

Tax policy and reform in Asian countries: Thailand's perspective

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Abstract

This paper gives overviews of Thailand's tax system covering major taxes administered by the central government and the local taxes administered by the local government. Recent tax reform experiences are discussed at length starting from the introduction of value added tax (VAT) replacing the business tax to customs tariff reform. Current issues on taxation are also highlighted ranging from tax base, direct and indirect taxation, decentralization impediments. Furthermore, the government is implementing modern and cutting-edge technology in tax administration, thereby providing effective and efficient e-government services to the Thai people. This paper discusses the Roadmap for Tax Reform that would outline the framework for future direction of taxation in Thailand. Finally, the paper gives important insights on tax issues, and draws important conclusions for the future of tax reform in Thailand.

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1. Introduction

At present, Thailand is at the crossroads in terms of its economic and social development. Fully recovered from the 1997 financial crisis, Thailand is now facing new set of challenges and opportunities both on domestic and external fronts. Domestically, exceptional political stability and sustained growth despite the negative impacts ranging from severe drought to unrest in the three Southern provinces to uncontrollable factors such as high energy prices and the spread of avian flu have affirmed the resiliency and robustness of the Thai economy. In the past 3 years, consumption-led growth has spurred new investments as Thailand's capacity utilization is reaching its potential

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(75.5%—a level reached in pre-crisis period). However, the global economy has drastically changed in the past decade with the emergences of China and India, the wide-spreading free trade arrangements, and the commercial application of information technology. All countries alike are under pressure in the increasing competitive global economy. The Thai government recognizes that the country needs to focus on increasing its competitiveness and productivity on the macro-level. The Government has recently begun the implementation of the 5-year (2005–2009) Strategies for Economic and Social Restructuring Plan. The objective is to realize sustained and quality economic growth and better standard of living for all Thai people.

Under the Plan, fiscal sector will be one of the focal issues for reform. The Ministry of Finance (MOF) will undertake a comprehensive review of Thailand's tax structure and administration. The next few years ahead will certainly be invigorating for MOF officials as the government is shifting its gears to foster competitive and efficient Thai economy. Section 2 begins by giving overview of the current Thailand's tax system. Section 3 discusses tax revenue compositions and the experiences on tax reform in Thailand. Section 4 highlights key issues of taxation and administration in Thailand. Section 5 discusses the future direction of tax reform in Thailand. There are various issues at the center of tax reform such as (1) achieving poverty alleviation and resolving income disparity, (2) promoting national competitiveness, (3) maintaining a safe and healthy society, and (4) furthering fiscal decentralization. Section 6 concludes.

2. Overview of Thailand's tax system

The Thai Government derives revenue predominantly from taxes the most important of which are: income tax, value added tax, excise tax, and import duties.

Personal income tax is a tax on an individual's income whilst residing in Thailand and is imposed at progressive rates of between 5 and 37% on net income. An individual's net income is determined by the deduction of expenses and personal allowances from assessable income as specified by the Revenue Code. In addition, income derived from financial assets is subject to a final withholding tax at source, at the rate of 15%.

The other type of income tax is the corporate income tax. In general, companies and registered partnerships are taxed at the rate of 30% on their net profits. Reduced rates are permissible for small and medium-sized enterprises (SMEs) and certain other qualified organizations.

Thailand has two types of sales taxes. The value added tax (VAT) is imposed on a wide variety of goods and services supplied in Thailand and on imports at a single rate of 7%. Exported goods and services are also taxable but some at a 0% rate, dependent upon the destination. The other type of sales tax is the excise tax that is selectively imposed on a number of commodities. Excisable items are also liable for VAT.

Import duties are collected from the cargo, insurance, and freight (CIF) price of imported goods. The tariff structure is classified according to the Harmonized System¹ and the rates range generally between 0 and 10% with the exception of automobiles which attract a rate of 80%.

2.1. Personal income tax

The personal income tax is a direct tax levied on income earned from sources within or outside Thailand during the taxable year. An individual residing in Thailand for one or more periods

¹ Harmonized System, the global classification system that is used to describe most world trade in goods.

aggregating 180 days or more in any tax year (calendar year) is deemed to be a resident of Thailand. Income derived abroad by a resident of Thailand is subject to tax only when the income is brought into Thailand. A non-resident, however, is subject to tax only on income derived from sources within Thailand.

Entities liable for income tax are (1) individuals, (2) non-juristic partnership or body of persons, (3) a taxpayer who dies during the tax year, and (4) undivided estates.

The tax base for personal income tax is the income from sources within or outside Thailand on the amount that is brought into the country. Assessable income is classified into major categories such as income from personal service rendered to employers, income from copyright, franchise or any other right, annuity, income in the nature of interest, dividends, gains from transfer of shares, and others.

Under the Revenue Code, there are *expenses and allowances* that can be deducted from assessable income. The major deduction categories are standard expense 40% but not exceeding 60,000 Baht. However, actual expenses are allowed for the certain types of income if the taxpayer can furnish adequate proof of the actual expenses exceeding the standard deduction allowed. However, if the expenses deductible on the basis of the evidence are less than the standard deduction expense, they can be deducted only to the extent proved by evidence.

