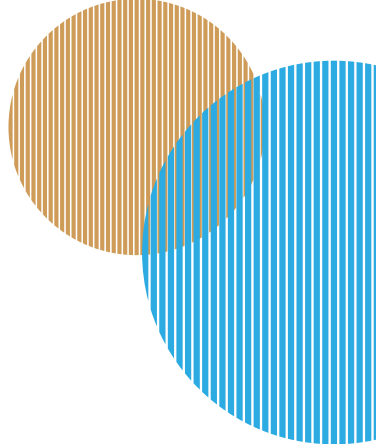




WORLD BANK GROUP



# THAILAND PUBLIC REVENUE AND SPENDING ASSESSMENT

# PROMOTING AN INCLUSIVE AND SUSTAINABLE FUTURE

JUNE 2023



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# CHAPTER 2

# REVENUE

# MOBILIZATION



# Chapter 2: Revenue Mobilization

## 2.1 Introduction

**60. Over the last three decades, Thailand has made little progress on revenue mobilization.** In 2019, the revenue to GDP ratio was 21 percent, which was low relative to peers. Revenues declined further due to the pandemic, and absent a significant increase they will be inadequate to meet future spending needs. Tax collection of 15.7 percent of GDP remains considerably below the efficiency frontier given Thailand's income level and the structure of its economy, with an estimated tax gap of 5.6 percent of GDP. Moreover, the tax system on its own does relatively little to promote equity (see Chapter 8). More progressive taxes such as personal income tax and wealth taxes provide a relatively small share of the overall tax take, while low levels of compliance and high rates of informality raise the potential for horizontal inequities.<sup>10</sup>

**61. There is scope to increase revenue collection, while also increasing fairness.** The tax gap can be narrowed by pursuing reforms to: (a) adjust the VAT rate and exemptions; (b) broaden the personal income tax base and streamline allowances, (c) expand property tax collection; and (d) improve tax compliance to increase efficiency and avoid base erosion. These reforms can raise additional revenue and enhance the equity of the tax system. There is also potential for improvements in tax administration. Expanding e-filing and e-payment while introducing behavioral initiatives and utilizing third-party data through firm networks could lower the burden of tax filing and help improve voluntary compliance.

**62. This chapter analyzes Thailand's tax performance and potential, compared with international benchmarks, and identifies the scope for tax policy and administration reform.** It assesses available options to increase tax collection, which as shown in Chapter 1 will be necessary to maintain long-term fiscal sustainability if Thailand is to meet elevated spending needs over time. This chapter begins with an overview and benchmarking of Thailand's tax performance, and a 'top down' estimation of Thailand's tax potential and the corresponding tax gap, based on cross-country analysis. It then provides a detailed 'bottom up' analysis of each major tax component – including VAT, excise tax, income taxes, and wealth taxes – identifying reform priorities and estimating the potential revenue gains associated with each.

## 2.2 Overview of tax revenues

**63. Through much of the 1990s, Thailand outperformed EAP and UMIC peers in terms of revenue collection, but since the Asian Financial Crisis and Global Financial Crisis, its performance has lagged.** In the early 1990s revenue collection averaged 17 percent of GDP (from 1990-1997), which was above UMIC and EAP peers. But since 1998, the average revenue to GDP ratio has fallen to 16.2 percent of GDP (average of 1998-2020). This was in large part because of a decline in taxes on international trade (due to WTO commitments) and a reduction in corporate income tax rates aimed at raising competitiveness. On the other hand, average revenue collections in UMIC and EAP countries rose by 2.5 and 0.9 ppts respectively over the same period, leading to the emergence of a substantial gap between Thailand and its peers. Thailand remains a long way below higher-income OECD countries (Figure 2-1).

**64. Tax composition has been relatively stable over time, with a relatively large reliance on indirect taxes.** VAT and excise taxes have accounted for just under half of total tax revenues in recent years. Corporate and personal income taxes have declined over the past decade, from 7.5 percent of GDP in 2011 to 5.7 percent of GDP in 2021 (Figure 2-2). Trade taxes have also trended downwards. Property taxes were very low during 2005-2019, amounting to just 0.2 percent of GDP in 2019 before dropping to 0 percent in the pandemic period due to the temporary property tax discount measures. Overall, the share of indirect tax revenues (62 percent of total) is large relative to regional and aspirational peers (Figure 2-4). While the proportion of direct tax revenues generally increases with income, Thailand is lagging behind other UMICs on personal income tax collection, while outperforming peers on corporate income tax revenue.

**65. The COVID-19 pandemic saw tax revenue to GDP falling by 0.4 ppts in 2020 and a further 0.2 ppts in 2021.** In nominal terms, revenues fell due to a decline in the tax base, with tax on goods and services falling by 6.3 percent, income tax falling by 11.6 percent, and trade tax falling by 14.1 percent in 2020 from the previous year, in line with the deep

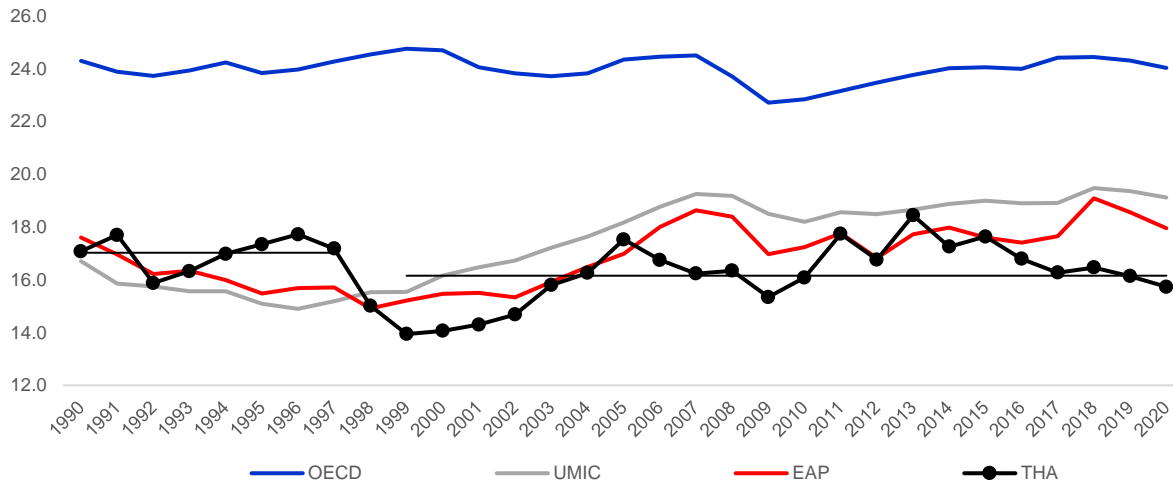
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<sup>10</sup> Equity of the tax system comprises two elements: horizontal equity and vertical equity. Horizontal equity implies that people whose circumstances are the same pay equal taxes. Vertical equity implies that those with greater capacity to pay more taxes.

economic contraction. The government also implemented tax relief measures including additional income tax deductions, a 90 percent property tax discount, and excise tax reductions for jet fuel. The impact of COVID-19 on Thailand's tax revenues was similar to that in the UMICs and EAP countries, where average tax revenue declined by 0.2ppts and 0.6ppts respectively in 2020.

**Figure 2-1: Tax Revenue (% of GDP)**

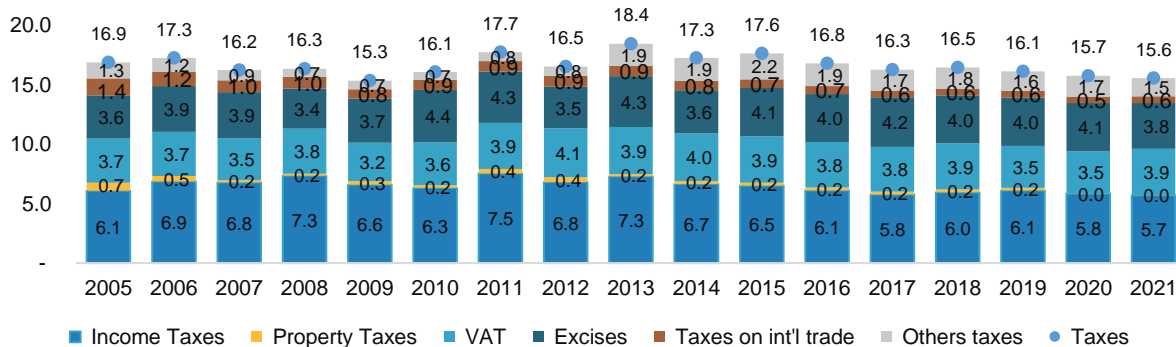
Tax Revenue in % of GDP



Source: WB analysis, data from ICTD 2021.

