Revenue Mobilization Measures and Current Tax Issues: The Case of Thailand

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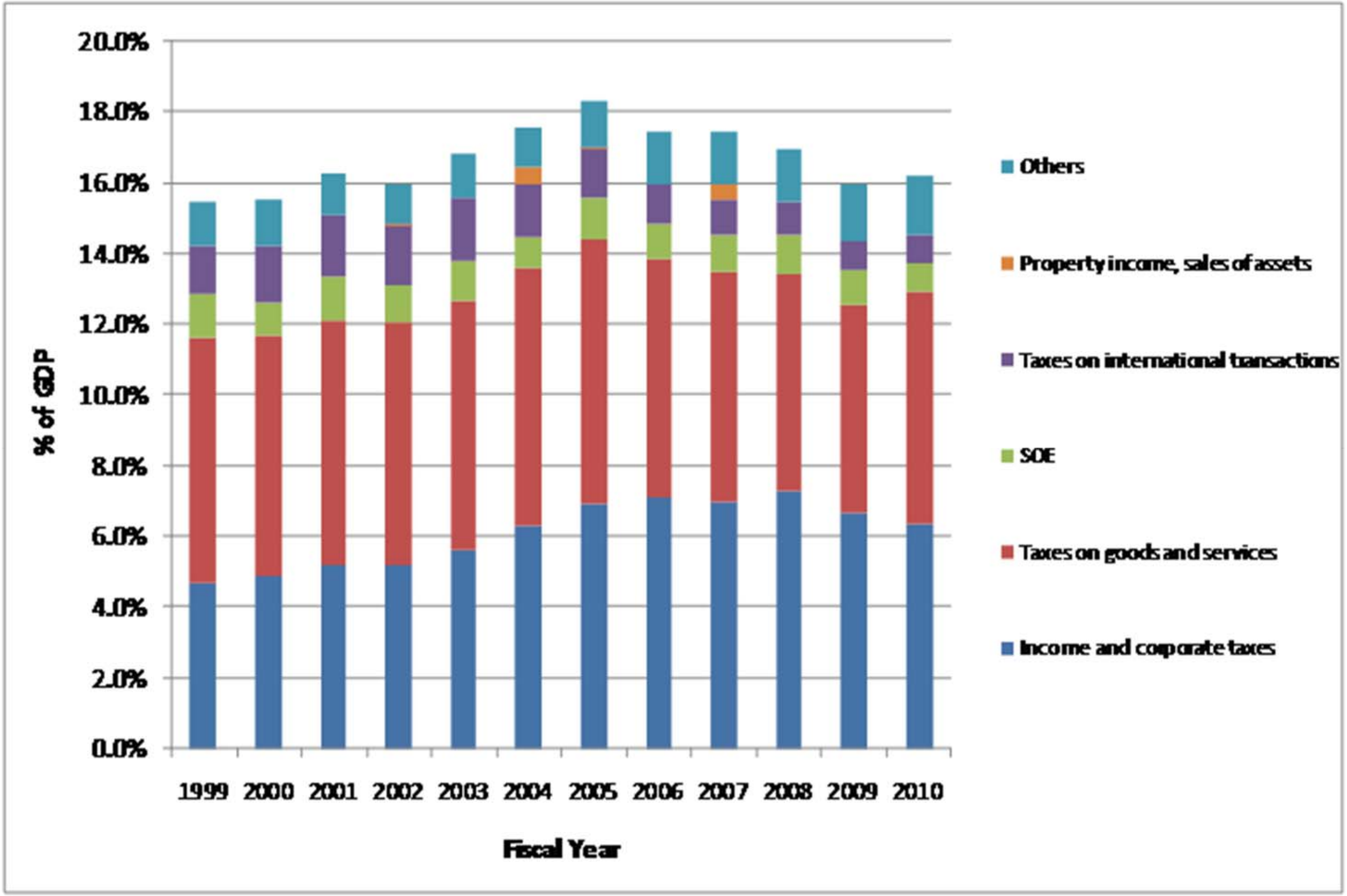
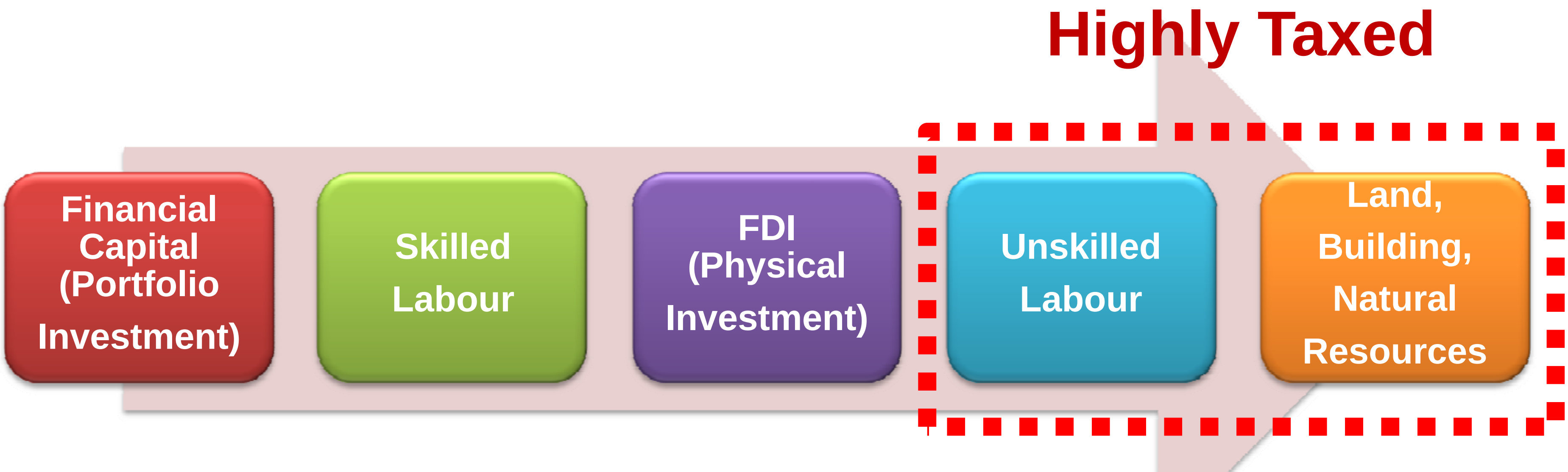
Outlook