After deducting expenses, the allowances are also permitted for deduction such as personal allowance of 30,000 Baht, spouse allowance of 30,000 Baht, parent (and parent-in-law) allowance of 30,000 Baht, child allowance of 15,000 Baht, child's education allowance of 2000 Baht, and other types of allowances specified under the Revenue Code. Furthermore, the Thai Government has been promoting private savings by granting allowances for Provident fund or Pension Fund and Retirement Mutual Fund amount 300,000 Baht or not exceeding 15% of net income.

With assessable income including the deductions and allowances, the net income could be calculated and is subject to the following progressive rate/schedule (Table 1).

For a taxpayer with assessable income over 60,000 Baht from sources not by virtue of employment, tax liability must not be less than 0.5% of his assessable income.

With respect to the personal income tax, the Royal Thai Government has signed the double taxation agreements with 45 countries, namely Norway, Denmark, Germany, France, Singapore, the Netherlands, Korea, Italy, Belgium, Pakistan, the United Kingdom, Indonesia, Malaysia, Mauritius, the Philippines, Poland, Canada, Finland, India, Austria, China, Sweden, Hungary, Australia, Sri Lanka, Japan, Vietnam, the Czech Republic, Switzerland, Israel, South Africa, Romania, Laos, the United States of America, Bangladesh, Nepal, Spain, New Zealand, the United Arab Emirates, Uzbekistan, Armenia, Bulgaria, Cyprus, Luxembourg, and Bahrain.

2.2. Corporate income tax

The corporate income tax is a direct tax levied on net profit of a juristic company or partnership at the end of an accounting period. The term "juristic company or partnership"

Table 1

Taxable income (Baht)	Tax rate (percentage)
0–100,000	Exempted
100,001–500,000	10
500,001–1,000,000	20
1,000,001–4,000,000	30
Over 4,000,000	37

means a limited company, limited partnership, or registered partnership organized under Thai or foreign law and includes any joint venture, any trading, or profit-seeking activity carried on by a foreign government or its agency or by any other juristic body organized under a foreign law and any foundation or association engaged in any revenue producing business. Exemptions, however, are granted to foundations or associations designated to be a public charitable institution or organization by the Ministry of Finance.

The corporate income tax base is the net profit, commonly also known as net income, net earnings, and bottom line is ascertained by subtracting all allowed deductible expenses from total sales in an accounting period. The allowed deductible expenses are subjected to conditions commonly found in corporate income tax laws of most countries.

A juristic company or partnership incorporated under a foreign law and not carrying on business in Thailand which receives the aforesaid assessable income paid either from or within Thailand pays tax on the amount received through tax withholding by payers of income.

In computing net profit, corporations are allowed to include deductible expenses incurred from business operations, except those that are disallowed by the Revenue Code. A payment for charity as well as a payment for education or sport, as recognized by the Department of Revenue, is deductible but on the condition that the amount deducted for each case shall not exceed 2% of the net profit.

Generally, corporate income tax rate in Thailand is 30% on net profit. However, reduced rates are applied depending on the type of taxpayers (details are shown in [Table 2](#)). However, profit disposed out of Thailand and income paid to non-resident companies or partnerships are subject to withholding tax rate of 10%.

The detailed applicable corporate income tax rates for specific types of business entities are as follows.

2.3. *Value added tax (VAT)*

The value added tax (VAT) was introduced on January 1, 1992 to replace the ‘business tax’. The VAT is of a consumption tax-type with full tax credit. Effectively, VAT is, therefore, a tax on total consumption expenditures, the burden of which is eventually borne by consumers—not by entrepreneurs.

Any person conducting a taxable activity is required to register for VAT purposes and as a result, they will be liable for VAT payments. The tax will be charged at each stage of the production and distribution chain.

In general, an organization that makes taxable supplies is required to collect a 7% tax (called “output tax”)—inclusive of surcharge tax for local government—on the value of its supplies and secure an input tax credit for its taxable inputs. Many large businesses fall into this category. Organizations with annual taxable turnover less than 1,200,000 Baht are exempt from VAT. However, they cannot use input tax as a credit against the output tax.

The VAT is charged on the amount of the sale invoice at a single rate of 7% inclusive of municipal tax. The net tax liability of each taxpayer is calculated monthly by crediting the amount of VAT paid on the purchase of inventories, capital goods, and raw materials for sale or utilization in the production process during the month (i.e., the Input Tax) against the total value of VAT due from the sale of goods or services during the same month (i.e., the Output Tax).

Table 2
Corporate income tax rates

Taxpayer	Tax base	Rate (%)
1. Small company which refers to a company with paid up capital less than 5 million Baht at the end of each accounting period	Net profit not exceeding 1 million Baht	15
	Net profit over 1 million Baht up to 3 million Baht	25
	Net profit exceeding 3 million Baht	30
2. Companies listed in Stock Exchange of Thailand (SET)	Net profit for first 300 million Baht	25
	Net profit for the amount exceeding 300 million Baht <i>Remark: both for first five accounting periods after listing</i>	30
3. Companies newly listed in Stock Exchange of Thailand (SET)	Net profit	25
4. Company newly listed in Market for Alternative Investment (MAI)	Net profit for first five accounting periods after listing	20
	Net profit after first five accounting periods	30
5. Bank deriving profits from International Banking Facilities (IBF)	Net profit	10
6. Foreign company engaging in international transportation	Gross receipts	3
7. Foreign company not carrying on business in Thailand receiving dividends from Thailand	Gross receipts	10
8. Foreign company not carrying on business in Thailand receiving other types of income apart from dividend from Thailand	Gross receipts	15
9. Foreign company disposing profit out of Thailand	Amount disposed	10
10. Profitable association and foundation	Gross receipts	2 or 10
11. Regional Operational Headquarters (ROH)	Income from servicing subsidiaries of ROH	10
	Interest received from subsidiaries of ROH	
	Royalty fee research and development (R&D) received from subsidiaries, branch or other company	

