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THE EVOLUTION OF PERSONAL INCOME TAX IN THAILAND

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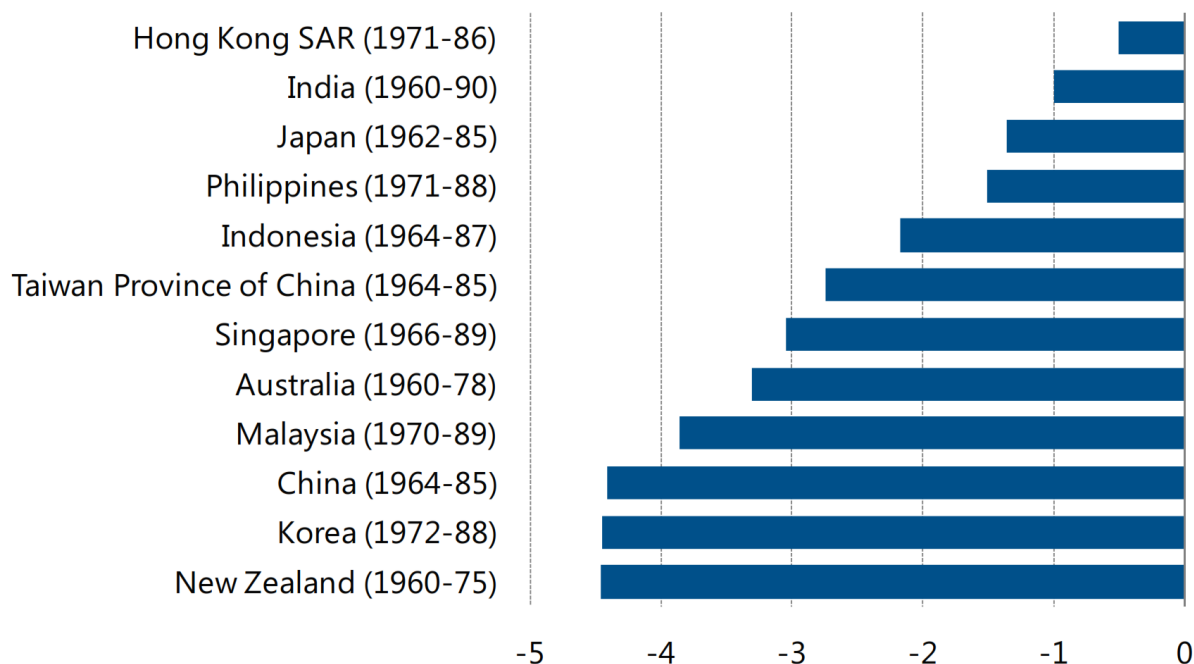
Main Topics

- (1) Introduction
- (2) The chronology of Personal Income Tax(PIT) in Thailand
- (3) Thailand's PIT and its potential as the main source of government's income
- (4) Thailand's PIT and its redistributive power
- (5) Thailand's PIT and its legal characteristics
- (6) Conclusion and policy recommendations

(1) Introduction

(1) Introduction

(Net Gini Index; in Gini points; change during the period indicated in parenthese)



Source: IMF(2016)

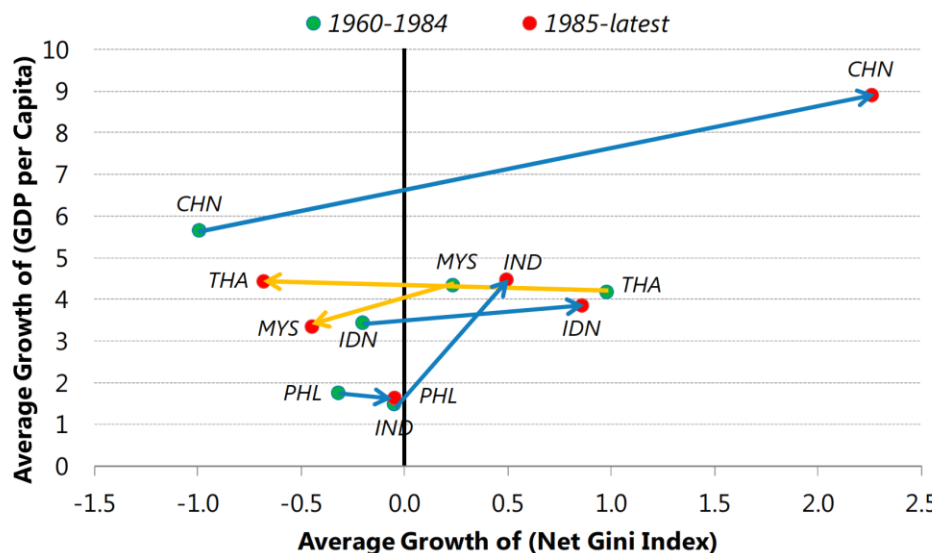
- During 1970s-1980s, most of Asian economies achieved both high GDP growth and lowered income inequality.
- Particularly cases of Hong Kong SAR, South Korea, Singapore and Taiwan Province of China were cited as the “Miracle” of economic development.

(1) Introduction (cont'd)

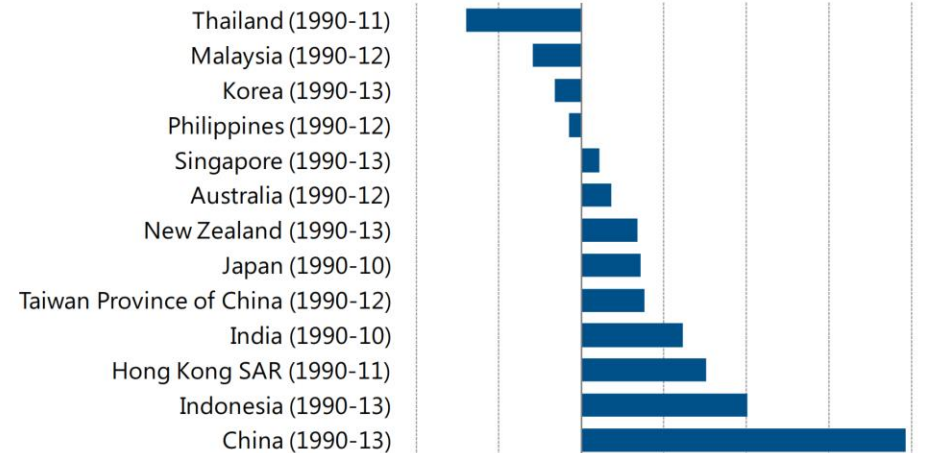
- However, the development path has been changed **after 1990s** for most Asian countries. Even though they have managed to maintain the GDP growth, the **income inequality is rising**.
- But **the case of Thailand is the exception**. The **GDP growth has been continuing along with the improvement of equity**.

→Our Research Question :

Why has Thailand achieved both economic development and narrowing the gap in the same time, different from other Asian countries?



(Net Gini Index; in Gini points; change during the period indicated in parenthese)



Source: IMF(2016)

(1) Introduction (cont'd)

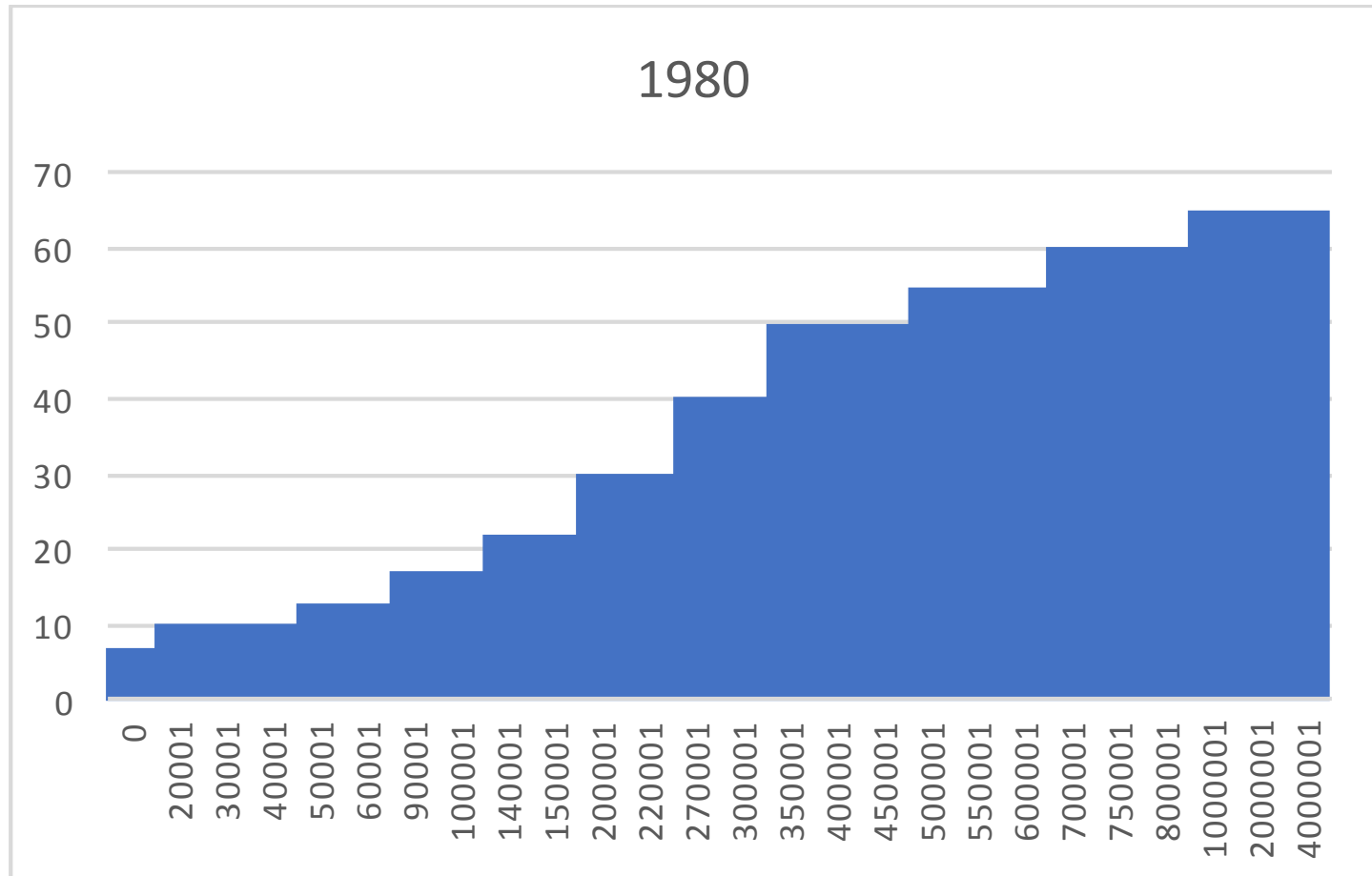
- Although the income inequality has been continuously decreasing in Thailand, most literature has focused on the role of **Social Expenditure**, not the one of **Progressive Taxation**
- **Lack of studies** examining the role of **Progressive Tax**, especially **Personal Income Tax(PIT)** and its potentials as both
 - ┌ **Redistributive instrument**
 - └ **Main source of gov.'s revenue.**
- Hence, this research examines
 - Impact of the Thai PIT Systems on Income disparity**, with a focus on
 - Potential of PIT as the main income source of Thai gov.
 - Redistributive power of PIT