- **There will be an ongoing evaluation of the current taxation system.**
- **Tax collection will need to be fostered.**
- **The Finance Ministry is currently looking at the possibility of wide-ranging tax restructuring.**
- **Loss of revenue from any cuts in income tax rates would need to be compensated.**

Composition of Thai Government Revenue (1999-2010)



Tax Policy Challenge in the Face of Globalisation and AEC

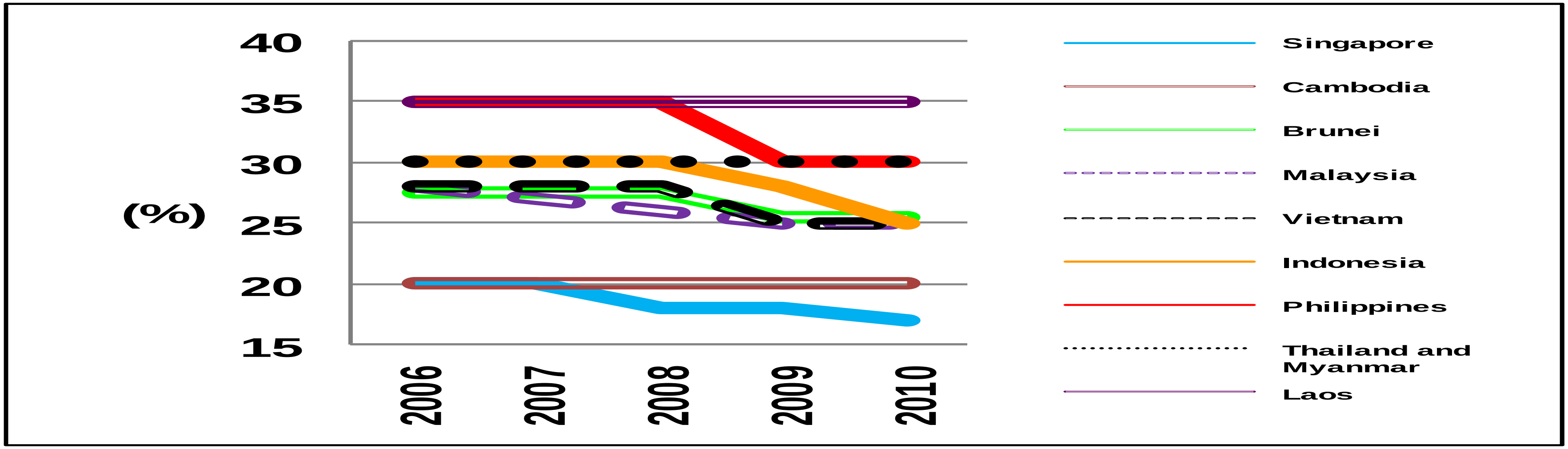


Arrow shows direction of production factor mobility from highest mobile to immobile.

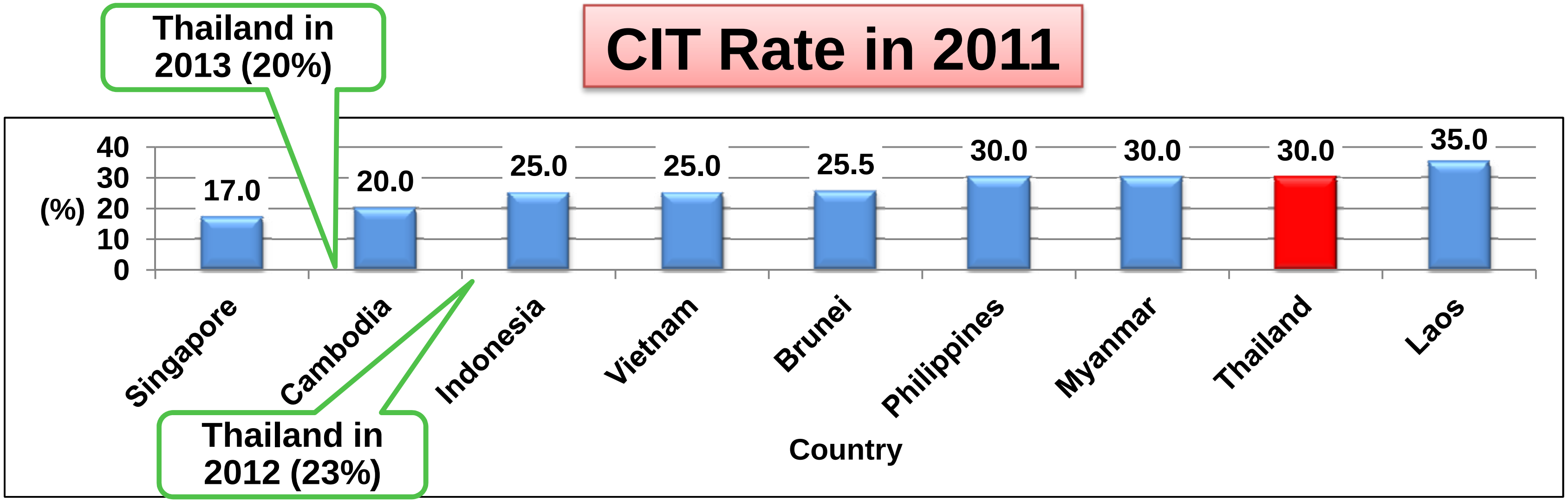
The challenge facing Thai government is to move from relying on <u>income-based tax</u> to <u>consumption-based tax</u> and <u>property-based tax</u>.