2.4. Specific business tax

At the time of the introduction of VAT into Thailand, it was apparent that in certain businesses there were difficulties in defining their added value, such as the financial and real estate businesses. In order to avoid the complexities of defining the added value, certain businesses were excluded from the VAT system, but continue to be subject to tax on the basis of gross receipts instead of VAT in the same manner as under the former Business Tax system.

At present, the Specific Business Tax is imposed on various business transactions, such as banking, or similar business, finance, credit foncier and securities business, insurance, pawn brokerage, dealing in immovable property and sale of securities in the Stock Exchange of Thailand (SET).

The specific tax rates range between 2.5 and 3.0%, as shown in Table 3. These rates are exclusive of surcharge tax for local government. The surcharge tax for local government

Table 3

Timeframe	Items	Below the three-rate framework	At the three-rate framework	Above the three-rate framework
Present	5505	1457	2273	1688
January 2008	5505	1447	2404	1567

amounted to 10% of the specific business tax must also be added. The filing of the return and payment of the tax shall not be later than the 15th day of the month on gross receipts of the preceding month.

2.5. Excise tax

The excise tax is an indirect-selective sales tax. Apart from the dominant role of a revenue generator the purpose of imposing excise taxes are to restrict consumption of certain goods, to promote social and economic equity, encourage saving, and to reflect energy conservation and environmental issues.

Excise tax is levied at either a specific or an ad valorem rate, whichever yields the higher proceeds. Applicable excise tax rates are specified in the Excise Tariff Acts and under the Ministerial Regulation. All goods subject to excise tax remain subject to VAT.

At present, excise taxes are imposed on 20 commodities and services, namely spirits, tobacco, playing cards, telephone services, non-alcoholic beverages, luxury lamp and chandeliers, lead crystal products, automobiles, yachts, perfumes, wool carpets, motorcycles, marble, batteries, horse racing, golf courses, night club and discotheques, government lotteries, Turkish baths, saunas and massages parlors, petroleum and petroleum products.

2.6. Customs duties

Customs duties, imposed under the Customs Tariff Decree B.E. 2530 (1987), are levied on both imports and selected exports. Goods that are obscene, dangerous to health, or harmful to the national economy may be prohibited from import. Moreover, specific goods may be restricted from time to time, and these require prior government permission before being either imported or exported. Apart from these, most goods may be imported or exported after complying with the necessary customs procedures and the payment of customs duties, where applicable.

Thailand has adopted classification of imports is based on the Harmonized Commodity Description and Coding System (Harmonized System 2002). This system covers approximately 5505 items and is consistent with classifications used by most of Thailand's trading partners.

Duties are levied on either a specific or an ad valorem basis, whichever is the higher. The customs tariff rates are listed in Part 2 of the Customs Tariff Decree BE 2530 (1987). The value of imports is based on their CIF prices. Customs tariffs previously ranged between 0 and 80%, the highest rate being for passenger cars.

Imported goods exempted from customs duties are listed in Part 4 of The Customs Tariff Decree BE 2530 (1987). They are, among others, export articles including those exported which are then re-imported within 1 year without any change in character or form, and for which a re-importation certification was obtained at the time of exportation, and articles imported into Thailand under which duty has been paid and subsequently sent out of the country for repairs, if

re-imported within 1 year from the date of re-importation certificate issued at the time of exportation.

In recent years, the tariff rate has been broadly reduced to the targeting range of three rates in accordance with production processes, namely:

- (a) 1% for raw materials and inputs not produced locally.
- (b) 5% for semi-finished products.
- (c) 10% for finished products, products requiring extra protection, and luxury goods.

At present, the current implementation of tariff reform is in [Table 3](#).

It is expected that by January 2008, over 70% of tariff items would be equal to or less than the three-rate framework.

2.7. Local administrations' revenue

Because local administrations have a responsibility to provide basic public services, they need to raise revenue to support these activities. The primary sources of local administrations' revenue are local levied taxes, surcharges on government tax, shared revenue, revenue transfers, and government grants.

2.7.1. Local levied taxes

Local levied tax is the revenue directly administrated and collected by the local administration directly. This source of local revenue can be classified into two groups namely:

1. Local levied taxes imposed by the Municipality (Tessaban), Tambon Administrative Organizations (TAOs), Bangkok Metropolitan Administration (BMA) and Pattaya City. These taxes are Land and Building Tax, Land Development Tax, Signboard Tax, Slaughter Tax, and Fee, Fine and License.
2. Local levies collected by Provincial Administrative Organizations (PAOs). These taxes are Hotel Tax, Petrol Stations Tax, and Retail Tobacco Tax

2.7.2. Surcharge on government tax

This surcharge tax is an additional 10% on top of tax levied by the government less 5% of this total surcharge tax for collection expenditure. The surcharge tax is added on: Value Added Tax (added 11.11%); Specific Business Tax (added 10%); Liquor Tax (added 10%); Excise Tax (added 10%); Retail Liquor License and Gambling License (added 10%); and Gambling Tax on Horse Racing (added 2.5%).