(2) The chronology of Personal Income Tax(PIT) in Thailand

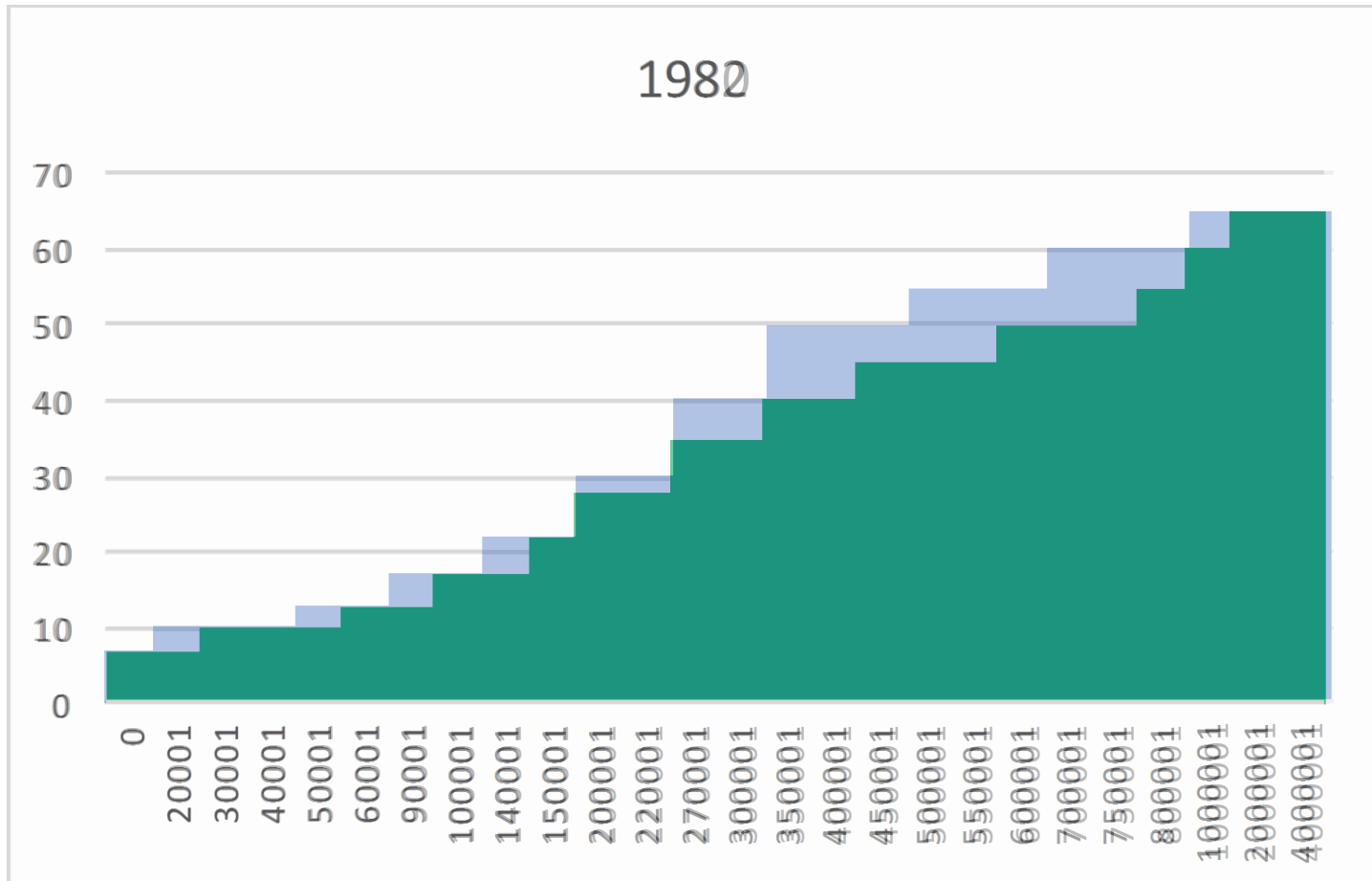
(2) The chronology of Personal Income Tax (PIT) in Thailand

- First Introduction of Personal Income Tax → 1932
 - Financial Crisis after the Great Depression starting from 1929
 - Just after the Siamese revolution of 1932 (立憲革命)
ex.) England 1798, USA 1862, Japan 1887
- Reforms of the PIT schedule b/w 1980-2015 : 10 times
- Classify these PIT reforms into Two Phases:
 - <Phase I> 1980~1998 (5 times)
 - Cut the overall burden of the people
 - Especially, the burden of the upper middle
 - <Phase II> 1999~2015 (5 times)
 - Cut the burden of **the poor**