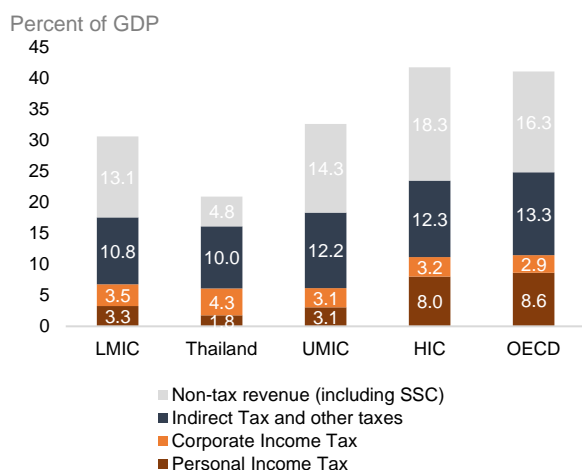
**Figure 2-2: Tax collection structure**

2005-2021, percent of GDP



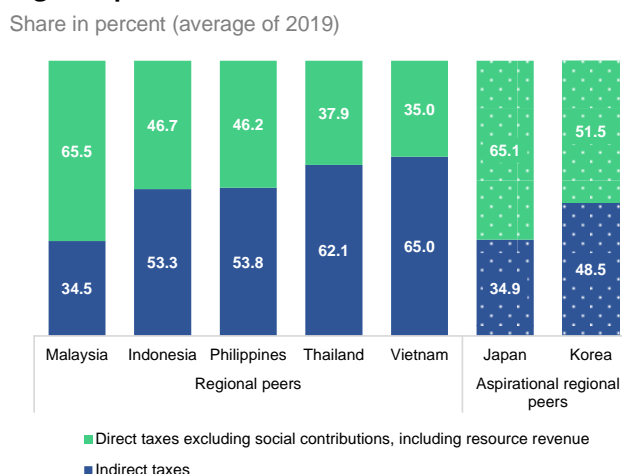
Source: WB analysis, data from Fiscal Policy Office.

**Figure 2-3: Countries rely more on income tax as they become richer**



Source: WB analysis.

**Figure 2-4: Tax revenue collected from the consumption base (indirect tax) is high compared to regional peers**



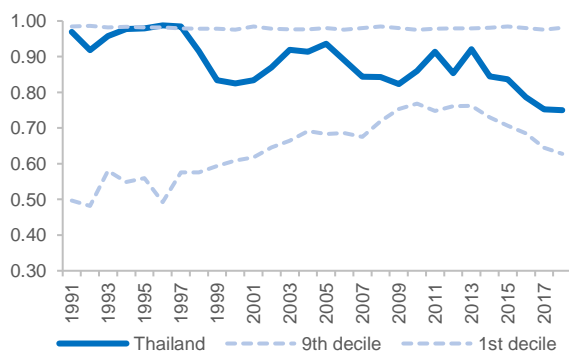
Source: WB analysis, data from ICTD and WDI.

## 2.3 Tax potential and the tax gap

**66. Cross-country estimates indicate that Thailand's actual tax collections are 5.6 percentage points of GDP below potential.** This tax gap – the difference between actual and potential tax collection – has widened over time as actual collections have declined while estimated tax potential has increased (see Annex 2-1). To derive the size of the tax gap, Thailand's tax potential<sup>11</sup> is estimated as a function of a range of macro-structural factors – including level of economic development, openness, the size of the working age population, and the size of the informal sector – based on the cross-country relationship of these factors with tax collection. Since 2014, the tax efficiency score<sup>12</sup> (directly related to the tax gap) has declined (Figure 2-5). The size of the tax gap reached 5.6 percent of GDP on average between 2016-2019 (Figure 2-6).

**Figure 2-5: Tax Efficiency has been declining since 2014**

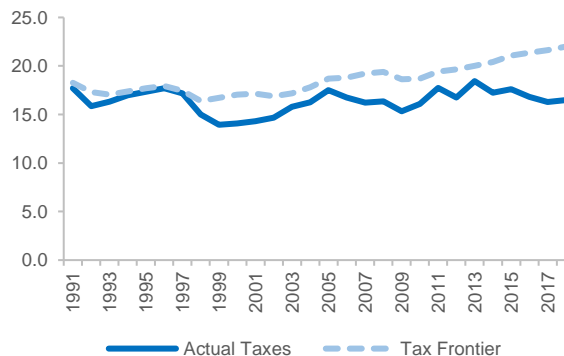
Tax efficiency score, 0 = lowest and 1 = highest (2014-latest)



Source: WB analysis, data from ICTD and WDI.

**Figure 2-6: Stable tax revenues failed to catch up with rising tax frontier**

Actual Tax collection vs. Tax frontier



Source: WB analysis, data from ICTD 2020 and WDI 2020.

**67. Thailand's tax efficiency is below that of countries with a similar level of income and informality.** High-income countries, in general, tend to be clustered closer to the efficiency frontier (Figure 2-7). Middle-income countries are more dispersed. Thailand's efficiency score (averaged since 2014) is considerably below the efficiency frontier for its level

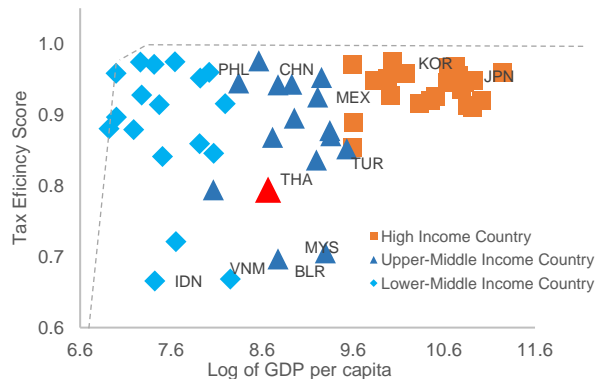
<sup>11</sup> The tax potential of 64 countries is determined using a stochastic frontier analysis (SFA).

<sup>12</sup> An efficiency score of between 0 and 1 is assigned to each country based on the distance between actual tax collections and estimated tax potential. A higher number indicates higher efficiency/tax effort

of income and below most of the upper-middle income peers. Many countries with a lower level of per capita income also have higher efficiency scores than Thailand. Countries with low informality tend to have high tax efficiency scores and are situated closer to the frontier, while countries with a large share of the informal sector are more dispersed (Figure 2-8). Thailand also has a low tax efficiency score, compared to other countries with a similar degree of informality.

**Figure 2-7: Thailand has low Tax Efficiency score compared to middle-income countries**

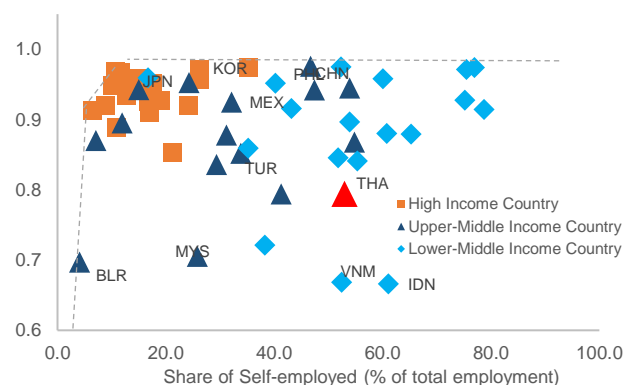
Log of GDP per capita vs. Tax efficiency score (2014-latest)



Source: WB analysis, data from ICTD and WDI.

**Figure 2-8: High share of informal sector also affects low Tax Efficiency score in Thailand**

Self-employed share vs. Tax efficiency score (2014-latest)



Source: WB analysis, data from ICTD 2020 and WDI 2020.

**68. Taking an international perspective on individual tax lines, Thailand stands out on corporate tax and excise tax collection, while personal income tax, wealth tax, and VAT were lower than in peers.**<sup>13</sup> This ‘bottom-up’ perspective complements the top-down analysis provided by the tax gap estimates above. Table 2-1 indicates that improvements in the collection of VAT, personal income tax, and property tax should be targeted as a means of reducing the size of the estimated tax gap and boosting overall revenue collection. Specific reforms that would facilitate higher revenues from these sources are discussed in the following sections.

**Table 2-1: Tax revenue to GDP, by type**

Average 2017-2019, % of GDP	Taxes*	Direct taxes*	Individuals	Corporations	Taxes on property	Indirect	VAT	Excises	Taxes on international trade
Regional peers	15.1%	6.0%	1.6%	3.9%	0.6%	9.1%	4.2%	2.1%	1.1%
<b>Thailand</b>	<b>16.3%</b>	<b>6.2%</b>	<b>1.8%</b>	<b>4.2%</b>	<b>0.2%</b>	<b>10.1%</b>	<b>3.7%</b>	<b>4.1%</b>	<b>0.6%</b>
Structural peers	19.2%	6.8%	2.4%	3.5%	1.4%	12.4%	6.8%	2.0%	1.8%
UMIC	18.9%	7.6%	3.4%	3.2%	0.7%	11.3%	6.1%	2.2%	0.9%

Note: \*Taxes exclude social contributions; Direct Taxes excludes social contributions, includes resource revenue; Structural peers, including Belarus, China, Vietnam

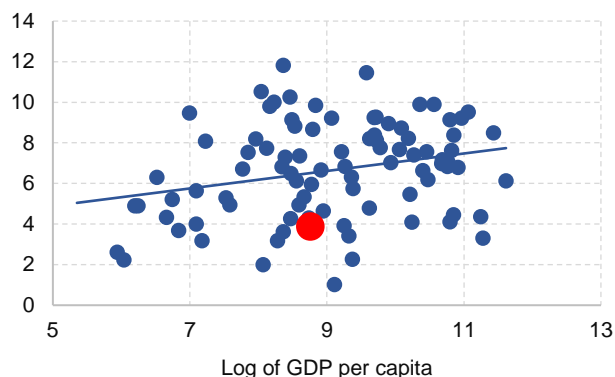
Source: ICTD 2021

## 2.4 Value-added tax

**69. Thailand collects significantly less VAT than is expected given its income.** Over the past 10 years, VAT revenue has averaged just below 4 percent of GDP, well below levels in upper- and lower- middle income countries and in EAP countries (Figure 2-9 and Figure 2-10). VAT revenue can be decomposed into three parts: (1) VAT collection efficiency, (2) VAT rate, and (3) the VAT base. The comparatively low collection of VAT revenue is due to the low VAT rate and the relatively small tax base.