2.7.3. Shared revenue

This type of revenue is the revenue collected by the government and shared with the local administration, which includes:

- a 5% share of VAT collected in every province except Bangkok which is then transferred to a PAO in that province;
- 60% of mineral and petroleum tax distributed by the source of revenue; and
- VAT additionally transferred to all local administrations according to the Decentralization Act.

2.7.4. Revenue transfer

This revenue is collected by government agencies and transferred to local administrations and includes:

- Motor Vehicle Tax and fees collected from provincially registered motor vehicles, which are then transferred to the respective local administrations.
- Real estate registration fee distributed by the source of revenue.

3. Composition of tax revenue and experiences on tax reform in Thailand

3.1. Composition of central government revenue

Since the early 1990s, Thailand has been undertaking economic and financial reforms in critical areas covering fiscal and financial sectors, state enterprises, and overall public sector. As a part of overall fiscal sector reform, the Thai Government has initiated tax reform starting in 1992 with the introduction of the value added tax (VAT) and other tax reform measures. The rationale of tax reform is twofold. Firstly, tax reform was a part of structural adjustment to reduce any severe economic distortions, to promote efficiency in the economy, and to enhance proper allocation of resources. Secondly, the Government intended to increase revenue generation in a reasonably non-distorting, equitable, and sustainable manner. Fortunately, the economy entered into a rapid growth phase in the late 1980s and 1990s that enabled the Thai Government to implement major changes in its tax policies.

Under the Thai bureaucratic system, the Ministry of Finance is empowered to collect taxes through the three departments, namely the Department of Revenue, the Department of Excise, and the Department of Customs. Department of Revenue is responsible for personal income tax, corporate income tax, petroleum tax, value added tax, special business tax, etc. Department of Excise collects liquor tax, tobacco tax, automobile tax, and other selected excise taxes. Finally, Department of Customs administers import and export duties. Moreover, other departments in other ministries are empowered to levy other related charges or fees. For instance, the Department of Mineral Resources collects royalties for mineral exports and Department of Land collects registration fees on transfer of land ownership. Other revenue sources are profit remittances from the state enterprises, income of rental of government properties, etc. All revenues must be forward to the central government budget.

In examining the structure and composition of Thailand's government revenues between Fiscal Year 1998 and 2003, tax revenues comprise approximately 88% of total government revenue with non-tax revenue taking up the remaining 10%. Indirect tax has the largest share (~58%) in the total revenue relative to the direct tax (~30%) and non-tax revenue (~12%) (Fig. 1).

The trend in total government revenue collection has steadily increasing since the trough in FY 1999 due to gradual recovery from the Asian financial crisis (Fig. 2). Direct tax increases the most during this period from 458 billion Baht in FY 1999 to 647 billion Baht in FY 2003 followed by indirect tax which increases from 226 billion Baht to 348 billion Baht over the same period. However, non-tax revenue remained stagnant over this period.

The composition of tax revenue shows that value added tax, excise tax, corporate income, and personal income taxes take up most of the tax revenue (Fig. 3). Customs duties have contributed less to the government revenue since Thailand has entered into trade liberalization commitments under WTO, AFTA, and other FTAs. Other taxes are minor and insignificant. These are some

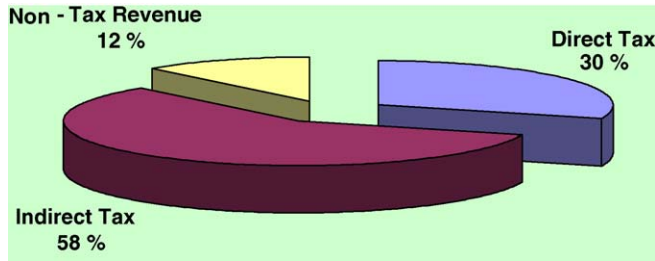


Fig. 1. Share of total government revenues (in total). Fiscal year 1998–2003.

capital gain tax, and other small taxes. Property tax, albeit being minimal, is collected by the local governments through Land and Building tax and Local Development tax.

3.2. Composition of local government revenue

When the present constitution was effected in 1997, it created a major change in the decentralization process as it introduced the principle of local autonomy and, therefore, required the government to draft the Decentralization Act and establish a National Decentralization Committee (NDC). The NDC was responsible for drawing up an action plan to determine how decentralization would proceed. Furthermore, the NDC outlined the power, authority, and duties that would be granted to local administrations and further, what responsibilities would be transferred to them from the government. According to the Decentralization Act, aggregate local administration revenue must not be less than 20% of the total government’s net revenue in FY 2001, increasing and not to be less than 35% of the government’s net revenue by fiscal year 2006.