Corporate Income Tax (CIT) in ASEAN-member Countries

CIT Rate Over Time



CIT Rate in 2011

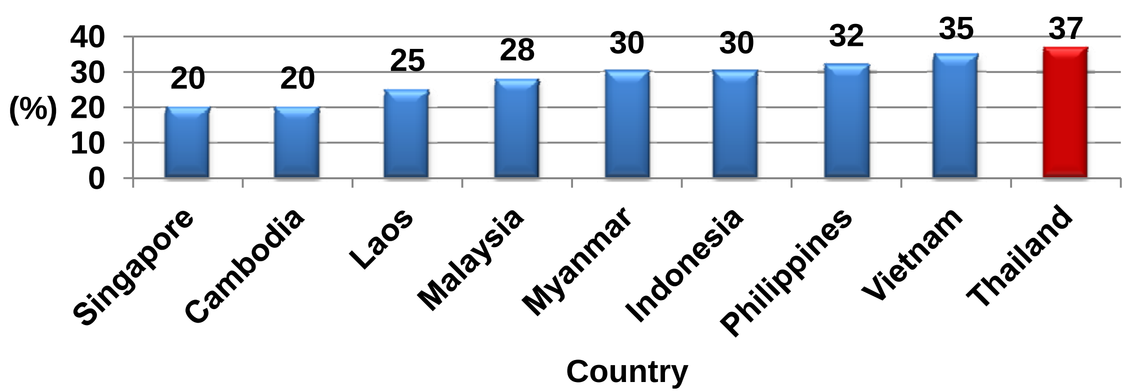


Personal Income Tax (PIT) in ASEAN-member Countries

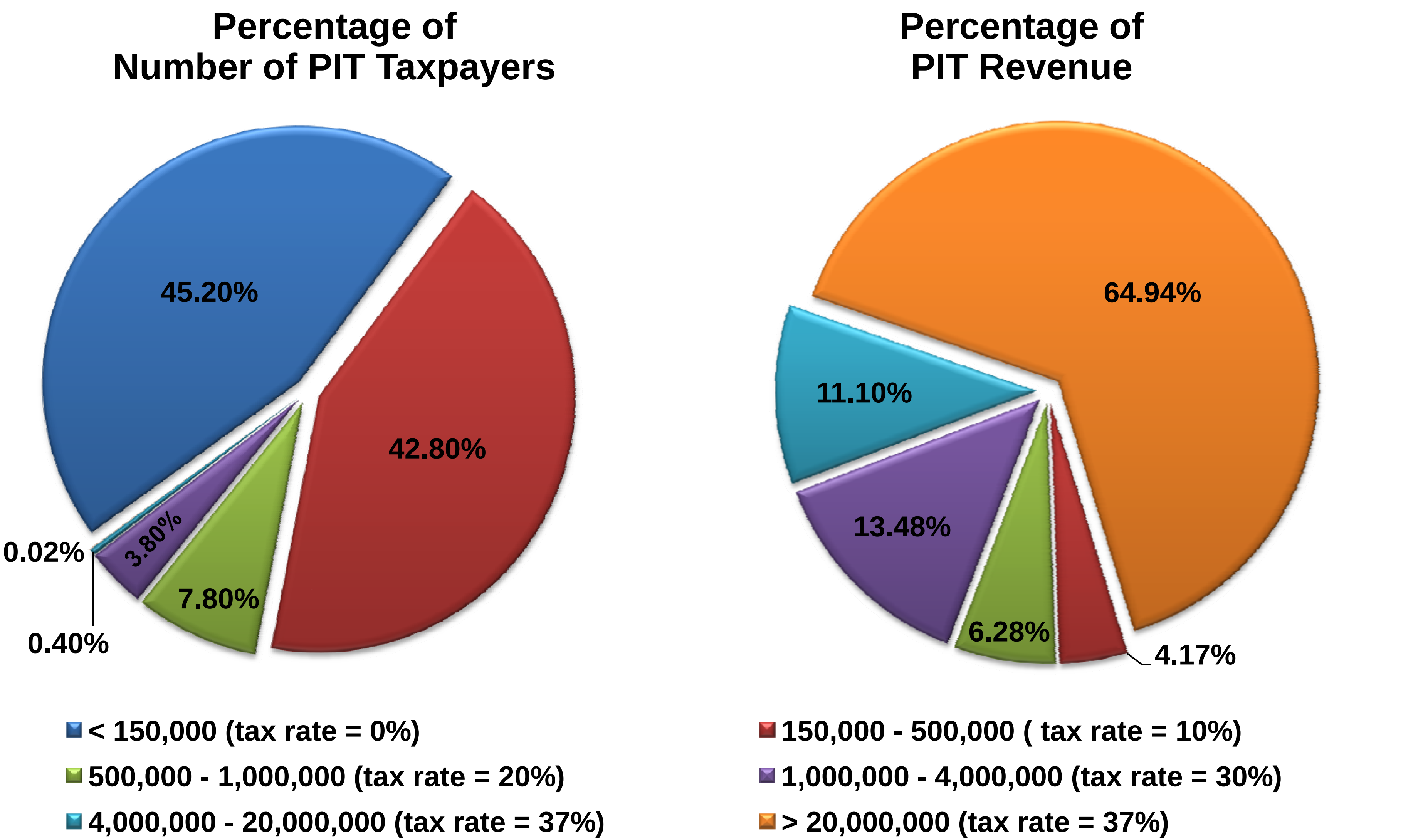
PIT Tax Bracket

Country		PIT Rate (%)	Number of Tax Bracket
Singapore		0, 3.5, 5.5, 8.5, 14, 17, 20	7
Cambodia		0, 5, 10, 15, 20	5
Laos		0, 5, 10, 15, 20, 25	6
Myanmar		3, 5, 7, 10, 12, 15, 16, 17, 18, 19, 20, 22, 30	13