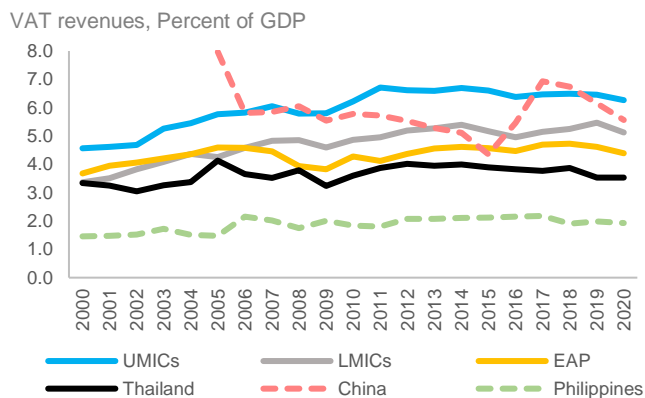
<sup>13</sup> Structural peers, including Belarus, China, Vietnam, are selected based on degree of dependence on natural resources, GDP per capita, aging population, and informality.

**Figure 2-9: VAT revenues and level of income (log of GDP per capita), 2018**



Source: WB analysis, data from ICTD 2020 and WDI 2020.

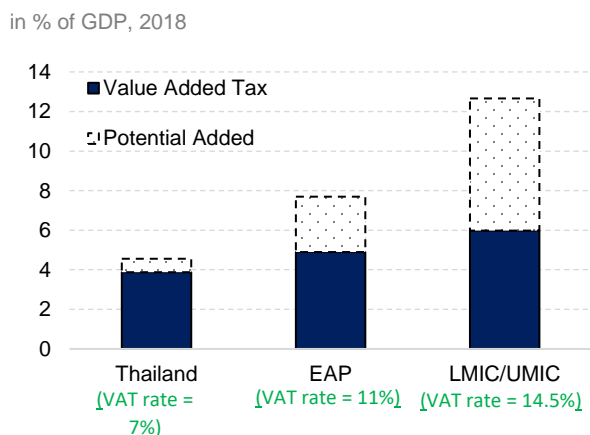
**Figure 2-10: VAT revenue to GDP remained stable and well below peers over the past 10 years**



Source: WB analysis, data from ICTD and WDI.

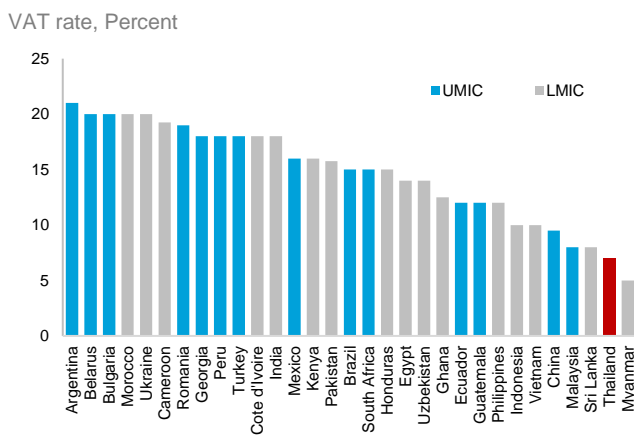
**70. VAT efficiency in Thailand is high but VAT potential is low.** Thailand collects 85 percent of potential VAT revenue, much higher than in EAP or in middle income countries (Figure 2-11). However, the high efficiency rate in Thailand in part reflects the relatively low estimated tax potential, which is calculated by applying the standard VAT rate to total consumption expenditures in its GDP. The estimated VAT potential in Thailand of 4.6 percent of GDP was well below the EAP average of 7.7 percent and the middle-income average of 12.7 percent.

**Figure 2-11: VAT and potential VAT**



Source: WB analysis, data from ICTD 2020, WDI 2020, and Doing Business 2020.

**Figure 2-12: Thailand's VAT rate is low compared with Middle-Income Countries**



Source: PWC

**71. Thailand's VAT rate is the lowest among upper-middle income countries and is at the bottom end of the range for lower-middle income countries,** falling between that of Myanmar and Sri Lanka (Figure 2-12). Thailand's VAT was implemented in 1992 and the statutory tax rate was set at 10 percent, but the rate was cut to 7 percent in 1999 after the economy was badly hit by the Asian Financial Crisis in 1997 and has subsequently been maintained at this level. The rate is significantly below the UMICs average of 15 percent and the EAP average of 11 percent. In 2021, the Thai Official Gazette published Royal Decree No. 724 providing that the 7 percent reduced VAT rate be extended by another 2 years until 2023. The cabinet has the authority to extend the reduced VAT rate every year.

**72. The low VAT base is another key driver of low tax potential, driven by the prevalence of exemptions, the low level of consumption, and high rates of informality.** Retailers are liable to file for the VAT if their annual turnover exceeds THB 1.8 million (USD 56,280) (Figure 2-13), however many products are exempted from the VAT. These include unprocessed agricultural and related products, including fertilizers, animal feeds, pesticides, and basic services, including certain educational expenses, healthcare, interest, leasing of immovable property, and the sale of real estate. Many of these

exemptions apply to staple goods which represent a larger share of poor consumption. Nevertheless, the exemptions are generally an inefficient way of supporting poorer households as the products to which they apply are also consumed by richer households and in larger quantities, meaning that a larger share of the overall tax expenditures go to richer households. Another reason for the comparatively low VAT potential is the country's lower level of aggregate consumption in 2018, at 65 percent of GDP compared to the UMIC average of 80 percent. In term of growth, private consumption expanded at only 4.2 percent on an annual average over the past decade, down from an average of 10.4 percent over 2001-2010. Slow growth in consumption has been driven by a shift in consumption patterns due to the aging population and high level of household debt.

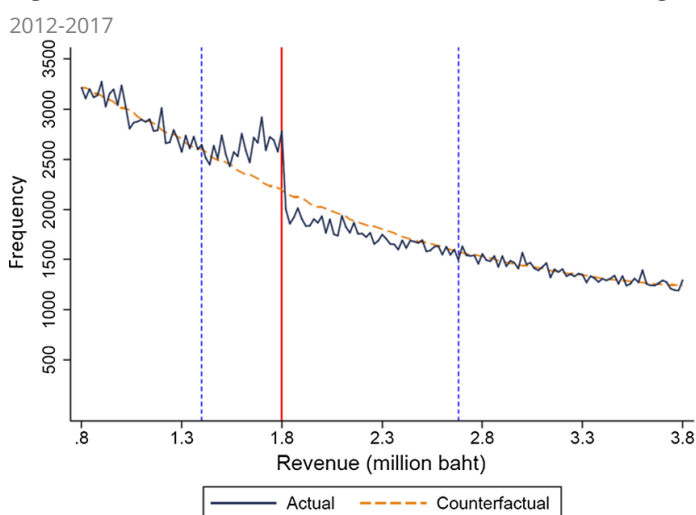
**Figure 2-13: Structure of VAT and VAT registration Threshold, 2018**

	Standard rate	Reduced rate	Others	VAT registration Threshold (USD)	VAT to GDP
Bulgaria	20	9	Zero-rated (0%) and exempt	42,171	9.1
Belarus	20	10	25%, zero-rated (0%) and exempt	NONE	8.6
Chile	19		Exempt and additional taxes	NONE	8.5
China	13	3,5,6,9	Zero-rated (0%) and exempt	9,302	6.7
Philippines	12		Zero-rated (0%) and exempt	60,908	2.0
Indonesia	10		Zero-rated (0%) and exempt	335,431	3.6
Japan	10	8	Exempt-with-credit and exempt	91,097	4.0
Vietnam	10	5	Zero-rated (0%) and exempt	NONE	5.0
South Korea	10		Zero-rated (0%) and exempt	NONE	4.1
Malaysia	8		exempt and several specific rates	120,713	1.4
Singapore	7		Zero-rated (0%) and exempt	744,320	13.0
<b>Thailand</b>	<b>7</b>		<b>Zero-rated (0%) and exempt</b>	<b>56,280</b>	<b>3.9</b>

Source: WB analysis, data from EY Worldwide VAT, GST and Sales Tax Guide 2022, and ICTD 2020.