In reality, the local governments still heavily relies on the central government for revenue. There are over 7700 local governments in Thailand which are categorized as follows:

- (1) Bangkok Metropolitan Administration
- (2) Provincial Administrative Organization

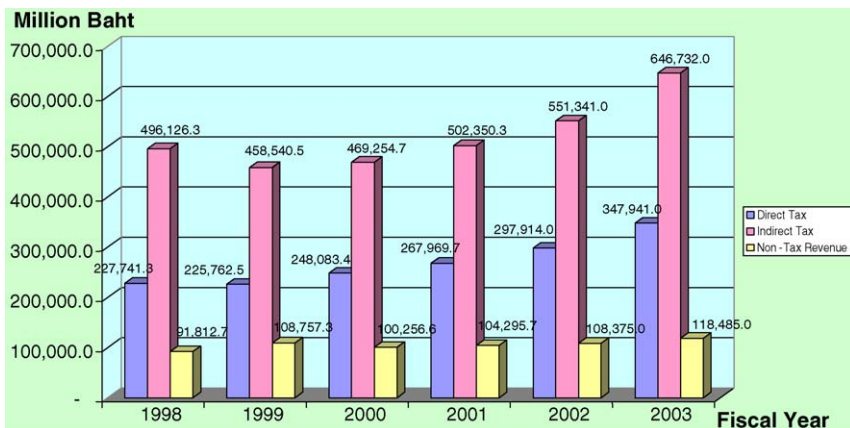


Fig. 2. Share of total government revenues. Fiscal year 1998–2003.

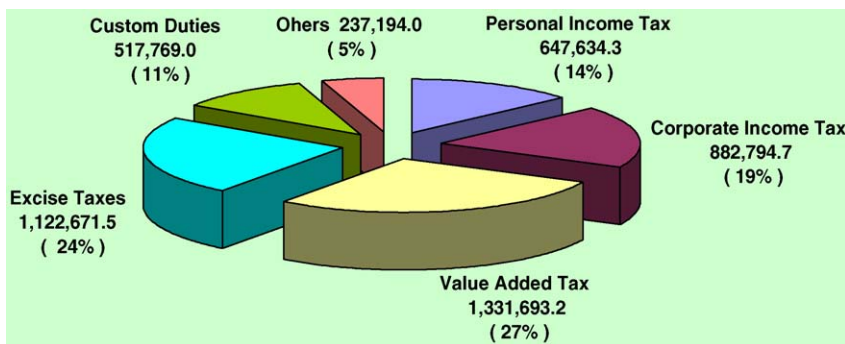


Fig. 3. Composition of tax revenue (in percent). Fiscal year 1998–2003.

- (3) Tambon Administrative Organization
- (4) Municipality
- (5) Pataya City

As of FY 2002, the total local revenue was 164 billion Baht, but the proportion of the “local levied” revenue was merely 13 billion Baht or 8%. Major revenue sources for the local governments came from the surcharge tax, shared tax, and grant from the central government (Fig. 4). Certainly, the effectiveness of decentralization policy requires local government to have more autonomy from the central government, and not to be overly dependent on the central government for funding.

3.3. Major recent tax reforms in Thailand

In 1961, the Thai Government had introduced the first Economic and Social Development Plan which placed strong emphasis on industrial development and pursued import substitution strategy. Over the next three decades, tax system was adjusted and fine-tuned according to the new arising developments and to enhance efficiency and effectiveness of tax administration. However, there was

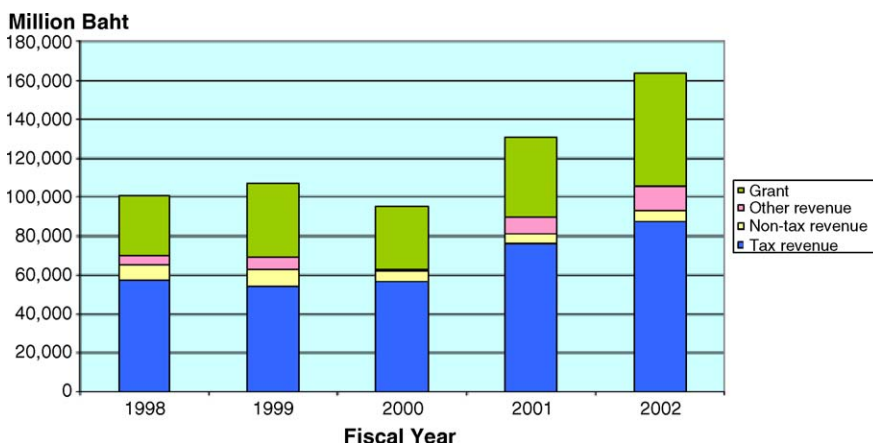


Fig. 4. Proportion of local administration revenues. Fiscal year 1998–2002.

no major change in the tax framework during this period. However, new developments and global trend in the early 1990s created the impetus for the Government to thoroughly review its long-standing tax system. Increasing international trade, investment and factor mobility all have created a paradigm shift towards economic policies with outward orientation, and protectionism has been gradually on the declining trend. More economic groupings have been established such as APEC and AFTA that spurred trade liberalization in the Asian region.