Malaysia		0, 1, 3, 7, 13, 19, 24, 27, 28	9
Vietnam		5, 10, 15, 20, 25, 30, 35	7
Indonesia		5, 15, 25, 30	4
Philippines		5, 10, 15, 20, 25, 30, 32	7
Thailand	Current	0, 10, 20, 30, 37	5
	Considering	0, 5, 10, 15, 20, 25, 30, 35	8

Top PIT Rate



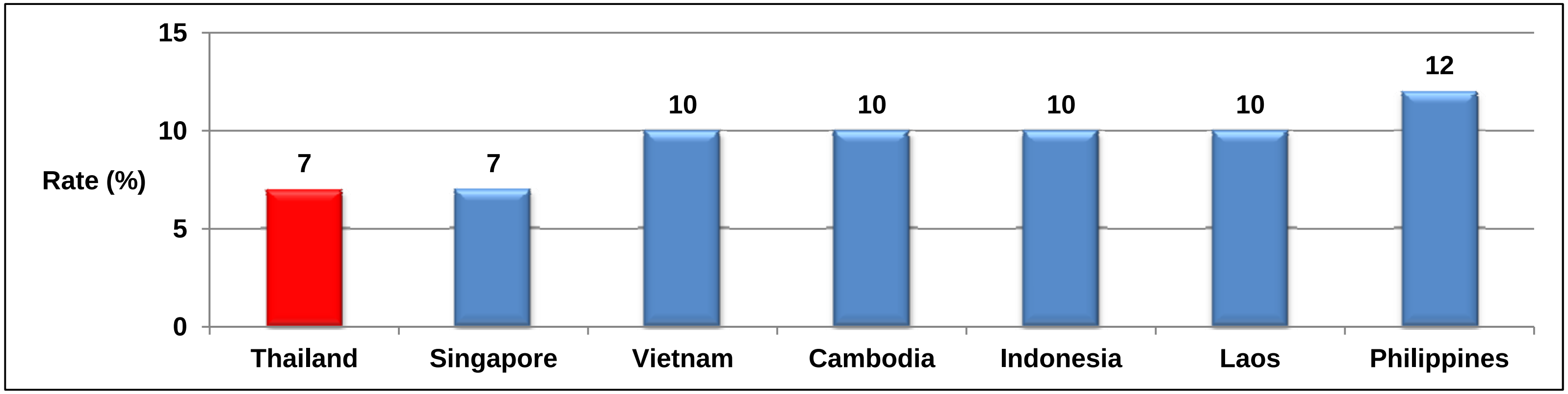
In Thailand, PIT is effectively a tax on high income earners, while the majority of taxpayers are out of the tax net.