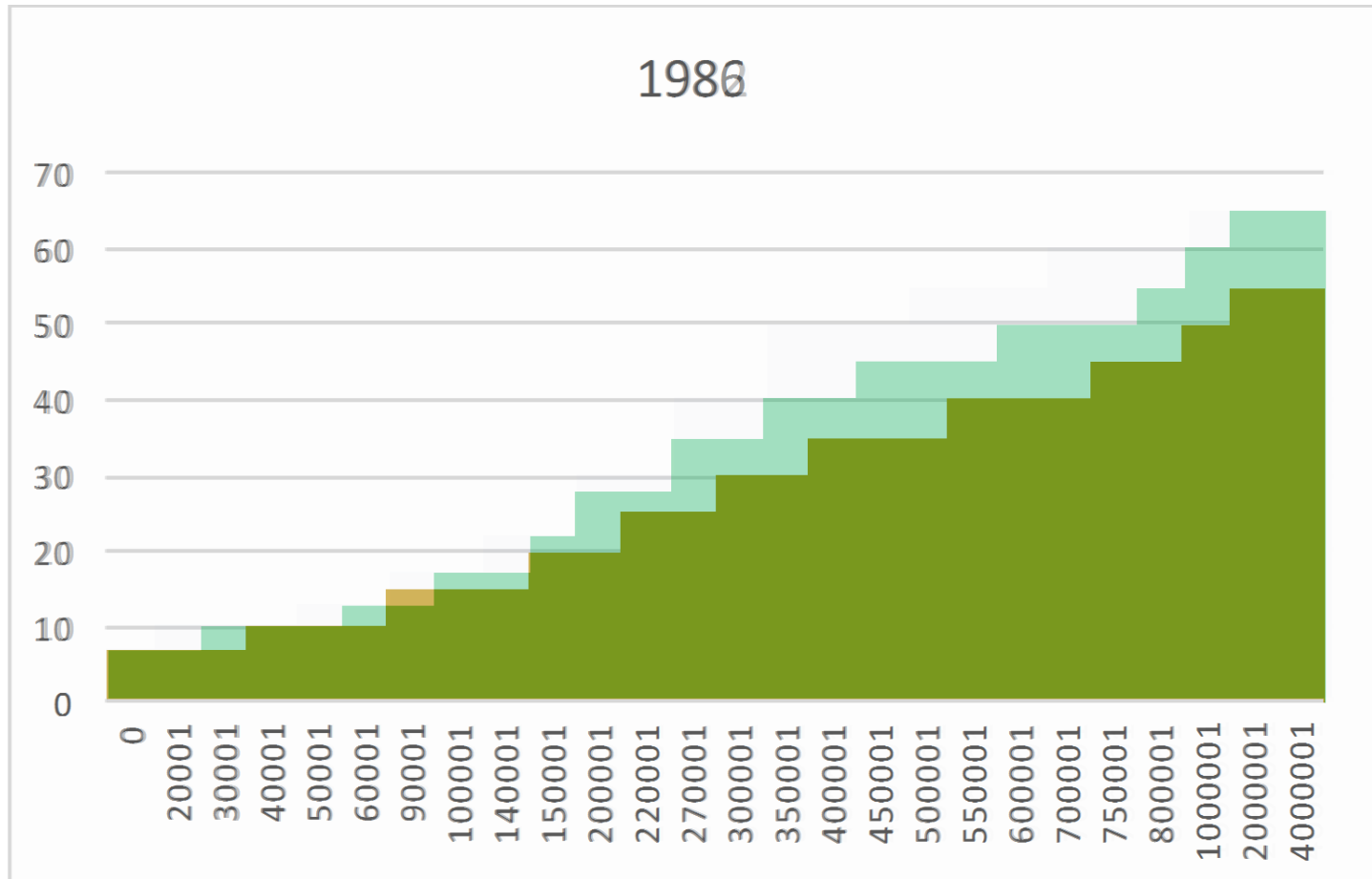
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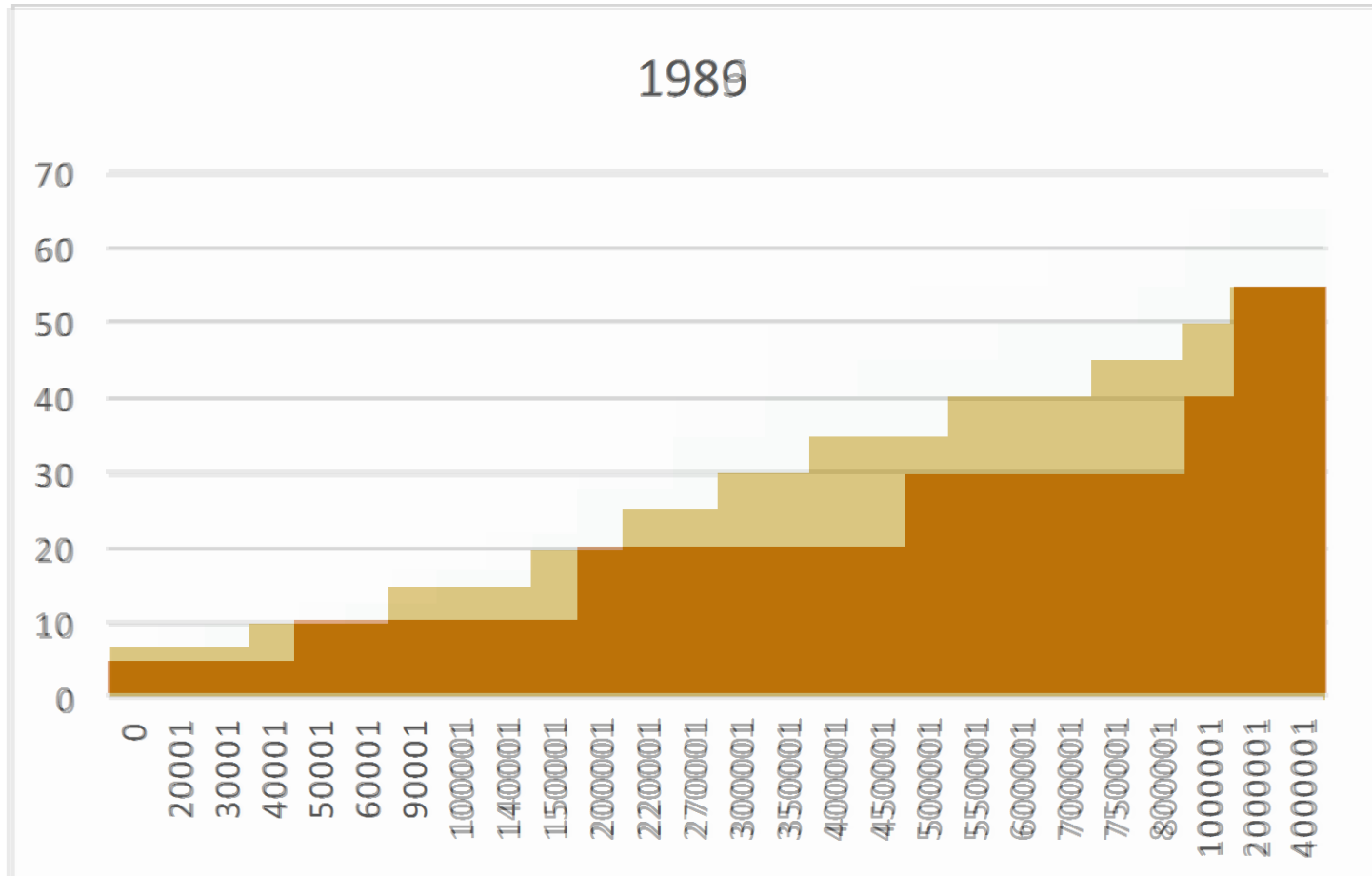
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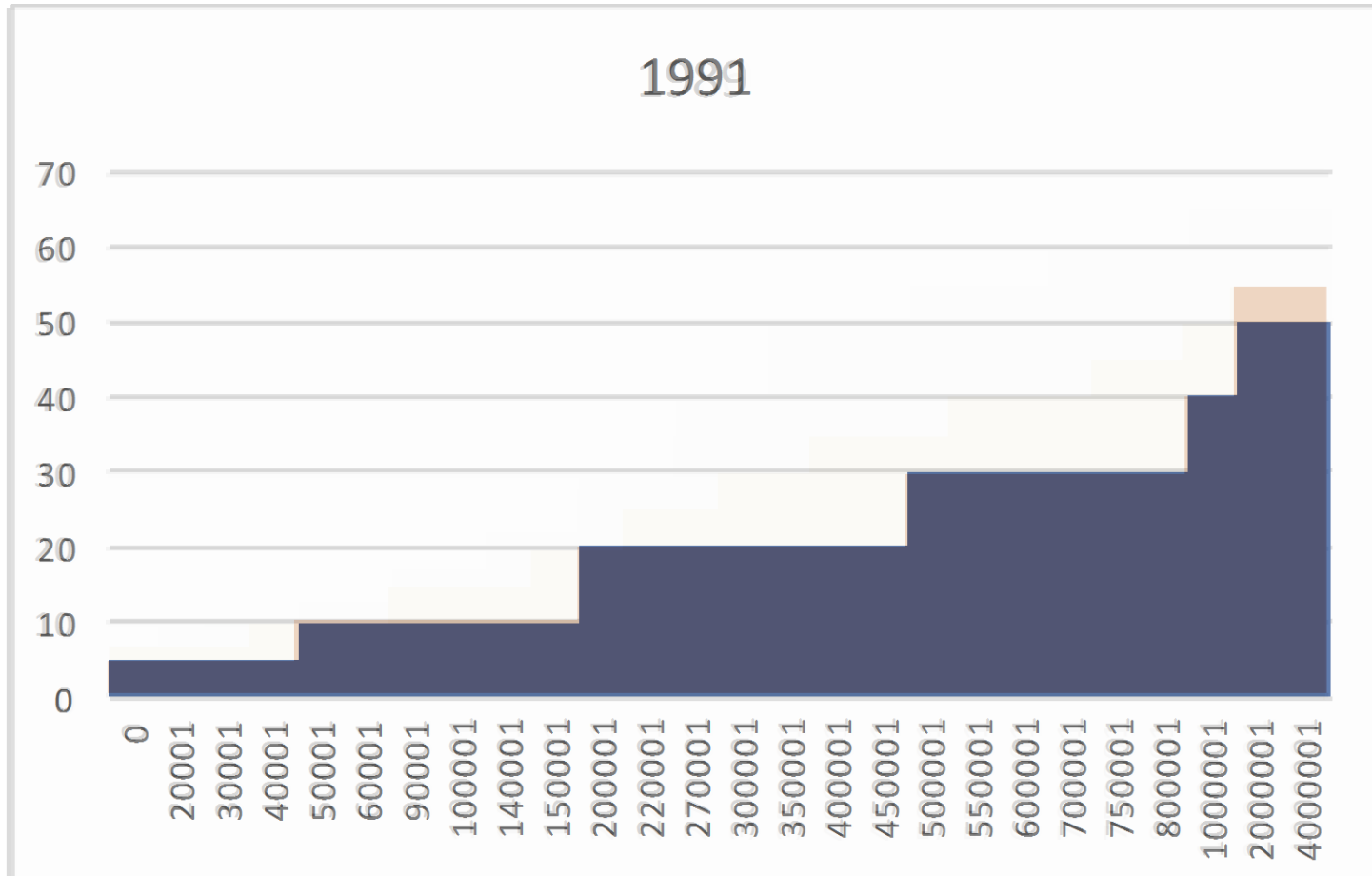
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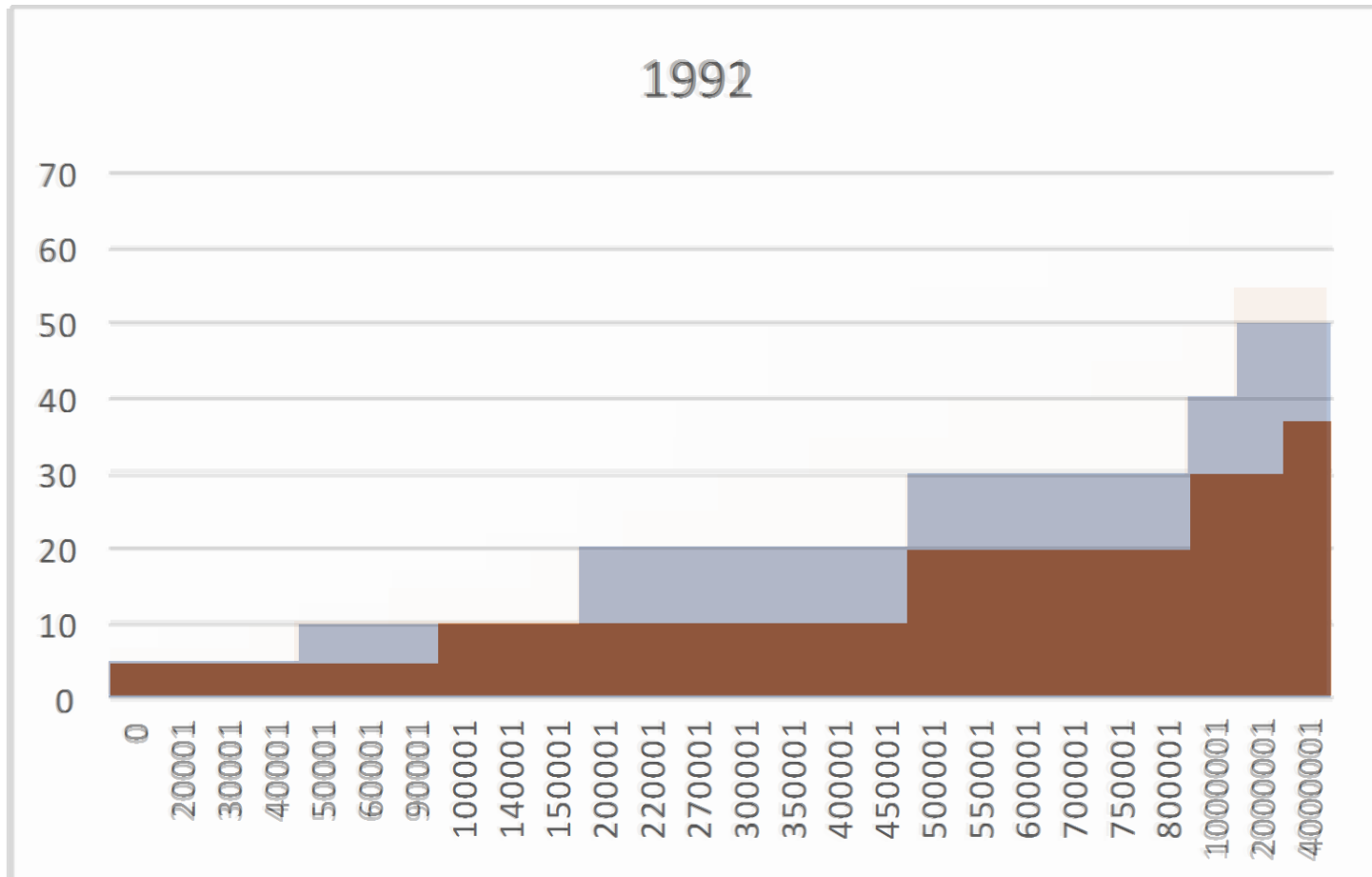
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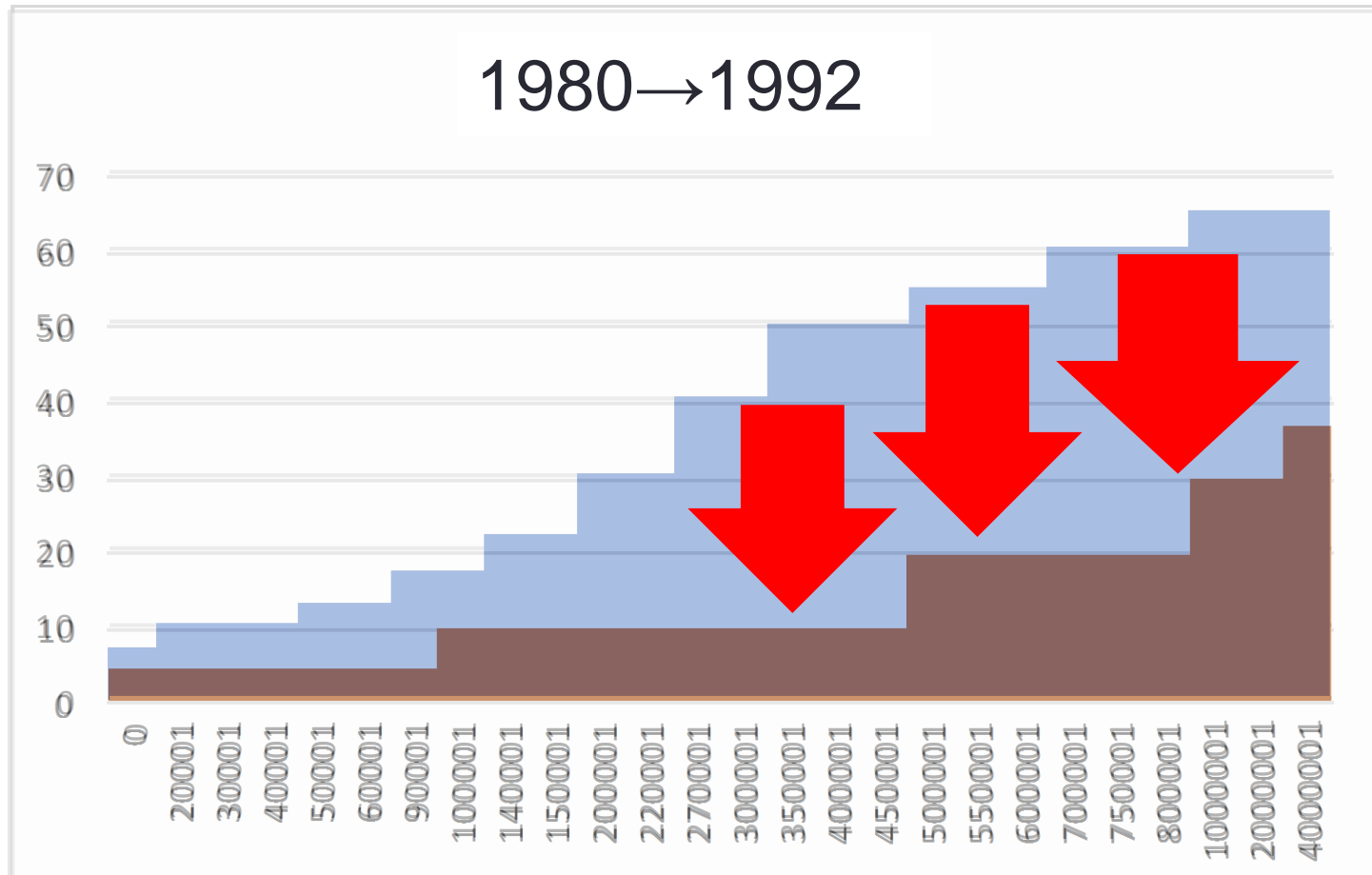