In Thailand, the economy has grown from low-income level (2456 Baht per capita) in 1961 to medium income level (49,480 Baht) in 1992. The once agricultural-based economy was transformed into industrial-based economy. For these reasons, past governments have decided to undertake economic reform and set new policies that lead to further integration of Thailand into the world economy. Tax reform policies have been used to achieve this end and to enhance competitiveness vis-à-vis the rest of the world.

Major tax reforms during 1990s up to the present time (May 2005) are as follows:

1. *Introduction of value added tax*

It is generally considered that one of the most important tax changes in recent Thai history is the introduction of value added tax (VAT) in 1992 to replace the business tax. After the introduction of VAT, products that were liable for higher tax amount under the business tax such as automobiles, electrical appliances, perfume and cosmetics, etc. are taxed at the normal VAT rate and higher excise tax, so that the tax burden remains the same.

2. *Comprehensive reform of the tax structure*

In the past, tax rates was set at relative high levels such as personal income tax up to 55%, business tax up to 50%, etc. Corporate income tax was set at 30% for all types of businesses. Since then, the tax rates have been lower to create greater incentive for economic activities and in line with the global trend for lower tax rates. In addition, Government has used tax as policy instruments to support certain sectors, such as SMEs and listed companies.

3. *Reform of the customs tariff structure*

For the customs duties, the tariff rate has been broadly reduced and the range has narrowed to that of targeting 3 rates for production processes, namely:

- (a) 1% for raw materials and inputs not produced locally.
- (b) 5% for semi-finished products.
- (c) 10% for finished products, products requiring extra protection, and luxury goods.

As a result of the customs tariff reform in 2002, the number of tariffs decreased to three rates as shown above. However, the reform package has yet to be completed in its entirety. Major remaining items are petrochemical products; their tariffs will be reduced in line with the three-rate framework. The average tariff rate (general international trade) as of January 1, 2004 is 11.46%. The average tariff rate (applied to WTO member) is 10.71% (Fig. 5).

4. Issues for taxation and administration

4.1. Low tax base

Thailand has most of the taxes similar to international standard and the tax legislations have broadly defined tax base such as income tax covers all income generated in the country. In reality, tax collection is relatively low as compared to the size of the economy (only 17.9% of GDP versus 25–30% of GDP for the OECD countries). While it is estimated that over 10 million

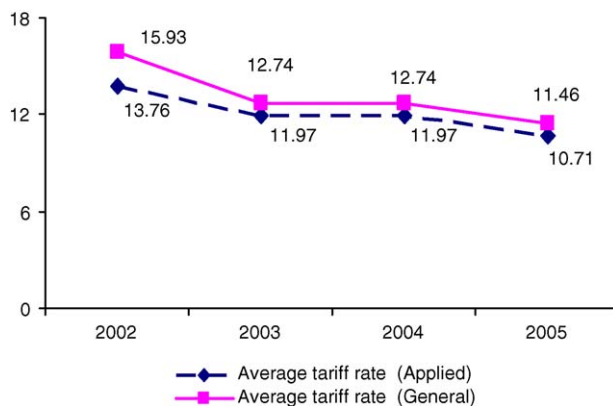


Fig. 5. Average tariff average rate (applied and general) 2002–2005.

people are eligible for personal income tax in Thailand, personal income tax filings are only 6 million.

The primary reasons for Thailand's low tax base are numerous tax exemptions under Revenue Code, ministerial decrees, and other related law. In addition, tax expenditure measures such as investment promotion tax incentives through the Board of Investment (BOI) also give sizable tax breaks to the private companies. Another main reason is existing prevalent tax evasion in Thailand and a large “informal” sector that is not covered under the tax system. The low tax base leads to high tax rates for the general population; this situation creates unfair sharing of tax burden.

In comparison with other countries, Thailand is on par with most countries in Asia in terms of tax revenue to GDP (Table 4).

However, when comparing to developed countries and transitional economy (OECD countries), Asia as a whole region and Thailand, in particular, still record relatively low tax revenue to GDP. The United States, the United Kingdom, and Japan collect tax revenue to GDP in 2000 at 29.5, 38.1, and 27.1%, respectively (Table 5).

However, one should examine these numbers with caution as different countries may decide to pursue different set of tax policies (low tax and high tax rebate). While the “optimal” level of tax revenue to GDP is unclear with no consensus, exceedingly low level of tax out-turn to the size of the economy may suggest the ineffectiveness and inefficiency of tax administration.

Table 4

Tax revenue/GDP	1999	2000	2001	2002	2003	2004
Thailand	15.4	15.5	15.1	15.9	16.7	17.5
Singapore	n.a.	15.3	15.1	13.2	n.a.	n.a.
Indonesia	15.5	n.a.	13.1	n.a.	n.a.	n.a.
Philippines	n.a.	13.7	13.5	12.5	n.a.	n.a.
PR China	6.7	7.6	8.3	n.a.	n.a.	n.a.
India	n.a.	9.0	8.6	9.5	n.a.	n.a.

Sources: Thailand MOF and IMF Yearly Government Finance Statistics (2003).

Table 5

Tax revenue/GDP	1990–1995	1996–2001
Developed countries	37.8	40.1
Transitional economies	34.7	31.4
Developing countries	18.7	19.2

Note: Average taken by median value of simple averages. Source: UNPAN Statistical Database.