From pie charts, the richest (0.02% of PIT taxpayers) bears 64.94% of total PIT revenue, whereas the poorest (45.20% of PIT taxpayers) pays no tax.

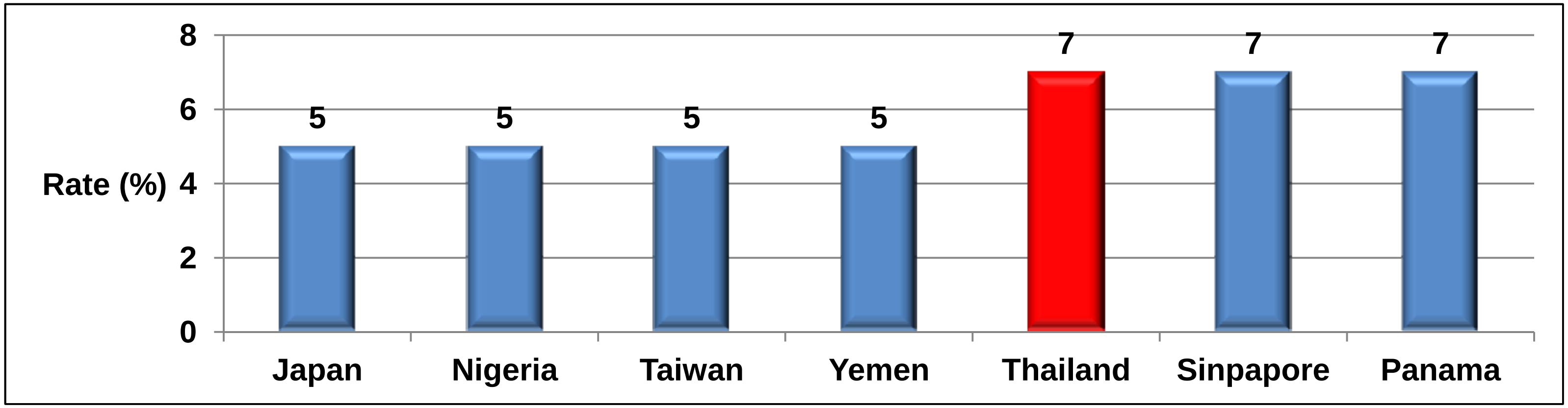
VAT

Standard VAT Rate of ASEAN-member Countries



Note: There is no VAT in Brunei, Malaysia, and Myanmar.