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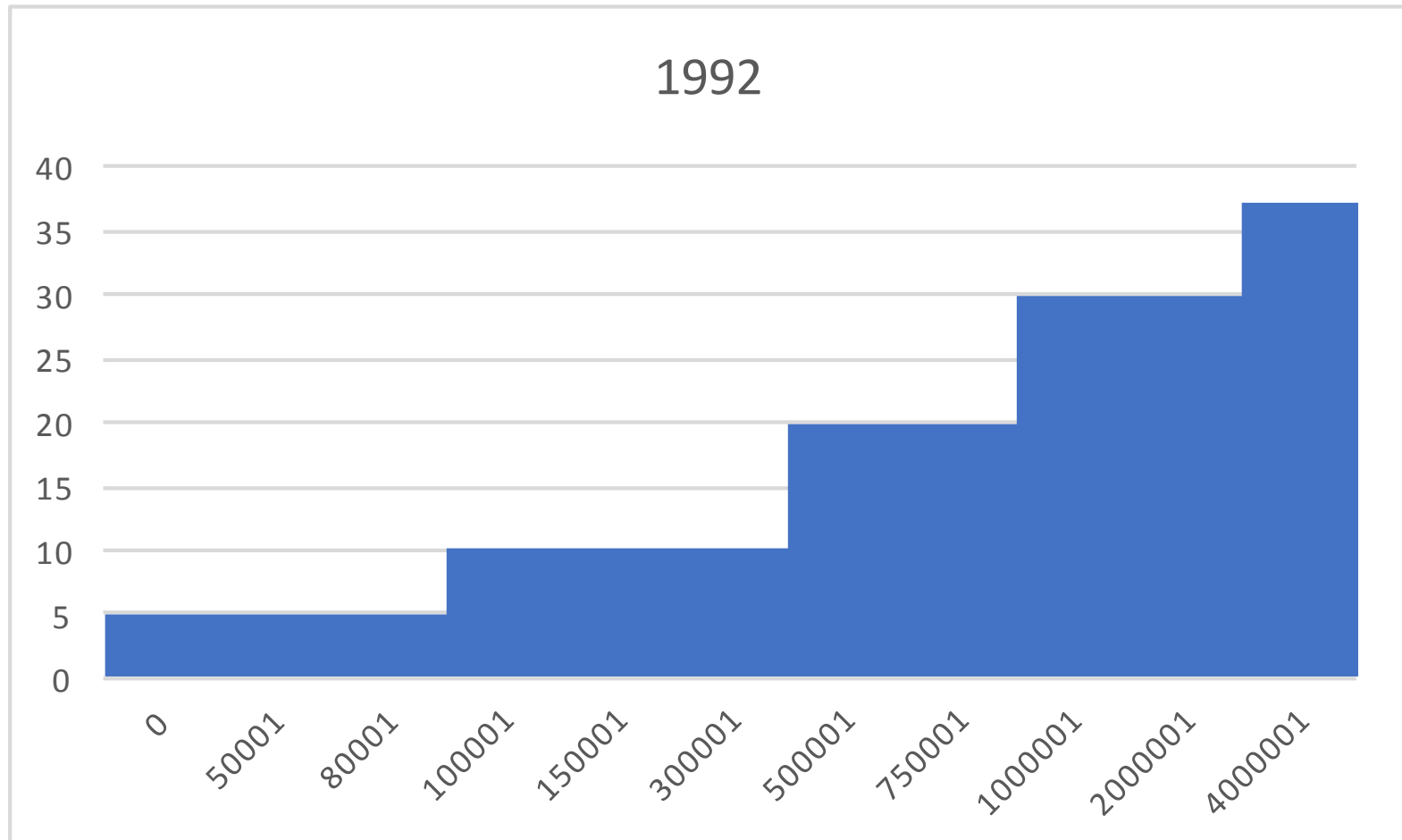
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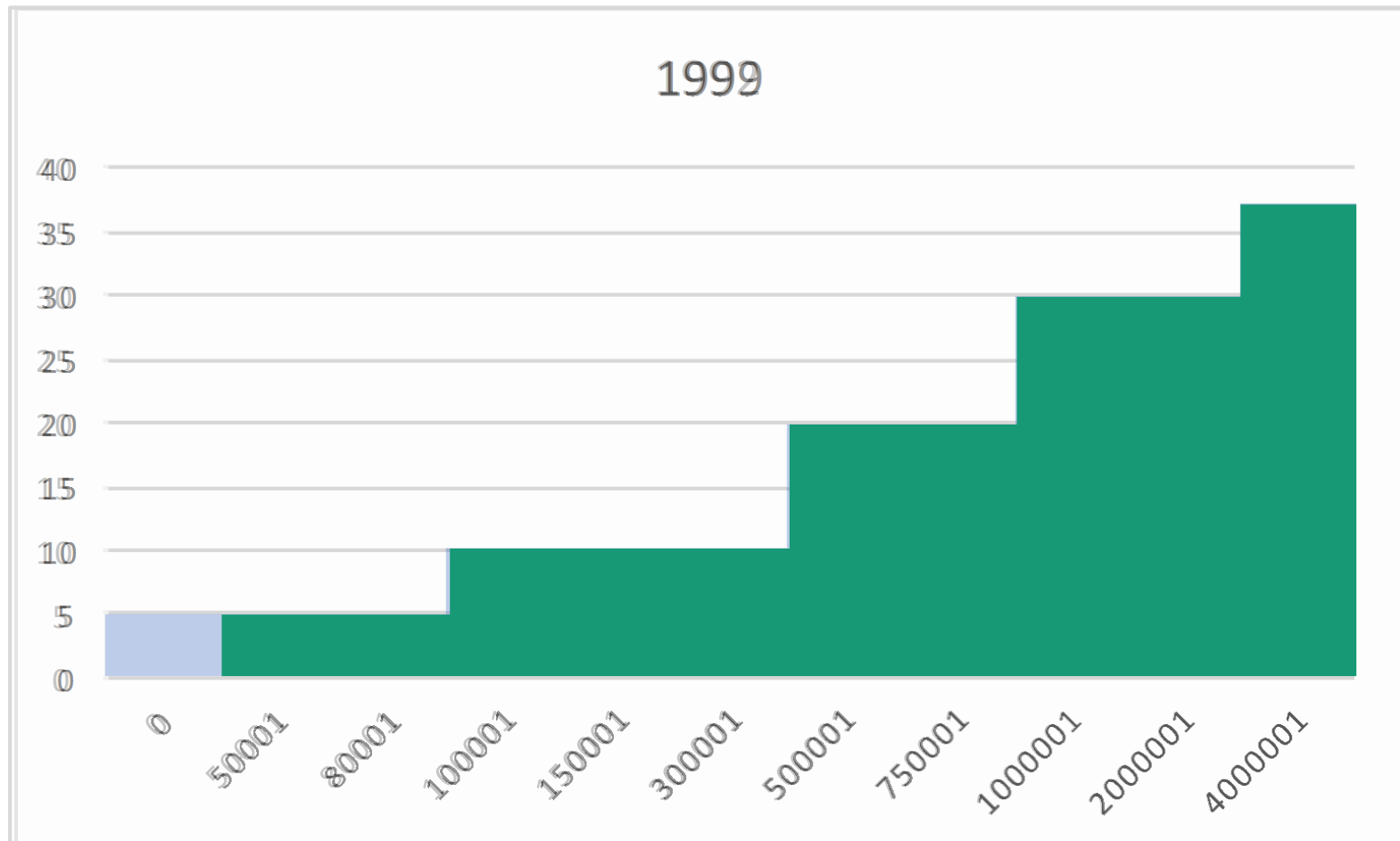
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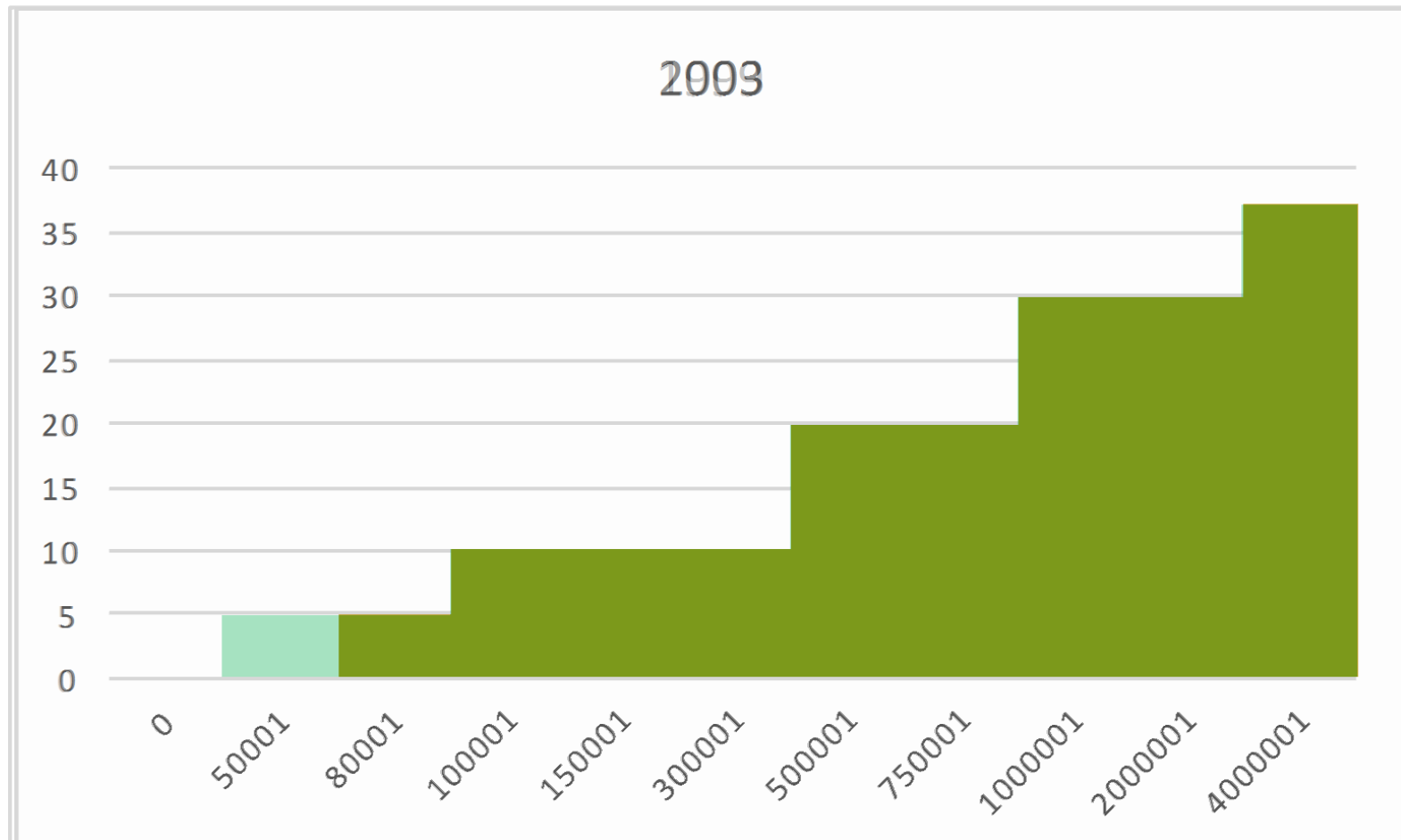
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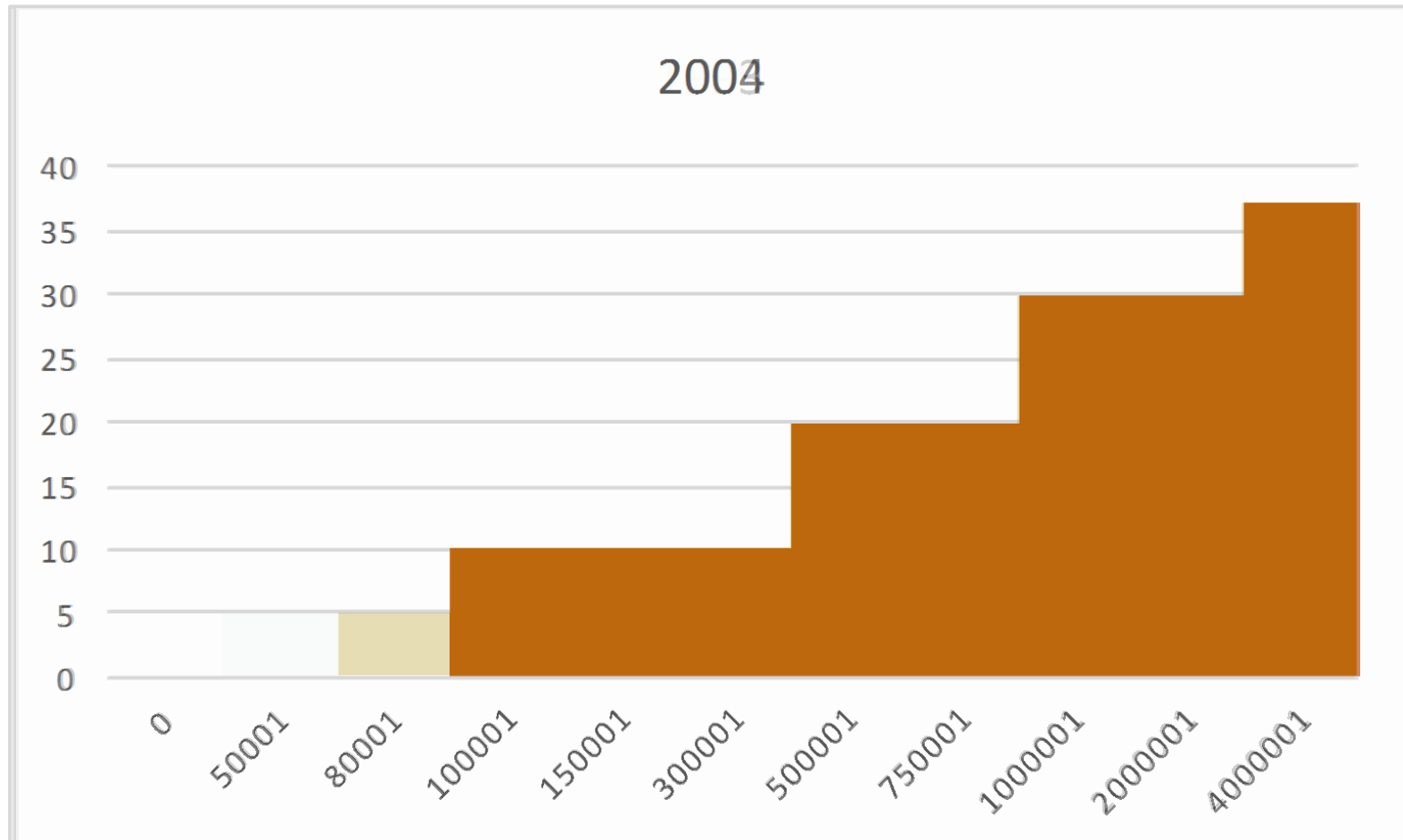