**73. The large size of the informal sector also contributes to low VAT potential as informal firms generally do not pay tax and can underreport their true income.** Muthitacharoen et al. (2021) studied the bunching response of firms at the VAT registration threshold to explain the effect of informality on firms' decision to register with the VAT system. The study shows a sharp bunching of revenue just below the VAT threshold of THB 1.8 million (Figure 2-14). SMEs tend to stay in the informal sector due to the risk of losing competitiveness and limited benefits from trading with VAT-registered firms. In an environment of high informality, small VAT-registered firms might find it difficult to compete with non-VAT businesses which are similar in nature but can avoid charging VAT on their consumers. In addition, as the presence of non-VAT businesses grows larger, there is also less pressure to register for VAT in order to enjoy the tax benefits from trading with VAT-registered firms.

**Figure 2-14: Distribution of revenue around the VAT registration threshold**





Source: Muthitacharoen (2021)<sup>14</sup>

Note: The analysis focuses on firms around the registration threshold during 2012–2017. Included are all firms with revenue in the range between THB 1 million below and THB 2 million above the threshold (THB 0.8–3.8 million). The dataset for this analysis contains 615,474 observations. The blue vertical dashed line denotes lower bound and upper bound of the excluded region. The orange dashed line is counterfactual density fitted by excluding bins around the tax notch

**74. Nevertheless, experience from other countries suggests it is possible to address these issues of informality and compliance.** Given the analysis above, it can be concluded that the informal economy discourages firms from growing large and the decision to register in the VAT system depends on their supply chain linkages. Firms that are highly reliant on intermediate inputs for production tend to comply with the VAT system due to the benefit from VAT credits, while other firms are less compliant. Addressing such inequities is important because perceptions of inequitable competition can negatively affect tax morale and compliance. This not only risks resulting in a revenue loss, but it may also discourage firms from growing to their most efficient size (Box 2-1).

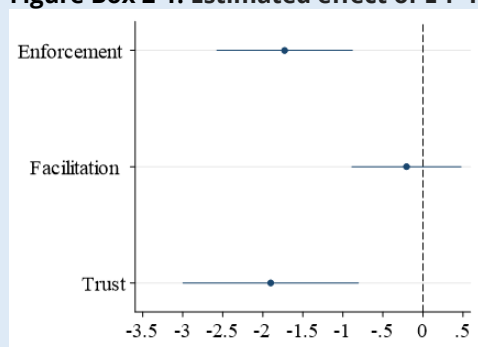
#### Box 2-1: Trust and VAT Compliance in Georgia

The Georgia Revenue Service (GRS) asked the World Bank to conduct an assessment of compliance with value-added taxation (VAT) among medium-sized businesses in Georgia. VAT is Georgia's single largest source of tax revenue, making up 45 percent of total tax revenue. There remains scope to improve compliance, in particular among medium-sized businesses.

The methodology used for the assessment was the Innovations in Tax Compliance Conceptual Framework<sup>15</sup>, which approaches compliance from three interrelated angles – enforcement, facilitation and trust. The assessment shows that the biggest opportunities for the GRS to improve VAT compliance among medium-sized businesses are located on the enforcement and trust sides, less so on the facilitation side.

A statistical analysis of tax compliance, exploiting a list experiment<sup>16</sup> built into a taxpayer survey, revealed that in Georgia improvements in enforcement and trust significantly reduce non-compliance. Investments in facilitation have a statistically negligible impact on tax compliance (Figure Box 2-1). The overall level of taxpayer facilitation is already very high in Georgia and therefore the marginal returns may be low. The results underline that enforcement and trust building should be prioritized in order to impact VAT compliance by medium-sized business.

Figure Box 2-1: Estimated effect of E-F-T on non-compliance



Source: World Bank survey 2020

<sup>14</sup> Athiphat Muthitacharoen & Wonma Wanichthaworn & Trongwut Burong, 2021. "VAT threshold and small business behavior: evidence from Thai tax returns," International Tax and Public Finance, Springer; International Institute of Public Finance, vol. 28(5), pages 1242-1275, October.

<sup>15</sup> "Dom, Roel; Custers, Anna; Davenport, Stephen R.; Prichard, Wilson. 2022. Innovations in Tax Compliance : Building Trust, Navigating Politics, and Tailoring Reform. Washington, DC: World Bank. © World Bank. <https://openknowledge.worldbank.org/handle/10986/36946> License: CC BY 3.0 IGO."

<sup>16</sup> A list experiment is a questionnaire design technique used to mitigate respondent's social desirability bias (i.e. lying about socially undesirable behaviors) when eliciting information about sensitive topics, such as tax non-compliance. With a large enough sample size, list experiments can be used to estimate the proportion of people for whom the sensitive statement is true.

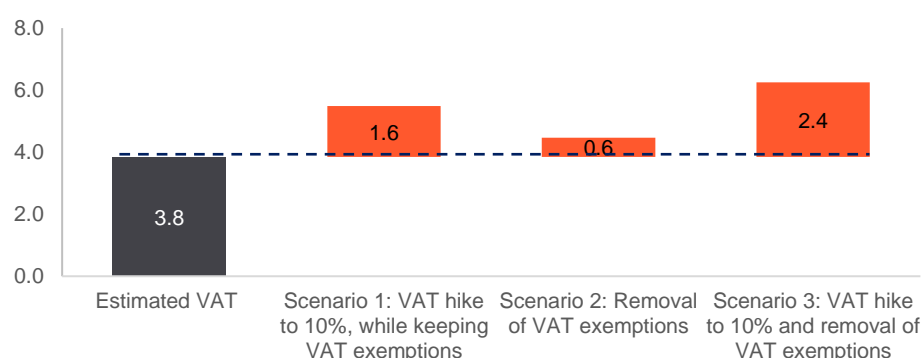
### Box 2-1: Trust and VAT Compliance in Georgia

Based on these findings, the assessment identifies a number of binding constraints and reform recommendations to further improve VAT compliance. With regards to enforcement three reform priorities were identified: i) access to third party information, notably banking information; ii) improved cross-departmental cooperation between risk-management and operations, and; iii) investments in the quality of VAT analytical capacity. Concerning trust, four reform priorities were identified: i) targeted taxpayer education focused on recent VAT reforms, ii) committing to a swift and transparent audit process, iii) improving the fairness and impartiality of tax administration for example through a social recognition program, and; iv) improve overall quality of government services by other agencies because this directly influences willingness to pay tax and thus capacity to raise revenues.

**75. In terms of VAT reform options, raising the statutory VAT rate to 10 percent would lead to a projected increase in VAT revenue of about 1.6 percent of GDP.** Assuming that demand is perfectly inelastic to price changes, the VAT rate hike from 7 percent to 10 percent is estimated to raise the VAT revenue by 1.6 ppts to 5.5 percent of GDP (Figure 2-15: scenario 1). There is little evidence that VAT efficiency would necessarily be eroded with the higher rate. International experience among middle-income countries demonstrates that increases in rate and efficiency can be simultaneously achieved. Serbia and Kosovo both increased their VAT rate by 10 percent or more between 2013 and 2018 and experienced increases in efficiency over the same period.

**Figure 2-15: VAT hike and removal of exemptions could raise revenue to GDP by 2ppts at maximum**

% of GDP, average of 2016-2018



Source: WB analysis, data from NESDC, FPO, OECD IO table

**76. Removal of VAT exemptions is estimated to raise tax revenue by 0.6 ppts.** According to the top-down analysis of the VAT base, the estimated size of exempted products and services is equal to 19 percent of GDP on average in 2016-2018 (Table 2-2). Removing exemptions on these products could translate to additional tax revenue to GDP of 0.6 ppts. The removal of these exemptions would bring the VAT revenue to 4.5 percent of GDP (Figure 2-15: scenario 2), assuming no behavioral response to the higher prices. The combination of a VAT hike to 10 percent and the removal of exemptions is estimated to raise VAT revenue by 2.4 ppts to 6.4 percent of GDP (Figure 2-15: scenario 3).

