levied on people for their maximum benefits as the substantial improvement of their well-being and welfare.

Source of data

The study of the inflation influential to consumption tax and welfare of tax payers as people was supported and substantiated from information via secondary sources from electronic media including online researches and academic articles as to the matter of taxation and inflation with relation to well-being of tax payers.

Result Analysis

According to the concept of demand pull, the rising demands from people who are exposed to external factors that are unpredictable can lead to a rapid increase of prices of goods, products, and services, known as the phenomenon of inflation (Floyd, 2021). In the meantime, many external factors such as international and domestic lockdown forced the producers to get supported by the suppliers while experiencing the scarcity of raw materials to produce the finished products. This condition is relevant to an increase in cost of products during inflation period, which is known as cost push inflation (Irungu, 2020). In this regard, it is reasonable to support positive relationship between Covid-19 pandemic and inflation while international and domestic economic transaction is limited by lockdown policy.

Turning to consider inflation that is influential to tax equity, the inflation phenomenon with a rapid increase in prices of goods and services adversely impacts taxation while people as the tax payers are increasingly burdened with consumption tax in this specific period. According to Reinsdorf (2020), inflation phenomenon is significantly attributed to Covid-19 outbreak, triggering the use of domestic and international lockdown measures, followed by cost push and demand pull as the main catalysis of inflation. In the meantime, the more the government uses fiscal expansionary measures by spending more on public healthcare and financial assistance to people in need, people themselves have to be increasingly burdened with taxation payment (Williams et al, 1986). At the same time, tax payers as the low to high income earners at the same time become more troubled with taxation when inflation is increasingly prevalent because their money spent on purchasing goods and services is depreciated by inflation while they have to pay taxation as normal. To make this matter worse, there is no adjustment of the structure of personal income and consumption tax without any tax deduction entitled to people in the

inflation phenomenon. Put different, these tax payers as ordinary people inevitably need to spend their money on purchasing products and services with increasing priced due to the effect of inflation as well as to spend the rest of their money on personal income tax and consumption tax without any tax deduction. In consequence, these tax payers as ordinary people become increasingly burdened with taxation inevitably. This situation is in accord with the study by Herwig (2018), claiming that the inflation phenomenon leads people to become increasingly burdened with taxation, and the undesirable consequence is the distortion of active tax liabilities chiefly because of the lags in taxation. As a result of inflation phenomenon, people as the tax payers suffer a drastic decrease in their purchasing power when the prices of goods and services become instantly or gradually surging, which can be caused by cost push and demand pull inflation. In other words, Floyd (2021) supported that the purchasing potential of people is undermined by inflation that cause the prices of goods and services to surge sharply or steadily. On which the tax payers have to make their regular salary or incomes spent on purchasing goods and services while their prices in the market are continually increasing in the inflation phenomenon, they do not receive any privilege of tax deduction from the government, but have to pay personal income tax and consumption tax as normal. In consequence, people as low to high income earners who have to pay taxation become increasingly burdened with taxation amid the phenomenon of inflation (going along with Covid-19 spread). To make this matter worried, during the period of Covid-19 outbreak, the government was left no choice, but had to use expansionary fiscal measures to spend on public treatment as well as financial compensation and assistance to the patients and people in need together with importing more expensive vaccination and any medical tools at the same time. It is cited in this matter that the more the government spends public expenditures, the more they borrow money from financial institutions overseas and levies more taxation on people at the same time (Williams et al, 1986). In consequence, the aggregate demands of the country must be made balanced by burdening taxation on the tax payers as ordinary people amid inflation phenomenon that causes a significant increase of process of goods and services while the producers have difficulty acquiring raw materials to produce enough goods with increasing demands from the buyers who are subject to panic buy during the situation of Covid-19 spreading. In this certain circumstance, the government needs to balance aggregate demands and fiscal budgets by having people to pay taxation at increasing rates while their monthly salary and incomes remain unchanged. For this reason, it is rational to

say that taxation equity is adversely affected by inflation since there is a contradiction between the theory of tax equity and surging taxation by the government, which can be supported by the ability to pay theory as mentioned above. On this ground, people who have low ability to earn high incomes are inevitably troubled and burdened with increasing taxation in form of both personal income tax and consumption tax to compensate more fiscal budget spending by the government on public services and financial supports to people in need during and after the striking of Covid-19 pandemic without concerning about how much these tax payers are able to pay tax due to their different ability in earn incomes.

In term of the influence of consumption (plus personal income tax) on welfare and standard of living of people, it becomes clear that rising taxation in form of consumption tax and personal income tax levied on Thai income earners and tax payers in the new normal context together with inflation phenomenon adversely impacts standard of living and welfare of Thais. When people become subject to inflation, their purchasing power is decreased whereas they have to pay taxation as consumption tax and personal income tax more exorbitant than normal situation. At the same time, Thai people have to use more money spent on purchasing goods and services with increasing prices in the inflation period; meanwhile, they have to pay taxation without special rights such as tax deduction offered by the government consistently. On this ground, the author would like to infer that a reduction of standard of living and welfare of Thais as well as of their purchasing power amid the inflation period that coincides with Covid-19 outbreak is put down to rising taxation as both consumption tax and personal income tax yielding incomes to the government.

Conclusion and policy recommendation

Not only are the tax payers and Thai people exposed to being panic and the great concern over their economic status during the strike of Covid-19, they are also inevitably subject to inflation that is theoretically and practically triggered by cost push and demand pull. In the meantime, those low to middle income earners still have stable or decreasing incomes per month mainly due to lockdown policies ordered by the government while having to purchase more expensive products caused by inflation; this condition clearly indicates a decrease in purchasing

power whereas their wages or incomes are fixed. When they have a decrease in purchasing power, Thai people usually have less ability to pay taxation in form of consumption tax. In consequence, it is certainty that inflation is adversely influential to consumption taxation Thai people have to pay under all circumstances. At the same time, the government has to use expansionary fiscal measures by spending fiscal budgets on purchasing medical tools and effective vaccines against Covid-19 as well as on contributing money assistance to people in need. As a result, the government has inevitably to impose more taxation on Thai people who have a decrease in purchasing power during the inflation phenomenon in spite of the fixture or reduction of their regular incomes and salary. At the same time, they have to pay taxation as consumption tax as normal while their purchasing power is being undermined by inflation. In consequence, welfare and standard of living of Thai people become exacerbated, which is significantly ascribed to inflation and increasing taxation by the government.

Recommendations

- 1.It is highly recommended for the government to grant tax deduction to Thai people as well as SMEs so as to help them lighten their paying while inflation is going on according to the mechanism of the markets.
- 2.It is highly recommended that the government hurriedly restore tourism industry and hospitality industry as the main sources of national incomes in order to help facilitate balancing national budgets instead imposing increasing taxation on Thai people in the long run.

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