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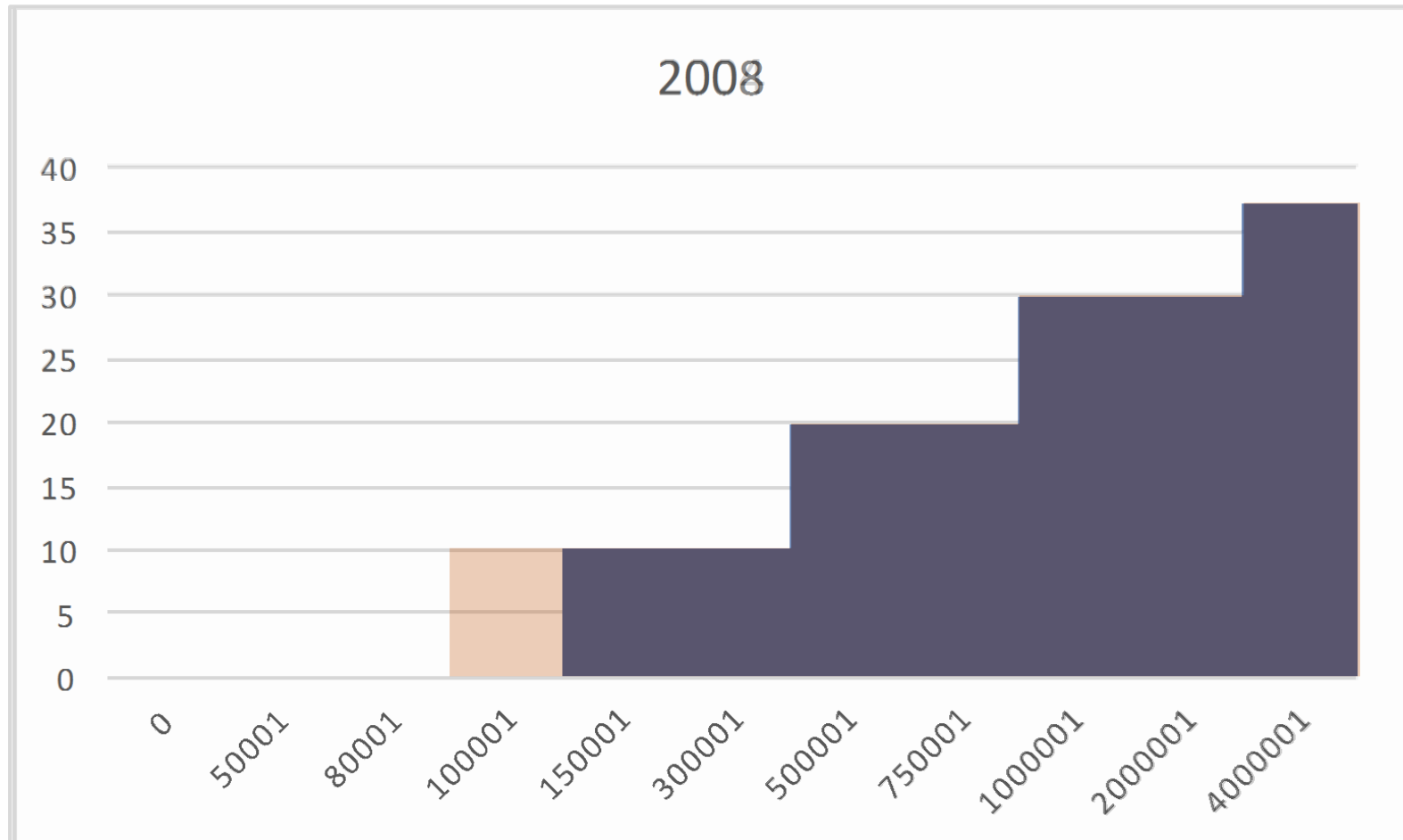
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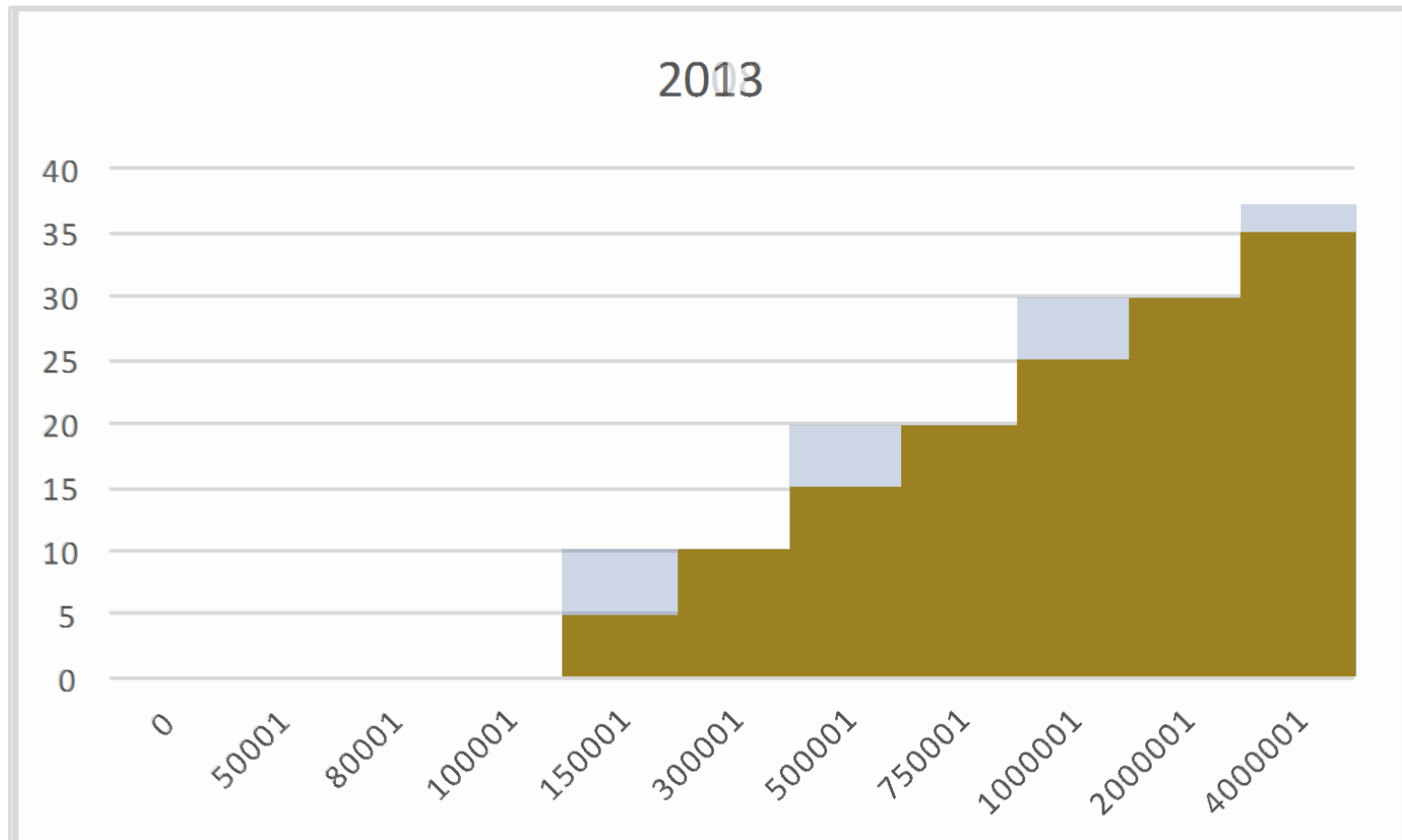
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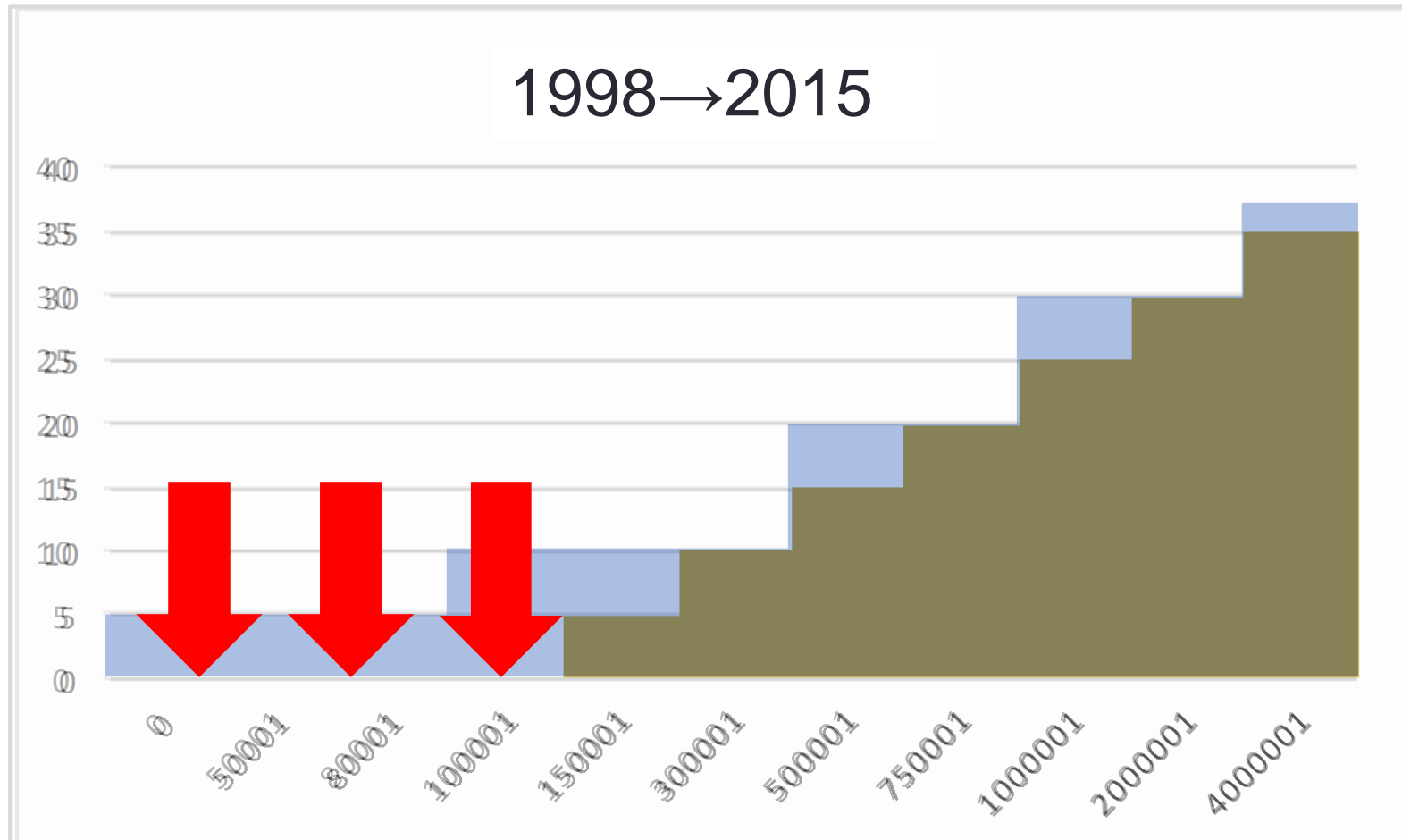
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(2) The chronology of Personal Income Tax(PIT) in Thailand Allowances