**Table 2-2: Decomposition of VAT base and VAT liability**

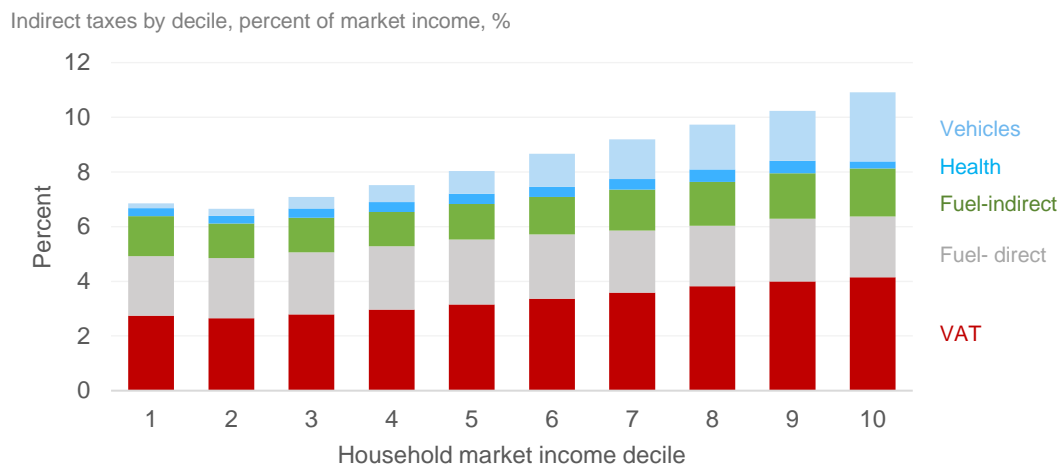
THB million, average of 2016-2018

	VAT base	Share of GDP	VAT liability	Share of GDP
Consumption: Households	7,305,145	47.2	511,360	3.3
Consumption: non-resident	1,630,974	10.5	114,168	0.7
Government purchase of goods and services	940,771	6.1	65,854	0.4
Intermediate Consumptions (with limited right to deduct VAT)	1,557,006	10.1	108,990	0.7
<b>VAT Exemptions</b>	<b>(2,930,091)</b>	<b>-18.9</b>	<b>(205,106)</b>	<b>-1.3</b>
<i>Estimated VAT</i>	<i>8,503,805</i>	<i>54.9</i>	<i>595,266</i>	<i>3.8</i>
<b>Estimated VAT - no VAT exemption</b>	<b>9,876,890</b>	<b>63.8</b>	<b>691,382</b>	<b>4.5</b>

Source: WB analysis, data from NESDC, FPO, OECD IO table

**77. While Thailand's VAT structure is progressive, reforms to compensate lower-income households for the impact of VAT reforms will nevertheless be important.** Based on the incidence analysis, the VAT system is slightly progressive because the poor purchase goods that are generally tax-exempt and lower-income households tend to shop in informal markets<sup>17</sup>, which often do not charge VAT. Nevertheless, a VAT increase and/or removal of exemptions would impact the poor, given the poorest decile pays 2.7 percent of their market income in VAT (Figure 2-16). As shown in Chapter 8, it is possible to more than compensate lower-income households through targeted cash transfers, at an overall fiscal cost well below the additional revenue raised from these VAT reforms.

**Figure 2-16: VAT structure is progressive, but it still represents a significant share of income for poorer households**



Source: CEQ (chapter 7)

**78. Reform efforts are also needed to reduce informality and raise the tax base.** Targeted incentives for SMEs to register in the VAT system would be a useful tool to bring firms from the informal sector into the system. The government has taken steps to register more firms, such as the co-payment program under which the government subsidizes half the cost of food and general goods and services purchased from registered shops. However, additional incentives could be provided to sustain the expansion of the tax base in the long term.

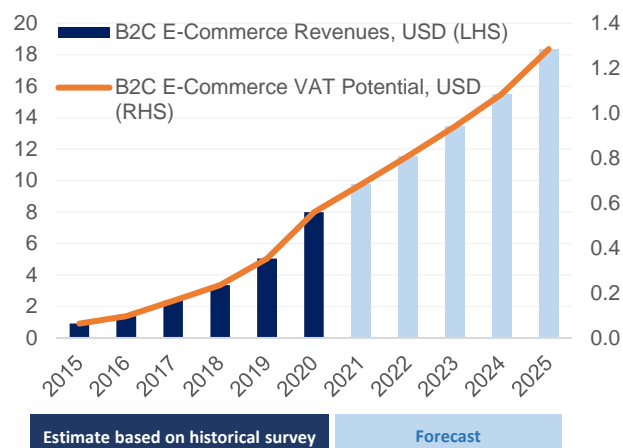
**79. Extending the VAT to capture e-commerce and digital services more effectively is also an important tool for achieving stronger VAT efficiency.** Due to rapid growth in the digital sector, it is projected to generate 1.3 billion USD of additional VAT revenue by 2025 or 0.2 percent of GDP (Figure 2-17). Given the importance of digital services highlighted by the COVID-19 pandemic, the conversion to e-commerce has accelerated. Similar to regional peers, online sales in Thailand are becoming more common. For instance, in 2020 alone, e-commerce sales grew more than 50 percent in Thailand (Figure 2-18), a strong growth rate even in comparison to other advanced economies (IMF, 2021)<sup>18</sup>. However, since firms are not obligated to report their e-commerce sales revenue separately from that generated by physical retail stores, it can be challenging for authorities to estimate the value-added tax (VAT) revenue losses that may result from unreported online transactions. To address this issue, an amendment to the tax code was enacted in 2019, which enables authorities to utilize financial transaction data from financial institutions for tax auditing purposes and improve the efficiency of VAT collection (see section 2.8 Revenue administration).

<sup>17</sup> These Informal purchases made up a larger share of poor consumption with nearly 20 percent of VAT on consumption of the poorest half of households going unpaid compared to less than 10 percent for richer households.

<sup>18</sup> Digitalization and Taxation In Asia, IMF 2021

**Figure 2-17: Potential VAT revenue from the digital sector**

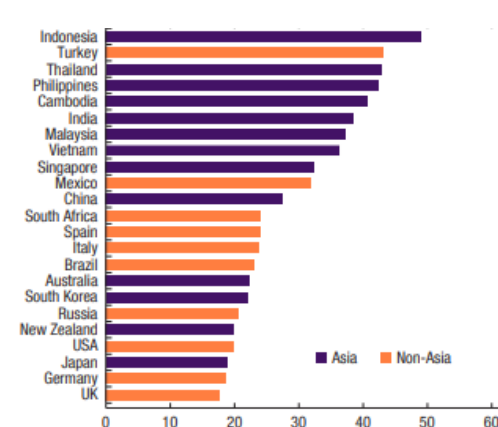
In USD billion, 2015 – 2025



Source: WB analysis, WB Taxation of E-Commerce Reform Model (TERM).

**Figure 2-18: E-Commerce Sales**

Annual percentage change, 2020



Source: IMF 2021.

**80. Implementation of VAT on digital services represents one important step in upgrading tax policy and administration to tax the digital economy more effectively.** Starting from September 2021, the Government has required the registration of overseas e-service providers and companies whose revenues originate in Thailand and exceed more than THB 1.8 million per year with the Revenue Department. From October 2021 to July 2022, the government collected THB 5.9 billion (0.04 percent of GDP) of e-service tax from foreign online platform operators based on a total service value of THB 85 billion from 138 registered platform operators.

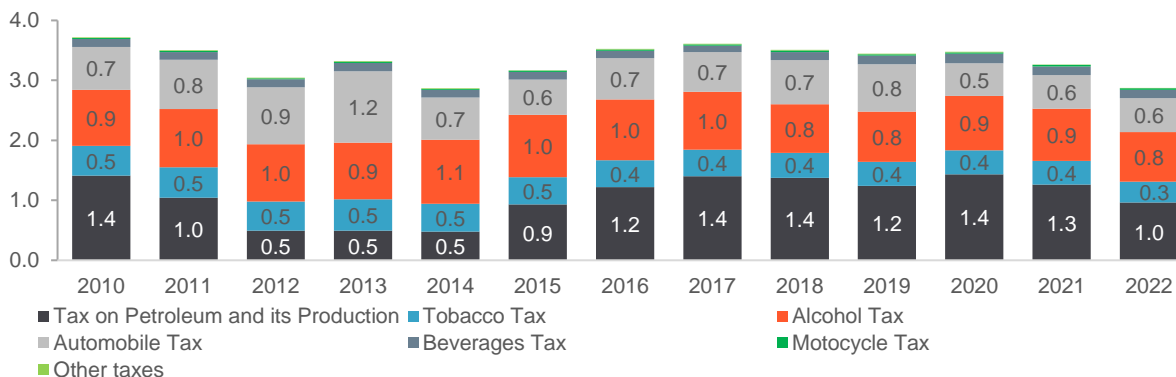
**81. VAT on e-services will also make local service operators more competitive in the local market.** With foreign online operators playing an important role in online businesses and e-commerce in Thailand, applying VAT consistently on all digital imports would level the playing field between domestic and foreign businesses, and between goods and services.

## 2.5 Excise tax

**82. Thailand collects more excise revenue than other EAP and UMIC countries both as a share of GDP and as a share of tax revenue.** Thailand’s excise collection amounts to about 4 percent of GDP and 20-25 percent of total taxes (Figure 2-2), well above other EAP and UMIC countries. Excise tax on petroleum made up the largest share of total excise revenue at 1.3 percent of GDP in 2021 and 1.0 percent of GDP in 2022 (Figure 2-19), with collections fluctuating with the movement of the global oil price and measures to support households’ cost of living. Alcohol and tobacco tax have remained relatively stable over the past 10 years.