Countries with Lowest Standard VAT Rate throughout the World



Tax Incentives in ASEAN-member Countries

	Singapore	Philippines	Malaysia	Thailand	Indonesia	Vietnam	Cambodia	Lao PDR
Tax holidays	5–10 years exemption from or reduction in corporate tax on profits for pioneer industries, tax reductions for plant expansion	6–8 years tax holidays for pioneer activities and projects in less developed areas, 4–7 years tax exemptions for non-pioneer activities	5–10 years on 70–100% of statutory income for certain sectors; 10 years for investment in Multimedia Super Corridor	3–8 years income tax holidays depending on location (Zone 1, 2 or 3)	3–8 years for new enterprises in 22 sectors	2–8 years	tax holiday period determined according to the formula: "trigger period + 3 years + n priority years*	3–7 years (depending on Zone)
Promoted activities	Pioneer industries (new manufacturing and service investments) declared by the Minister of Finance	Pioneer activities (new manufacturing industries; agricultural, forestry, and mining industries of national interest; industries using new technologies); projects in less developed areas; project expansion or modernization; export industries	Projects of national interest, in promoted areas, high-tech and R&D	Automotive and electronics industries; export industries; activities located in remote areas, industrial zones; processing of local agricultural raw materials				
Reduced corporate income tax (CIT) rates	Partial exemption on chargeable income of up to $300,000 (18% CIT standard)	Exemption for 4–8 years for companies located in the export processing zones (35% CIT standard)	3% for offshore companies in Labuan & 10% for foreign fund management companies (26% CIT standard, to be reduced to 25% in 2009)	50% reduction for 5 years for enterprises in investment promotion zones (30% CIT standard)	Corporate income tax can be reduced by 30% of realized investment spread over a 6-year period (i.e., 5% per year) (28% CIT standard, to be reduced to 25% by 2010)	CIT exemptions (2-4 years) followed by 50% tax reductions (3-9 years) for certain sectors and locations Reduced rate at 10-20% for 10-15 years in certain sectors and locations (28% CIT standard, to be educed to 25% in 2009)	9% after end of holiday for favoured projects. (20% CIT standard)	20% foreign investors; 15% companies in lowlands; 10% companies in remote areas (32% CIT standard)
Import duty & VAT exemptions	Customs duty exemption on machinery, raw materials and heavy oil for pioneer industries	Tax & duty-free importation of capital equipment & raw materials for zone enterprises; tax credit on raw materials & supplies for BOI registered firms	Exemptions & reduced import duty & VAT rates on inputs in certain sectors especially exporters	Exemptions & reduced import duty & VAT rates on inputs in certain sectors especially exporters	Exemptions & reduced import duty & VAT rates on inputs in certain sectors especially exporters	Exemptions & reduced import duty & VAT rates on inputs in certain sectors and locations, especially for export and technology transfer	Duty-free importation of capital equipment and spare parts for initial installation of promoted investment	Reduced import duties on inputs: 0% for exporters and 1% for other foreign firms
Investment allowances & credits	Exemption of taxable income equal to a specified proportion of new fixed investment in certain industries	Tax credits for purchases of domestic breeding stocks & genetic material as well as for incremental revenue	Investment allowance of 3–40% of qualifying capital expenditure (start-up and annually)	Allowance of 25% for investment in infrastructure	Reduction of taxable income by up to 30% of investment in priority sectors	If profits reinvested for 3 consecutive years, a portion or all of corporate income tax may be refunded		
Accelerated depreciation	Accelerated depreciation for certain plants, machinery and equipment	Immediate expensing of major infrastructure investments by export enterprises in less developed areas	Accelerated depreciation of computer technology & environmental protection investments		Doubling of depreciation rates in favoured zones and sectors	Doubling of depreciation rates for accelerating technological renovation of machines and equipment	Generous accelerated depreciation for all qualified investors	
Limits on foreign equity participation	Almost no restrictions on foreign ownership (with exceptions for national security purposes and in certain industries)	100% foreign ownership in pioneer areas, industries in EPZs, and industries exporting at least 70% of production	Up to 100% foreign ownership depending on % of production exported, location, size of investment and amount of value added domestically	100% foreign ownership in promoted sectors	Up to 100% in most sectors (some contingent on certain % of production destined for export)	100% foreign ownership is allowed in export-oriented and priority projects	100% foreign ownership allowed in all sectors/ industries	At least 30% foreign capital is required in joint ventures 100% foreign ownership is allowed in all sectors except mining and electricity