4.2. Direct versus indirect taxes

Direct taxes are defined as taxes that the taxpayers cannot shift the tax burden to others such as personal income tax and corporate income tax. Indirect taxes are defined as taxes that taxpayers can shift the tax burden to others such as VAT and sales taxes, excise tax, and customs duties.

Indirect taxes are the predominant sources of government revenue for Thailand. For the period between FY 1998 and 2003, indirect tax averages about 58% of total revenue with direct tax and non-tax revenue account for 30 and 12%, respectively. Indirect taxation acts as regressive tax in which the tax burden falls on everyone equally, regardless of their income (or ability to pay).

Comparing with most countries in Asia, Thailand shares similar experience in heavily relying on indirect taxes as sources of government revenue (Table 6).

On the contrary, most developed countries/economies tend to rely more on direct taxes relative to indirect tax. Asian region seems to rely on indirect tax, particularly for the developing countries (Table 7). In the case of Japan, it shows the numbers for developed countries with direct tax accounts for over 79.4% of government revenue and indirect tax accounts for only 18.7% in 1993. Taking these statistics into consideration, does it mean that developing countries in Asia in general and Thailand in particular still have rooms for improvement in terms of direct tax structure and administration? Could it be that the “missing” tax revenue as a percentage to GDP is the revenue “foregone” from direct tax? To answer these questions would require in-depth analysis into the direct tax administration and structure of the respective countries.

4.3. Decentralization

Decentralization has been a national agenda of the Thai government. Fiscal decentralization has not been proceeding according to the Decentralization Procedure and Plan Act which stipulates that the proportion of local government revenue must be at least 35% of the central government revenue in 2006. At present, the ratio is at 23.5% for FY 2005. Local governments are still very much dependent on the tax collection capacity (i.e., shared tax) and transfers from

Table 6

Indirect tax revenue/total revenue	1999	2000	2001	2002
Thailand	59.1	58.1	59.1	58.0
Singapore	33.4	33.7	33.3	n.a.
Indonesia	33.0	n.a.	44.7	n.a.
Philippines	52.3	51.0	49.5	n.a.
PR China	89.3	n.a.	n.a.	n.a.
India	66.3	62.4	62.4	n.a.

Sources: Thailand MOF and IMF Yearly Government Finance Statistics (2003).

Table 7

Government revenue/GDP (1990–2002)	Direct Tax	Indirect tax
Developed countries	63.3	28.6
Transitional economies	51.0	45.1
Developing countries	28.3	57.9
Asia and Oceania	34.1	60.4

Note: Average taken by median value of simple averages. Source: UNPAN Statistical Database.

the central government. Increasing the local government capacity for tax collection is crucial for the success of decentralization.

The current policy issue for decentralization is to expand the tax capacity of the local authorities. The new local tax law called Property Tax Act will be under legislative consideration by the Thai Parliament soon. If implemented, this property tax would enable the local authorities to collect tax in their localities more effectively and efficiently. In the near future, they are expected to have more responsibilities and administrative powers as education and health care functions are eventually transferred to the local authorities.

4.4. “Socially-responsible” taxes

Human behaviors and actions often create externality—the benefit or cost of the action not fully borne by the individual, but by the society as well. Taxation is the economic instrument that can be used to “internalize” the externality cost.

In Thailand, environmental conservation is gaining more attention by the public. To date, the Government has been using excise taxes to levy tax on environmentally damaging products. Other related ministries such as Ministry of Natural Resources and Environment and Ministry of Industry are empowered to collect charges/fees on environment-damaging behaviors under their jurisdiction.

In addition, the government is also targeting tax instrument to promote “social-responsible” behaviors by the individuals. The so-called “sin” taxes on products harmful to public health such as alcohol and cigarettes are under reviewed. The greater use of tax instruments and improved administration may be necessary toward curbing the consumption of these products.

To promote Thai family value, the government has recently given tax incentive for people to look after their parents. Tax allowance of 30,000 Baht is given to tax-payers who take care of their parents or parents-in-law in their old ages.

5. Future direction for tax reform

Any future tax reform must be undertaken under the framework of fiscal sustainability—reform must be accompanied by long-term fiscal sustainability. Four fiscal targets have been set as fiscal policy rules for the medium-term, namely public debt to GDP less than 50%, debt service to the budget less than 15%, fiscal balance from FY 2005 onwards, and capital expenditures to the budget more than 25%. At present, the Government has successfully achieved these targets with balanced budget in FY 2005, the first time since the 1997 financial crisis.

The Thai Government has carefully reviewed the overall tax structure. Clear policy direction on taxation reform has been set to

- (1) *Achieving poverty alleviation and resolving income disparity.* The government may need to tax higher income group more, lessen the tax burden for the lower-income group, introduce estate tax/inheritance tax/gift tax, introduce real property tax (local-levied tax), and lower PIT tax rates and number of tax brackets.
- (2) *Promoting national competitiveness.* Thailand needs to be a “low cost country to invest,” which means the government may have to lower CIT tax rate, complete the next round of tariff structure reform, strengthen Smart and Modern Enterprise (SMEs), and lower and generalize CIT tax rate for SMEs.
- (3) *Maintaining a safe and healthy society.* The government needs to rationalize and reform excise tax by increasing tax rate on “sin products or services” and reconsidering products or services coverage. The government will introduce an environmental tax and promote private participation in education, public health, and community-strengthening activities through tax incentives.
- (4) *Furthering fiscal decentralization.* Local tax revenue reform needs to be achieved as local governments should have greater fiscal autonomy from the central government. Reform measures are such as introducing the real property tax, amending and improving the existing taxes, innovating new sources of local revenues, and strengthening local tax collection capacity and fiscal management capability.