**Figure 2-19: Composition of excise tax**

Percent of GDP, Cash based account

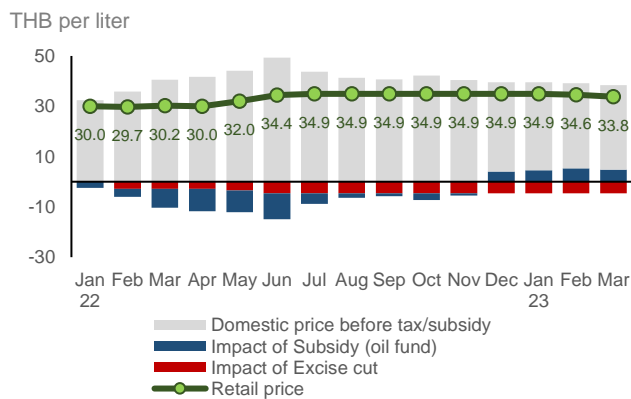


Source: World Bank Analysis; Data from Fiscal Policy Office

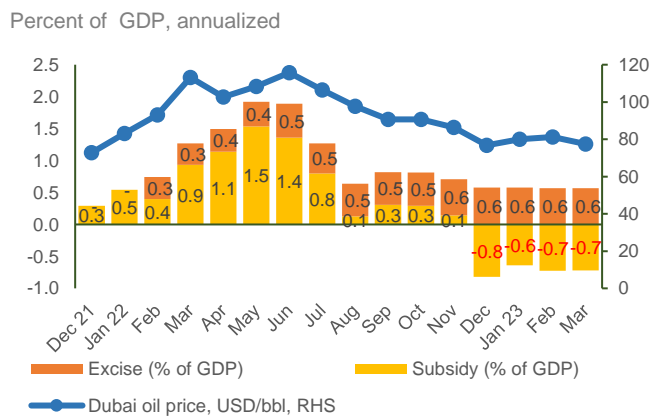
**83. Temporary fuel tax and subsidy measures implemented in response to the Ukraine war have been costly.**

In late 2021, a ceiling of THB 30 baht per liter was set on the diesel oil price, which was later revised to THB 32 in May 2022 and THB 35 in June 2022 as global oil prices rose and the subsidy burden increased. The cost of the subsidy was funded by two instruments: (1) a temporary cut to excise tax from THB 5.99 per liter to THB 1.34 and (2) a subsidy from the State Oil Fund (Figure 2-20). The excise tax reduction is estimated to have incurred a fiscal cost of 0.4 percent to GDP from February to December 2022. The fiscal cost was significantly larger when the cost of energy subsidy from the Oil Fund is also accounted for (Figure 2-21). However, this subsidy turned negative after December 2022 as the global oil price fell below the domestic regulated price, allowing the government to collect the difference and replenish the State Oil Fund. On the other hand, the excise tax cut on diesel, if not reversed, will continue to result in forgone revenue. In 2011, as the global oil price surged, a cut in the diesel excise tax from THB 5.31 per liter to THB 0.005 was estimated to have incurred a fiscal cost of 1 percent of GDP per year over 3 years. As shown in Chapter 8, with targeted cash transfers it is possible to compensate lower-income households for the impact of fuel price rises at a much lower fiscal cost than subsidies/excise tax reductions, for which a greater proportion of the benefit accrues to higher-income households.

**Figure 2-20: Structure of retail price of Diesel**



**Figure 2-21: Size of oil subsidy and global oil price**



Note: \*\*data in August are based on the retail price and subsidy cost at the beginning of each week, consumption in July and August is assumed to remain stable at the past 6 months average

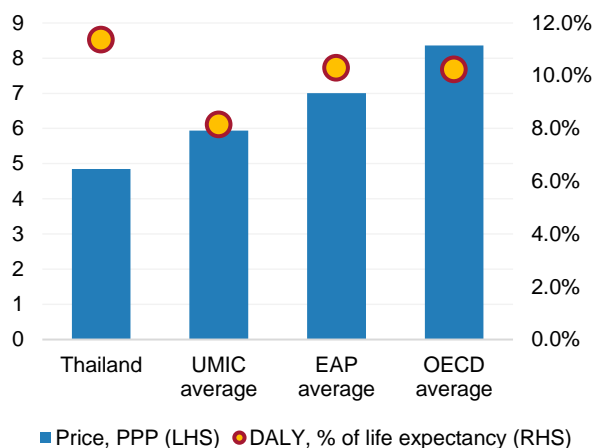
Source: WB analysis, data from EPPO, OFFO, Haver Analytics

**84. Beyond their revenue objective, excises are useful tax instruments for correcting negative externalities from the consumption of certain goods and services.**

For example, health excises on tobacco encourage reduced consumption and raise revenue that can be partly used to tackle tobacco-related non-communicable diseases and fund health campaigns to raise awareness of the personal and social costs of smoking. In Thailand, the internationally comparable price of a 20-pack of cigarettes is lower than the UMIC, EAP, and OECD averages (Figure 2-22). Simultaneously, Thais lose an estimated 11.4 percent of their healthy lives due to tobacco use. This loss is greater than in the comparator groups where it ranges from 8.1 to 10.3 percent. Although the Thai government increased excise tax rates on tobacco in October 2021 (from 20 to 25 percent for cheaper packs, and from 40 to 42 percent for more expensive packs), there is still potential to raise tobacco taxes further to discourage smoking.

**Figure 2-22: Price and health cost of tobacco**

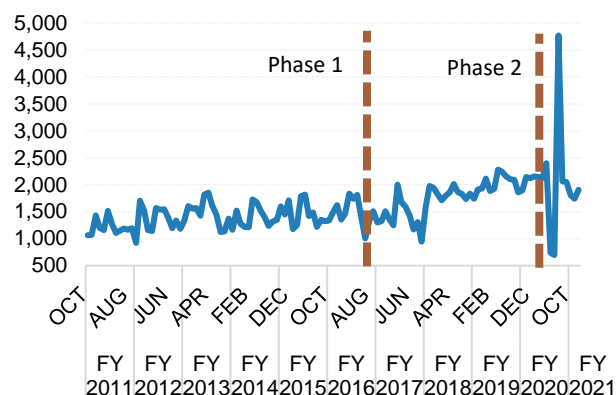
Price of a 20-pack of cigarettes in international dollars (PPP, LHS) and Disability-Adjusted Life Years Lost (DALY, % of life expectancy, RHS), 2018



Source: WB analysis, data from Tobacco Atlas (2019).

**Figure 2-23: Revenue generation from the SSB taxes**

Million Baht, from FY11 to FY21



Source: WB analysis, data from Bangkok Post, WDI 2020, and Thailand's FPO tax data 2021.

**85. Continued implementation of the sugar sweetened beverage (SSB) tax could shift consumers' preferences toward healthier drink options.** First introduced in 2017, the SSB tax was designed to grow over three phases, each stretching over two years. Since its introduction, it has raised an average of over 20 million Baht per year (Figure 2-23). This rollout was scheduled to begin the third phase in October 2021 but has been suspended in light of the COVID-19 pandemic and to provide the private sector additional time for the research and development of healthier products.<sup>19</sup> Looking to the future, this tax remains a valuable option to promote a shift toward healthier drink alternatives, in addition to raising additional revenue.

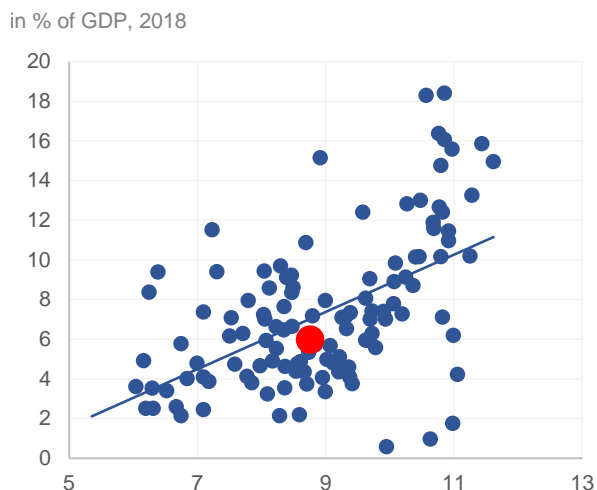
## 2.6 Income tax

**86. Thailand's income taxes fall short of international benchmarks because taxes on personal income are highly inefficient.** An estimated additional 1 percent of GDP could be collected if Thailand were able to move to international benchmarks for income tax collection, controlling for GDP per capita (Figure 2-24). Low-income tax collection is attributable to the low productivity of personal income tax, contrasted against the very productive tax on corporate income (Figure 2-25). Tax productivity<sup>20</sup> is calculated as the ratio of actual tax collections (as a % of GDP) to the standard statutory rate. Improving income tax collection will be a crucial part of Thailand's overall revenue mobilization efforts and would also improve progressivity of the system.

<sup>19</sup> See Kasikorn Research Center (2021).

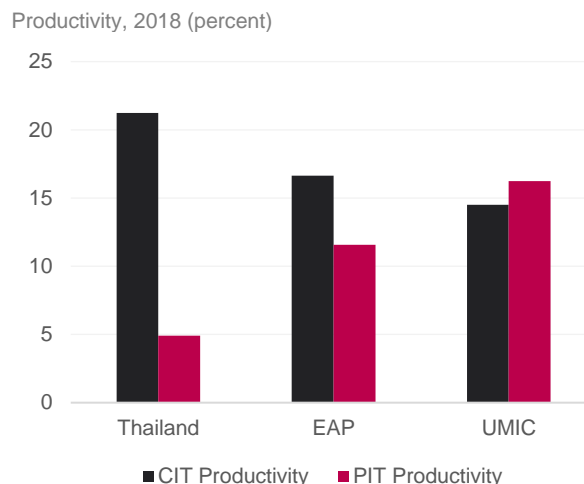
<sup>20</sup> To calculate productivity, the highest marginal rate is applied to the entire base as if it were a uniform rate.