1980-1998

- Basic Deduction (80)
- Personal Allowance (80)
- Spouse Allowance (80)
- Child Allowance (80)
- Life Insurance Premium (80)
- Charitable Contributions (80)
- Undivided Estate (80)
- Non-Juristic Partnership (80)
- Dividend Allowance (80-91)

- Additional Education for Child (82)
- Provident Fund Contribution (84)
- Home Mortgage Fund (86)



1999-2015

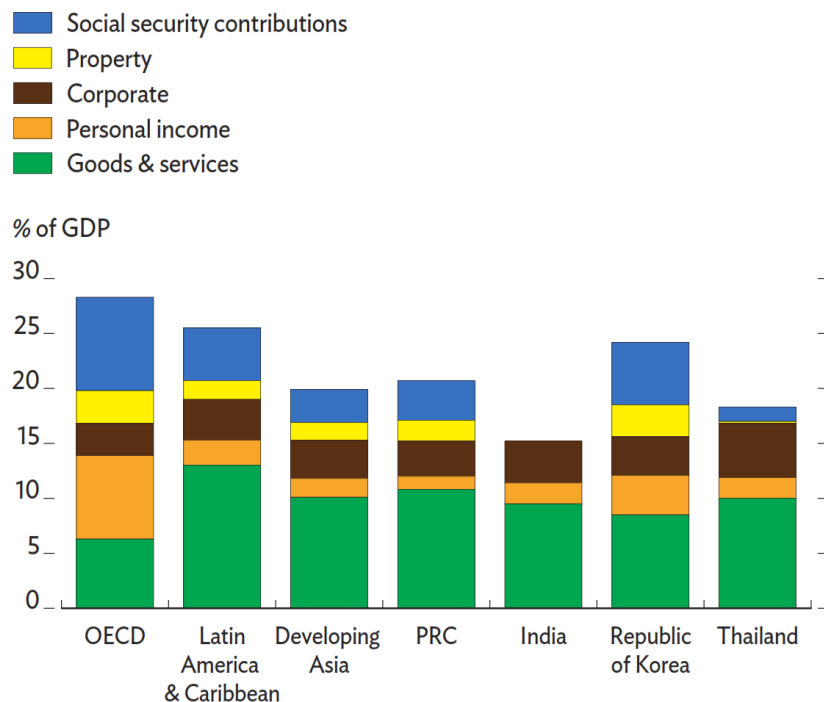
- New House (01)
- Retirement Mutual Fund (01)
- Parents Allowance (04)
- Long Term Equity Fund (04)
- Health Insurance for Parent (06)
- Care for Disabled Allowance (09)
- Domestic Travel & Hotel Cost (10)
- First Car (12)
- Year-end Spending Allowance (15)
- National Saving Fund (15)
- OTOP (16)
- Songkran Dine and Travel (16)
- New Year Domestic Travel & Hotel Cost (16)
- Deposit in a Long-term Insurance Bank Saving Account (16)

(3) Thailand's PIT and its potential as the main source of government's income

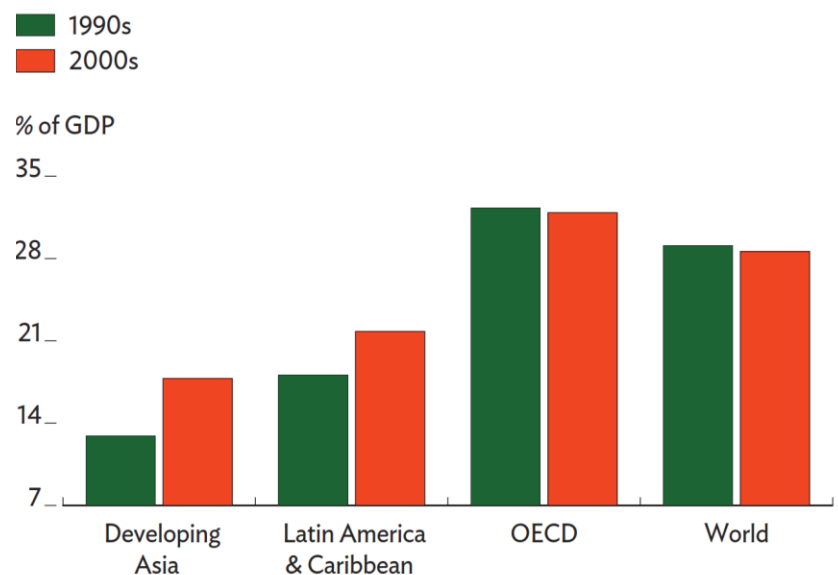
(3) Thailand's PIT and its potential as the main source of government's income

- Similar to other developing countries in Asia, Thailand's fiscal structure is substantially different from that of the OECD for both **its low ratio per GDP** and the **small share of PIT**.

Tax composition in developing Asia, Latin America, and the OECD, 2010



Tax revenues in developing Asia, Latin America, and the OECD



Source: ADB (2014)

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(3) Thailand's PIT and its potential as the main source of government's income

- This study utilized the official nationwide surveys, produced by National Statistics Office (NSO), which are:
 - **SocioEconomic Survey (SES)**
 - **Labor Force Survey (LFS)**
- Technically, both datasets are sampling surveys. But the sampling method has been systematically conducted. Specifically, this technique allows data users to **re-generate the nationwide population** with the series of sampling weights, produced and shared by NSO.
- This study estimated the maximum potential of PIT that the government would have collected based on both SES and LFS.

NOTE:

- SES has been produced annually but the data surveying household's income has been collected bi-annually.
- LFS is the quarterly survey. This study used the survey of 3rd of each year because it is the highest-employment quarter in Thailand.

(3) Thailand's PIT and its potential as the main source of government's income (cont'd)

- There are 3 sets of estimated values of total PIT.