More specially, the Government is now formulating *the Roadmap for Tax Reform* to broaden the tax base, increasing competitiveness, promote social development, and increase private sector participation. The Roadmap will review the tax structure for major tax categories such as corporate income tax, personal income tax, value added tax, excise tax, and customs duties as follows.

5.1. Corporate income tax

Currently, corporate income tax rates in Thailand stand at relatively high rate at 30% of net profit for general corporations and 15–30% of net profit for small and medium-sized businesses (SMEs). The government is reviewing whether the corporate income tax rate could be lower to the comparative level with other countries in the region. There would serve to lessen the tax burden on the entrepreneurs and to promote greater incentives for investments. Furthermore, lowering tax rate could level the playing fields for the domestic vis-à-vis foreign businesses, and induce more corporations to enter into tax base (in other words, increasing relative cost from tax evasion). Finally, the Government is also examining how the SME sector could be specifically targeted for growth and development. Small business at their early stage should be particularly targeted for promotion.

5.2. Personal income tax

At present, the personal income tax has five tax brackets with exemption for the first 100,000 Baht of net income and the 37% being the highest bracket for income in excess of 4 million Baht.

The Government is examining to streamline the personal income tax structure and procedure to lessen the complexity and increase efficiency of tax administration. Therefore, the tax structure could be less than five brackets with the highest rate lowered to be consistent with the corporate income tax.

5.3. Value added tax

The value added tax was reduced from 10% to the current level of 7% since 1 April 1999 to stimulate the economy during the crisis. It was a temporary measure that was due to expire in 2 years, but the government decided to grant the extension to 30 September 2005. It is estimated that increasing VAT would have a negative impact on the economy with 1% increase in VAT theoretically leads to 0.95% reduction in GDP growth, but also results in 30 billion Baht in additional government revenue. Policy decision is being made on whether or not the VAT would be increased from the current level.

5.4. Excise tax

In principle, excise tax should only be levied on selected products that have negative externality to the society, harmful to public health, or special services from the government. At present, the Excise Department is responsible for excise tax collection for 20 types of goods and services with multiple applicable rates and very complicated tax calculation method (inclusive tax). The Government is examining to rationalize the excise tax structure to enhance the confidence of the entrepreneurs and minimize the cost of administration.

The excise tax will be categorized into the following four groups as follows:

1. products and services that are harmful to public health;
2. products and services that are against morality;
3. products and services that are luxury;
4. products and services that are given concession by the government.

Excise tax reform will consider products and services that cannot be categorized into the mentioned four groups, and should no longer be levied excise tax such as wool carpets and lead crystal products. Spa services are also under consideration to be granted excise tax annulment.

Furthermore, the Government is examining to introduce environmental tax, and the excise tax on environment-damaging products such as batteries and certain petroleum products would have to be repealed to minimize redundancy.

5.5. Customs duties

The objectives for customs tariff reform are to increase competitiveness and to promote investment both domestic and foreign. Since 1999, the Government has undertaken a comprehensive customs reform in most of the product categories in accordance with the three tariff lines structure (1, 5, and 10%) for different stages of goods based on the value added escalation concept. To date, the tariff reforms have been completed with 70% coverage, and the next step would be tariff review on agricultural products. The government is considering introducing tariff exemption (0%) for imported raw materials. It is expected that the reform would also prepare the Thai industries for greater trade liberalizations through free trade areas.

Under the Roadmap, the Government also plans to introduce new taxes with the goals to expand the tax base and increase the proportion of direct tax relative to the total tax revenue. New taxes under consideration of Ministry of Finance are such as property tax, environmental tax and death tax which can be categorized into three types: estate tax, inheritance tax, and gift tax.

6. Conclusion

In any given economy, efficient and effective tax structure and administration is crucial to the fiscal sustainability and ultimately the country's national economic and social development. In recently years, the Ministry of Finance has given high priority to modernize our tax structure and administration. Numerous initiatives such as e-revenue, e-excise, and e-customs have greatly facilitated the tax-payers in their dealings with the tax-collecting agencies and also serve to reduce opportunities for tax evasion and corruption.

Nonetheless, there are remaining issues that need to be reformed to further enhance Thailand's tax system. The paper highlights a few major issues summarized as follows:

1. The tax structure needs to be reformed with views to promote national competitiveness and fiscal sustainability.
2. Tax administration needs to be more effective. The ratio of tax revenue to GDP for Thailand is still relatively low despite the legislative tax rates that are mostly no less than other countries.
3. Tax structure should be reformed to promote greater equity. The Government should increase the revenue from direct tax relative to indirect tax.
4. Local governments should have greater capacity to raise their own revenue and have more financial independence.

These are four issues that the Government would be concerned about in proceeding to reform the Thailand's tax system.

Further reading

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