**Figure 2-24: Income Tax versus Level of Income (log of GDP per capita), Thailand**



Source: WB analysis, data from ICTD 2020 and WDI 2020.

**Figure 2-25: CIT and PIT Productivity, Thailand**

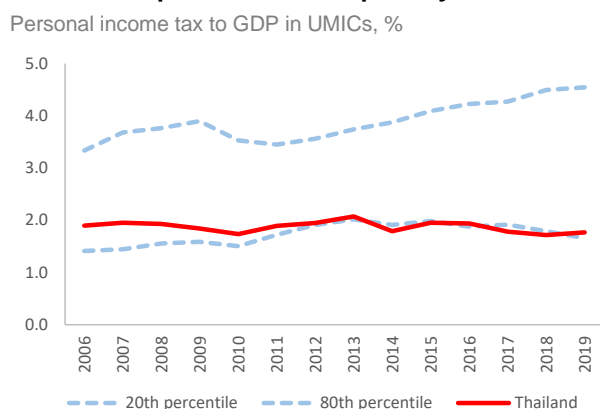


Source: WB analysis, data from ICTD 2020, WB Doing Business 2020, and KPMG 2020.

## Personal Income Tax

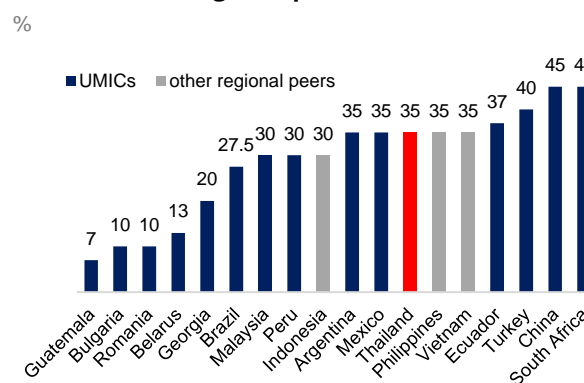
**87. Low levels of income tax collection are explained by weak compliance and the presence of significant incentives and exemptions.** As a share of GDP, personal income tax revenue has been stable at a very low level of 1.8 percent of GDP over the past 10 years. The level is situated at the bottom 20th percentile of the upper-middle income countries (Figure 2-36: CIT Collection, Rate, Productivity in EAP). Major factors driving the large personal income tax productivity gap include (1) a narrow tax base due to a low share of active personal income taxpayers; (2) low PIT collection from workers in the informal sector, and (3) low effective tax rates due to generous tax incentives, exemptions, and a complicated system of deductions. This is despite a relatively high-top marginal tax rate of 35 percent (Figure 2-27).

**Figure 2-26: Personal income tax revenue is at the bottom 20<sup>th</sup> percentile in the past 8 years**



Source: WB analysis, data from ICTD and WDI.

**Figure 2-27: Top marginal personal income tax rates for UMICs and regional peers, 2022**



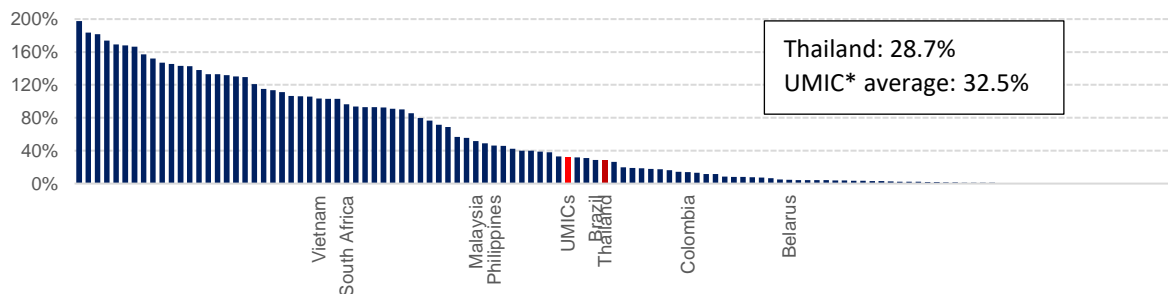
Source: WB analysis, data from PWC.

**88. Taxpayers represent only 10 percent of Thailand's labor force, which is low compared with peers.** Compliance is weak, especially among self-employed professionals and business owners. The share of people filing for tax accounted for 28.7 percent of Thailand's labor force in 2019, well below the sample UMIC average of 32.5 percent (Figure 2-28). In contrast, other UMICs, such as Brazil, Colombia, Malaysia, and South Africa have increased their shares. The low number of taxpayers in Thailand in large part reflects the low number of filings among self-employed workers (which depend on self-declarations of income); withholding taxes are assigned only to the salary workers and capital income earners. Moreover, only a low proportion of those filing for PIT pay tax. In 2019, out of 11 million people filing for the PIT, only 4 million people actually paid tax (10 percent of the labor force), most of whom were salary workers; the other 7 million

filings belonged to those who reported income below the tax threshold of THB 150,000 per year. Salary workers accounted for 83 percent of the total tax filers and 24 percent of the total labor force (Figure 2-29). A much lower proportion of self-employed workers, business owners, and capital income earners filed or paid income tax.

**Figure 2-28: Personal income tax filers, Thailand and UMICs**

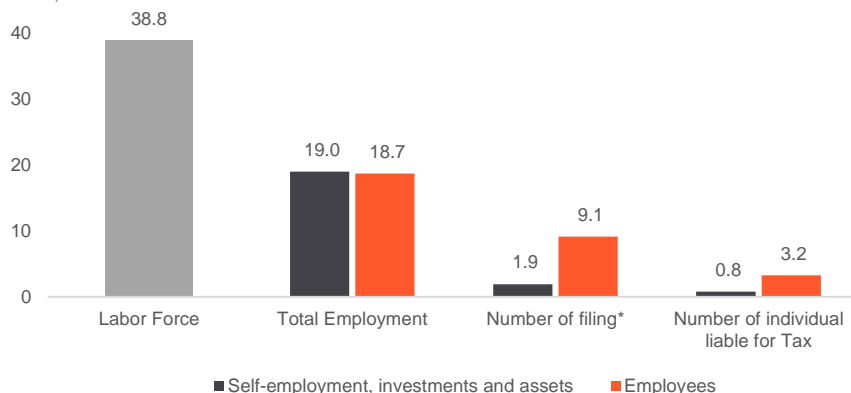
In % of Labor Force, 2019



Source: WB analysis, ISORA 2021. WDI (2022). Note: data only available for UMICs in sample (n = 37).

**Figure 2-29: The size of self-employed workers is large, but the number of tax filings remain low.**

Million, 2019

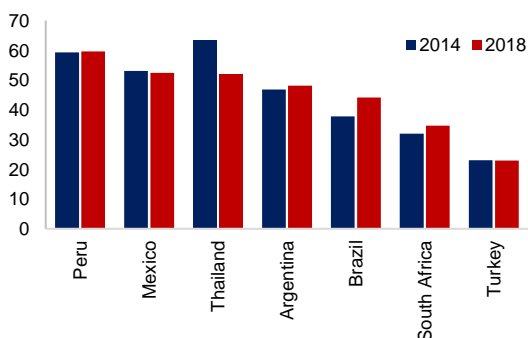


Source: WB analysis. Data from ILO and Revenue department, Note: \*self-employed refer to PND90 and Employees refer to PND91 and those salary income workers who also earn income from other sources

**89. Informality has also constrained the personal income tax base.** According to the data from ILO, Thailand's share of the informal sector in non-agricultural activity has declined from 63.4 percent in 2014 to 51.9 percent in 2018. However, the degree of informality remains high compared to those upper-middle income countries (Figure 2-30). As a result, the ratio of PIT tax filings to total labor force has remained low over the past years at 28.5 percent in 2019 and declined to 27.3 percent in 2020 (Figure 2-31).

**Figure 2-30: Informality remains high, despite a substantial reduction**

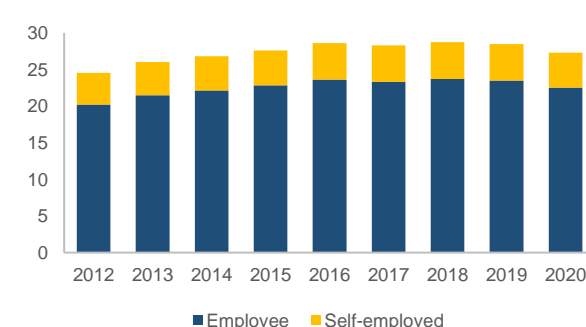
informal employment of total employment, percent



Source: WB analysis, data from ILO.