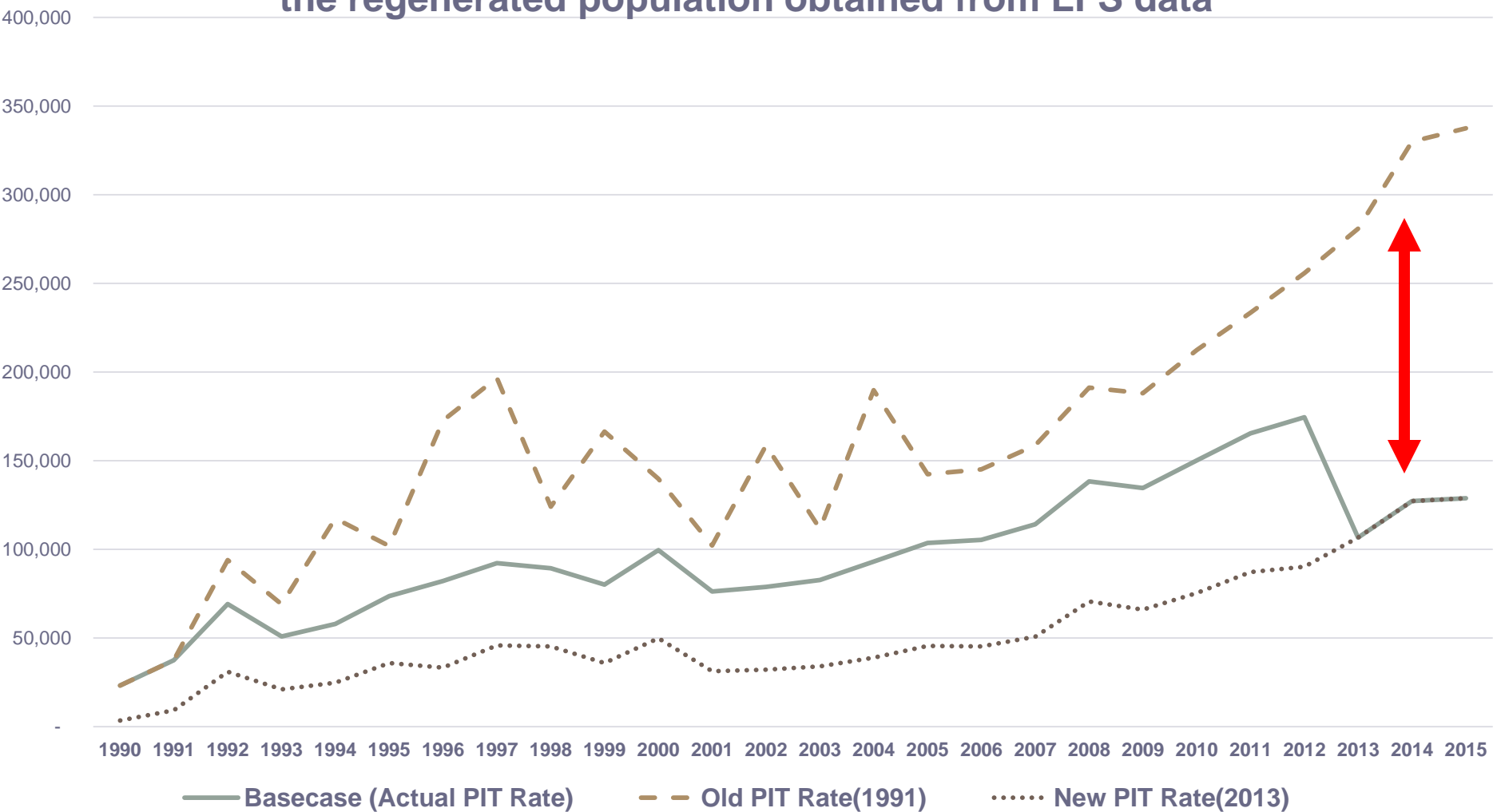
Case 1: Base-case this is the estimated maximum value of PIT that the government would have received. The income brackets and tax rates of corresponding year has been applied to the nationwide population regenerated from both SES and LFS. There is no tax allowance and exemption included in this current calculation

Case 2: Using the old tax rate (1991) this case estimated the maximum value of PIT by using the income brackets and tax rates of 1992 to all years of regenerated population of SES and LFS. There is no tax allowance and exemption included in this case.

Case 3: Using the recent tax rate (2013) this calculation applied the income brackets and tax rates of 2013 to the regenerated population obtained from SES and LFS. Similarly to the case of (1) and (2), there is no tax allowance and exemption allowed in this simulation.

(3) Thailand's PIT and its potential as the main source of government's income (cont'd)

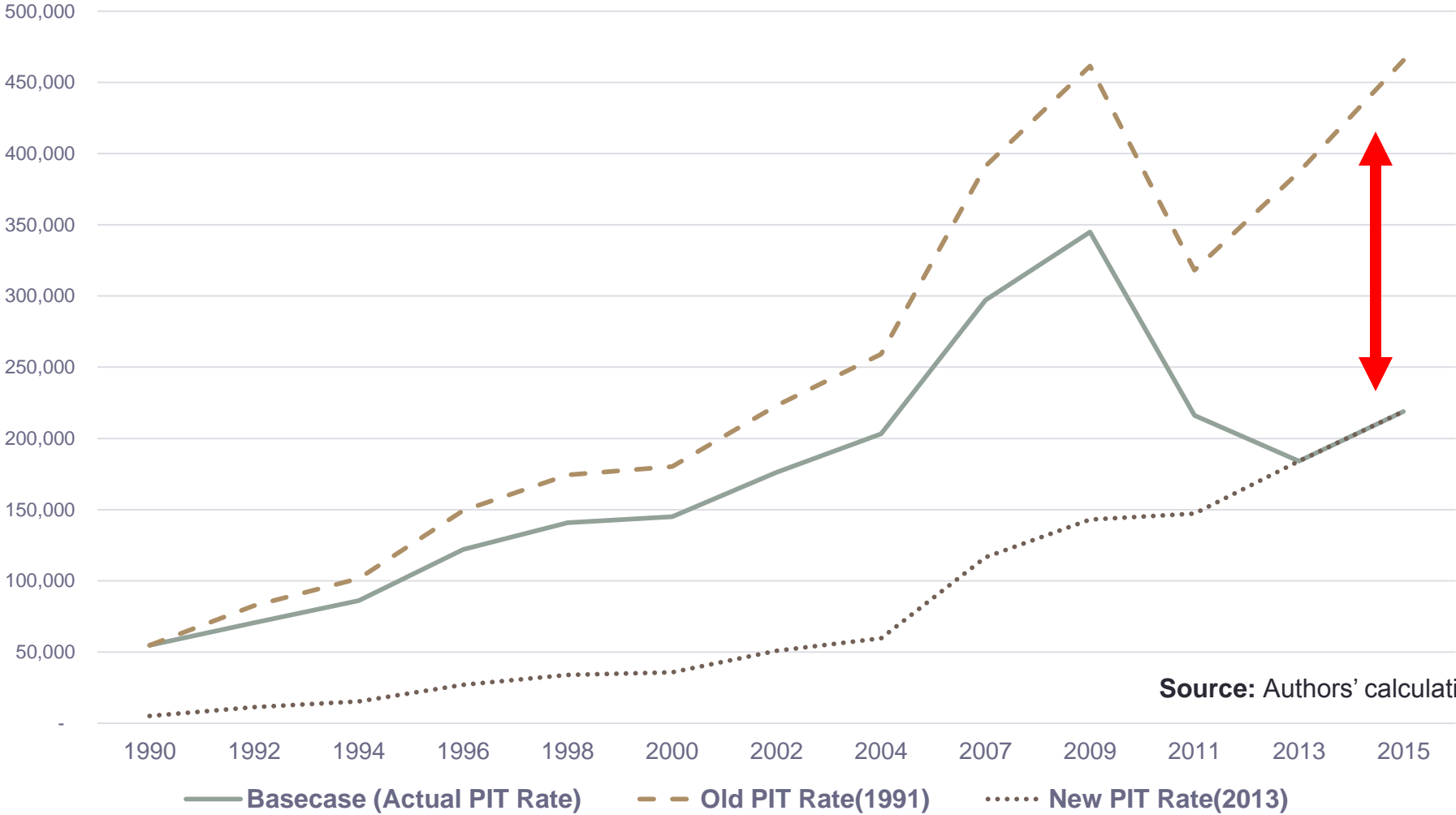
Estimated Total Amount of PIT Collected (million Baht) based on the regenerated population obtained from LFS data



Source: Authors' calculation

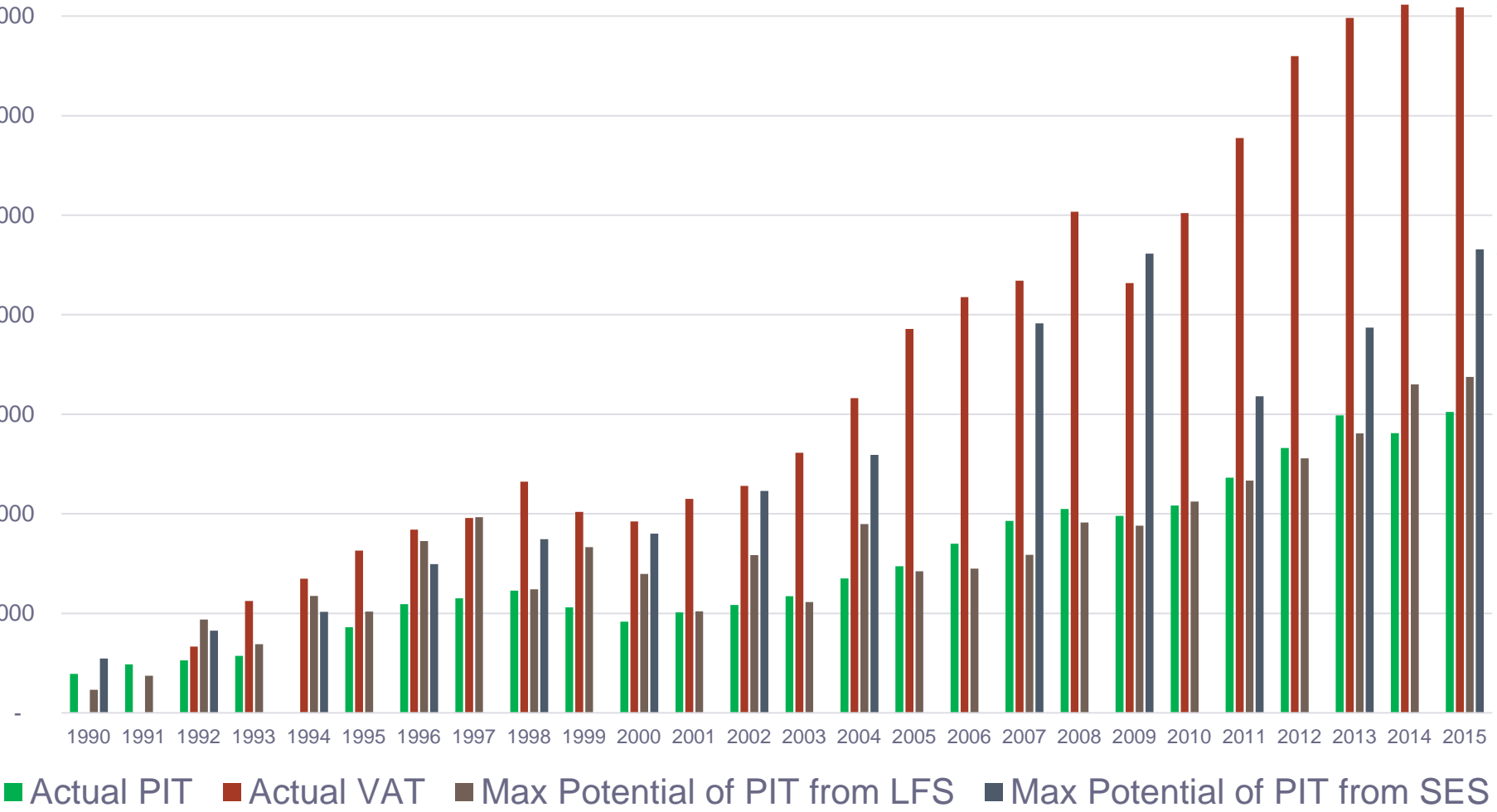
(3) Thailand's PIT and its potential as the main source of government's income (cont'd)

Estimated Total Amount of PIT Collected (million Baht) based on the regenerated population obtained from SES data



(3) Thailand's PIT and its potential as the main source of government's income (cont'd)

Values of actual PIT, VAT and those of estimated PIT based on LFS and SES



(3) Thailand's PIT and its potential as the main source of government's income (cont'd)

- By using regenerated population based on SES and LFS datasets, the estimated result indicates **that the 1991 scheme of income brackets and tax rates** would have generated the **highest tax revenue**, while that latest one of 2013 would have created the lowest amount.
- However, both series of estimated maximum potential of PIT **are still lower than that of Value-Added Tax (VAT)**, the biggest source of government's income, in most years.
- Therefore, if Thailand had kept the 1991 scheme, the tax structure might have been more balanced, but **it is still unlikely to depend on PIT as the main source of government's revenue** like the case of OECD countries.