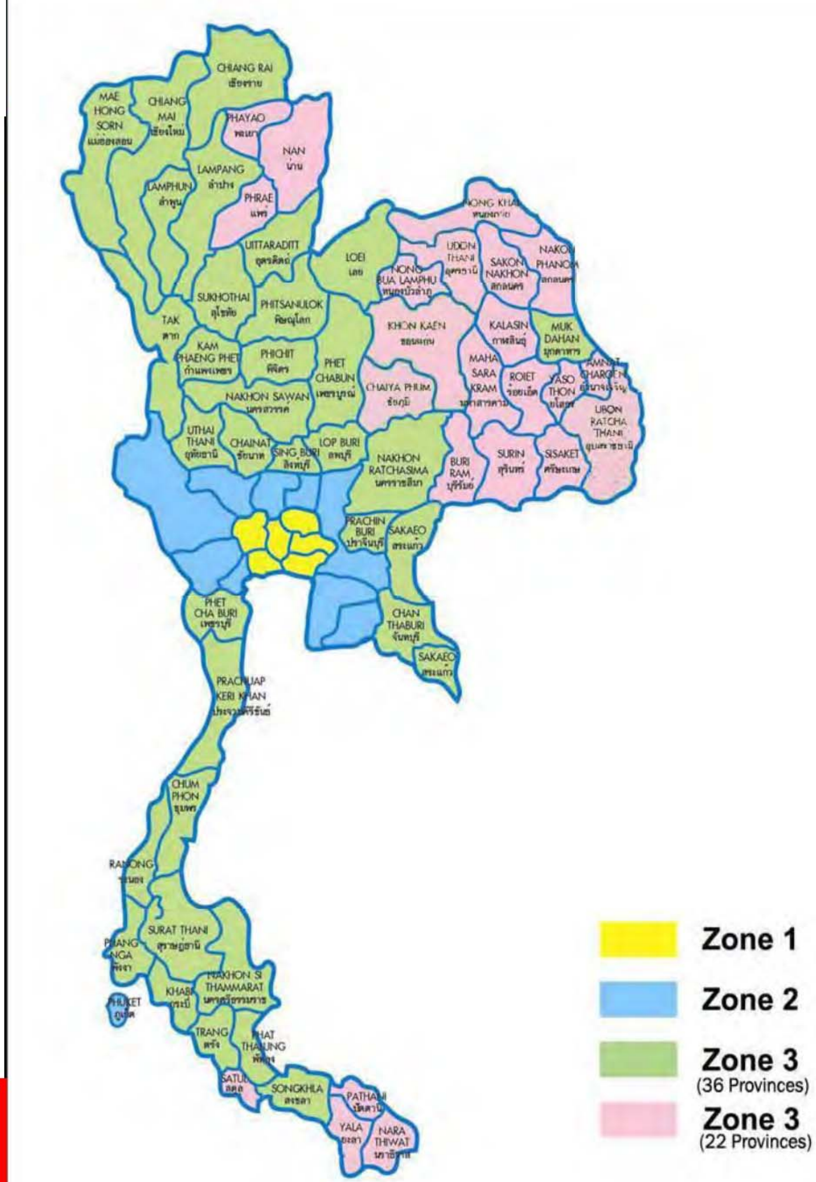
Source: International Institute for Sustainable Development. 2009. Competing for Business: Sustainable Development Impacts of Investment Incentives in Southeast Asia. page 39.

Thailand: BOI Zone-based Tax Incentives

BOI Basic Promotion Packages

3 Investment Promotion Zones to promote industrial decentralization

Zone: 1 2 3
Incentives: Lower ⟶ Higher Incentives



Tax Incentives: The Way Forward

Thailand

Revamp of BOI scheme to respond to the reduction of CIT rate

ASEAN Co-operation

ASEAN countries in the midst of “Race-to-the-Bottom” to offer the most generous tax incentives possible

Regional solution to limit the size and scope of tax incentives

Increasing transparency and co-ordination of tax incentive

A common strategy to jointly promote ASEAN as an attractive region for investment

Raising Non-tax Revenue is now in the Pipeline.

Sell State-owned Enterprises to Vayupak Fund*

Reduce public debt

Raise money from the market for investment in long-term government projects

*The Vayupak Fund was launched in late 2003 by the then - PM Thaksin Shinawatra's administration, as the government seeked to provide alternative investment tools for the public, which had been adversely affected by unusually low bank deposit rates. The Vayupak Fund invested mostly in shares of listed companies previously held by the Finance Ministry.

Thank You