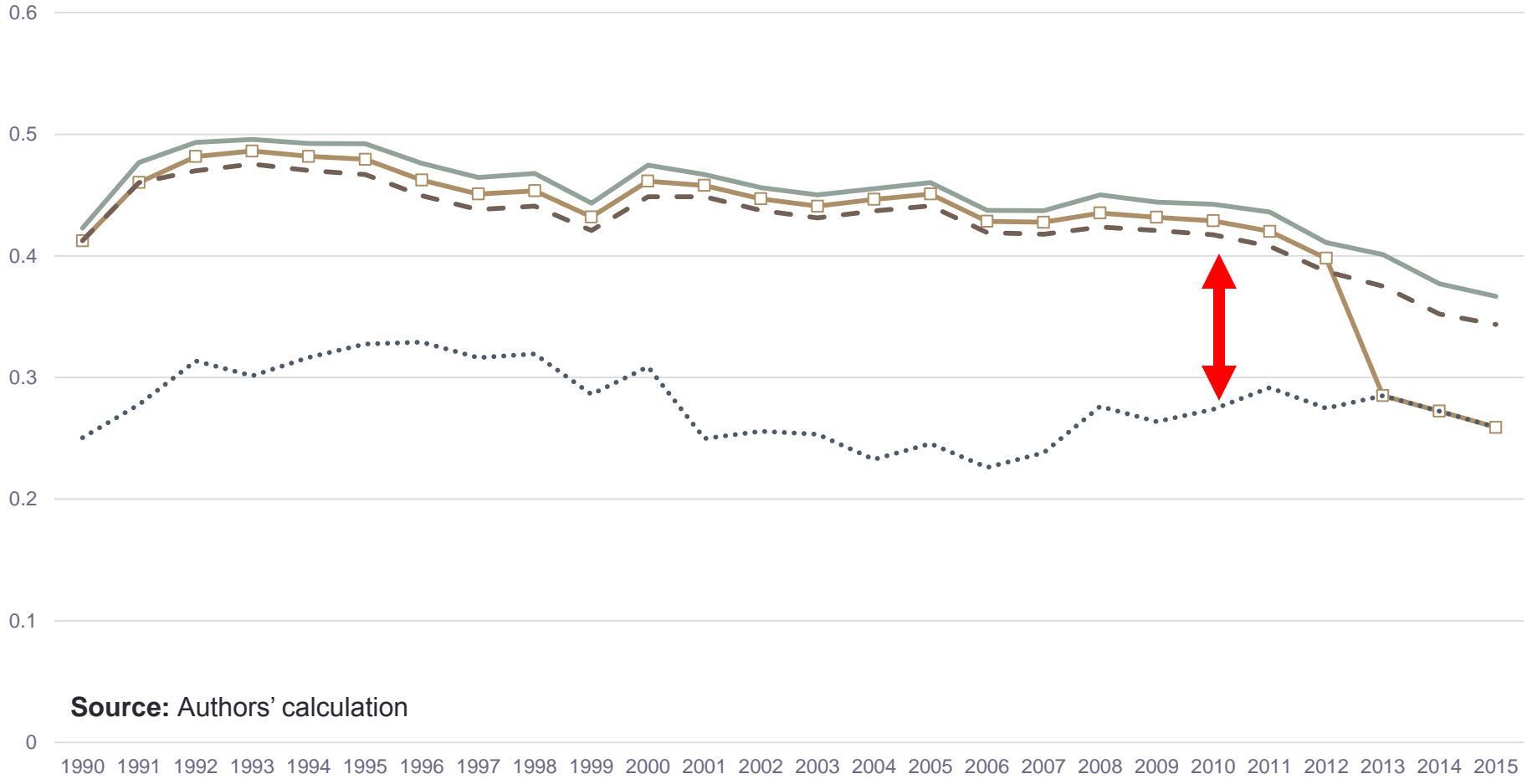
(4) Thailand's PIT and its redistributive power

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- Similar to the analysis of conducted in (3), there are 3 cases of calculating GINI, the index representing inequality.
- **Case 1: Basecase** the nationwide population was regenerated from both SES and LFS. Then the actual income brackets and tax rates of corresponding years were applied to these regenerated data. Subsequently, GINI index was calculated from the after-tax income.
- **Case 2: Using the old tax rate (1991)** the steps of calculation in this case are similar to those of case 1, but only the income brackets and tax rates of 1991 have been used.
- **Case 3: Using the recent tax rate (2013)** the computation in this case is similar to case 1, except only the income brackets and tax rates of 2013 have been utilized.

(4) Thailand's PIT and its redistributive power (cont'd)

Values of estimated GINI indices based on regenerated population obtained from LFS Data

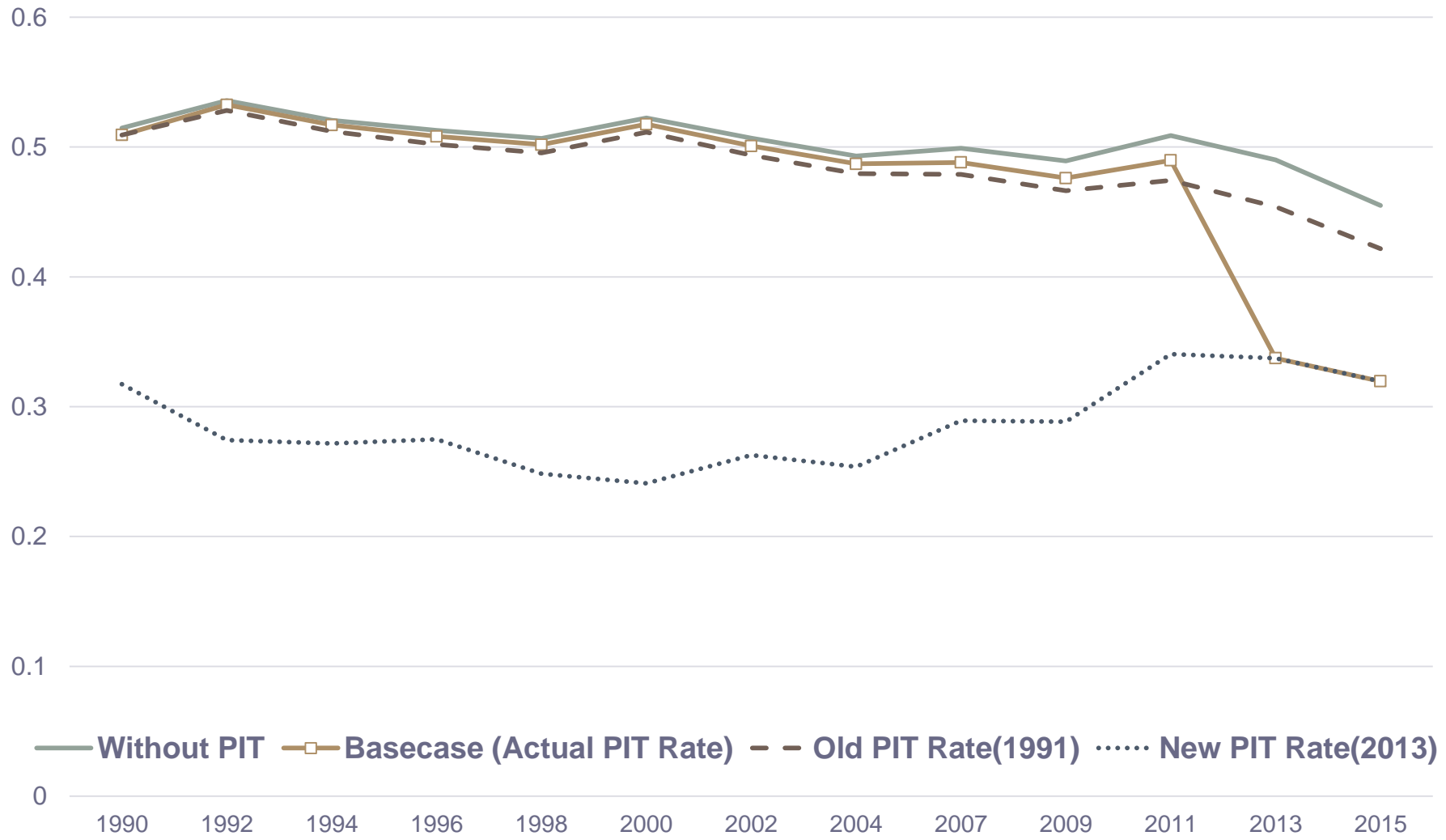


Source: Authors' calculation

— Without PIT —□— Basecase (Actual PIT Rate) - - Old PIT Rate(1991) New PIT Rate(2013)

(4) Thailand's PIT and its redistributive power (cont'd)

Values of estimated GINI indices based on regenerated population obtained from SES Data



Source: Authors' calculation

(4) Thailand's PIT and its redistributive power (cont'd)

- Results obtained from computations of GINI identify that **the income brackets and tax rates of 2013** have the **most effectiveness of redistributive power**. On the other hand, those of 1991 has the lowest redistributive capability.
- These results indicate **the interesting roles of different versions of the income brackets and tax rates**.
- Specifically, this study has found that **there is the tradeoff characteristics of the income brackets and tax rates of 1991 and that of 2013**. Those of 1991 can generate the **highest income**, but has the **less redistributive power**. On the contrary, **those of 2013 can produce to the less amount of collected tax**, but it has **the higher capability of income redistribution**.

(6) Conclusion

(6) Conclusion

- Thailand could achieve both economic development and improvement of inequality, different from other Asian countries.
- One answer can be found in the unique **PIT systems**
- PIT reforms since 1999 increased N of people who are allowed to be exempted from paying PIT
- Tax reforms **have decreased tax revenue**, but **narrowed the gap** as well.

(7) What we are now tackling

- Re-estimate more precise burden of each socioeconomic level of household, using the SES dataset
 - Include spouse allowance and child allowance, gaining the information about marital status and the number of children of each sample
- Estimate the share of tax amounts paid by top 10% people
- Differentiate the impact on inequality of social expenditure from the one of PIT

ありがとうございます

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