**Figure 2-31: Number of PIT tax filings to total labor force increased 5pts between 2012 and 2020**

Percentage share of labor force



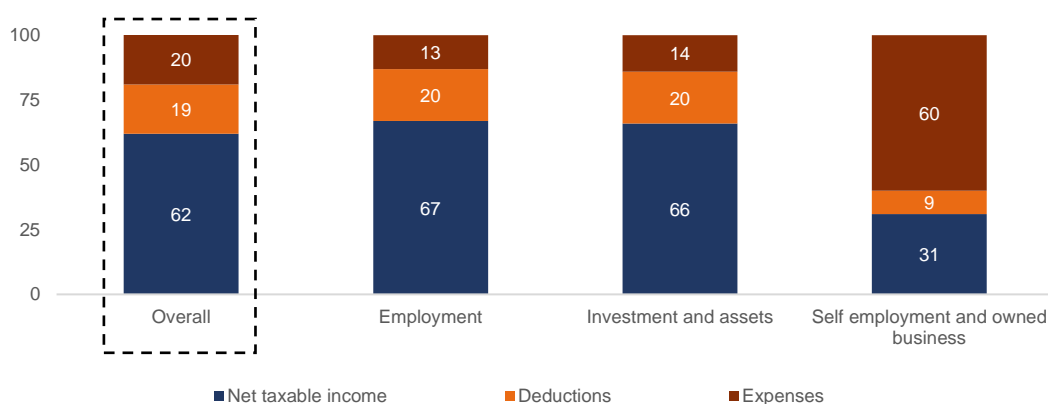
Source: WB analysis, data from Revenue Department.



**90. The rules on deductions are likely contributing to revenue loss and horizontal inequities.** The deductible rates of expenses are different across different types of income earner. Self-employed workers and business owners can deduct business expenses of up to 60 percent out of their assessable incomes (Annex 2-2). These expense deductions for self-employed workers and business owners have been simplified to encourage more filings. However, these allowed deductions are significantly higher than what is available to salary workers, for whom expenses are deductible at up to 50 percent of income and the amount is capped at THB 100,000. This can mean that self-employed workers and business owners end up paying less tax than salary workers. Based on 2012 data, deductible expenses accounted for 20 percent of total reported income for those who earned income from employment, while it increased to 60 percent for the self-employed workers and business owners (Figure 2-32). Most major countries with the similar proportion of self-employed workers do not offer standard deductible rates to self-employed professionals, instead allowing business deductions only for incurred expenses<sup>21</sup> (e.g. Indonesia, Georgia, Colombia, Ecuador, and Mongolia). Countries that do provide a standard deductible rate have a lower maximum deductible rate than Thailand, such as the Philippines (40 percent), Uruguay (30 percent), and Costa Rica (25 percent).

**Figure 2-32: Share of expenses and deductions in assessable income in 2012, by type of income**

Percent of total reported income



Source: Muthitacharoen (2017)

**91. Allowances are estimated to have incurred a revenue loss of 0.5 percent of GDP in 2019.** Apart from the deductible expenses and standard allowances<sup>22</sup>, many tax expenditures for specific economic purposes have also been introduced in the form of special allowances. These special allowances include tax subsidies for long-term savings, insurance premiums, and interest payments, as well as tax subsidies for purchasing products and services. In 2020, the list of tax allowances comprised as many as 20 items, higher than 10 items in 2005. Some of these allowances provide benefits specifically to high-income earners. These allowances, except for the deductions for personal and dependents spending, are estimated to have reduced government revenue by 0.5 percent of GDP. Streamlining some of the generous allowances will make PIT more productive by bringing the effective tax rate<sup>23</sup> (ETR) closer to the marginal tax rates, in a more equitable manner (Table 2-3).

<sup>21</sup> Data from PWC

<sup>22</sup> Standard personal allowances including those allowances for personal spending, spending on dependents, and social security contribution

<sup>23</sup> Effective Tax rate is derived from dividing average tax payment in each income bracket by their average income before deducting expenses, deductions, and allowances.

**Table 2-3: Effective tax rate, taxpayers, and revenue collection by bracket**

average of 2019

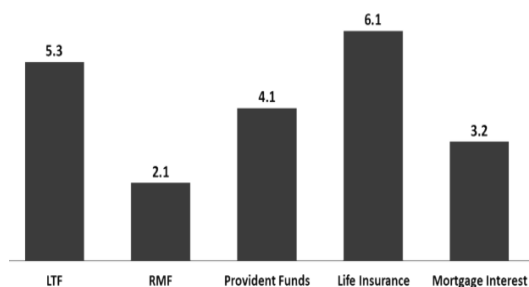
Income Bracket	Tax rate	Income	Number of individual filings for tax		Number of taxpayers		PIT receipt		Effective Tax Rate
		Baht per taxpayer	Persons	Share (%)	Persons	Share (%)	Million baht	Share (%)	
Total		467,113	11,034,583	100	4,016,760	100	222,061	100	6.0%
0-150,000	Exempt	210,346	7,048,378	63.9	30,720	0.8	210	0.1	0.0%
150,001-300,000	5%	508,898	1,919,010	17.4	1,918,927	47.8	6,021	2.7	0.6%
300,001-500,000	10%	755,910	1,012,231	9.2	1,012,182	25.2	16,350	7.4	2.1%
500,001-750,000	15%	1,071,333	519,297	4.7	519,272	12.9	22,351	10.1	4.0%
750,000-1,000,000	20%	1,481,042	203,467	1.8	203,463	5.1	17,747	8.0	5.9%
1,000,001-2,000,000	25%	2,160,882	230,683	2.1	230,679	5.7	46,342	20.9	9.3%
2,000,001-5,000,000	30%	4,229,111	79,042	0.7	79,042	2.0	52,002	23.4	15.6%
> 5,000,000	35%	10,661,830	22,475	0.2	22,475	0.6	61,037	27.5	25.5%

Source: WB analysis, data from Revenue Department

**92. Tax incentives for investments in long-term financial assets are one instance of a highly regressive tax policy; reforms have already been implemented but further efforts would yield additional revenue gains and improvements in equity.** These types of tax allowances were found to be heavily concentrated among high-income taxpayers. A study from Muthitacharoen and Phongpaichit (2020) found that the tax expenditures for these five tax deductions, including long-term equity fund contributions (LTF), retirement mutual fund contributions (RMF), provident fund contributions, life insurance premiums, and mortgage interest account for roughly 20 percent of total personal income tax revenue in 2012—more than half of which is associated with the deductions for life insurance and LTF (Figure 2-33). Some reform efforts had been made to reduce these tax incentives for investments in long-term financial assets in 2020. The government ended the tax-deductible long-term equity fund (LTF) and replaced it with the Super Savings Funds (SSF). Under the SSF, the maximum amount that can be deducted from annual personal income for tax filing was reduced from THB 500,000 to THB 200,000. The reform helped improve the tax progressivity, but further efforts to rationalize tax incentives would help to raise additional income tax revenue while enhancing equity.

**Figure 2-33: Tax expenditures associated with tax incentives for households' saving and investment**

% of total personal income tax revenue

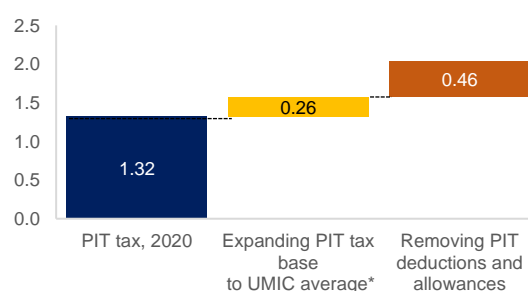


Source: Muthitacharoen and Phongpaichit (2020)

Note: The tax expenditure is defined as the difference between the tax liability without benefit of the tax deduction and the tax liability under the 2012 law.

**Figure 2-34: Estimated impact of the personal income tax reforms**

Percent of GDP



Source: WB analysis, Revenue Department

Note: \*average of personal income taxpayer in UMICs at 32.5 percent of labor force

**93. Estimation of revenue gains from personal income tax reform shows that a combination of tax base expansion and removal of deductions and allowances would raise PIT revenue by 0.7 percent of GDP (Figure 2-34).** 0.5 percent of GDP in additional revenue could be collected from the removal of some PIT deductions and allowances outlined above, while an expansion of the personal income tax base from 28.5 percent of the labor force to the UMIC

average of 32.5 percent of the labor force would also increase revenue collection by about 0.3 percent of GDP, based on the existing effective tax rate after deducting all expenses, deductions, and allowances.

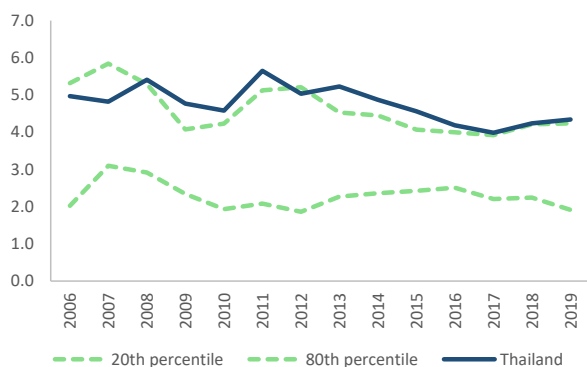
**94. Providing targeted incentives, filing alert systems, and a nudging system can help build inclusion of self-employed workers and business owners and close the personal income tax compliance gap.** Part of the low personal income tax productivity results from non-compliance and incentives to minimize the reported income among the self-employed and business owners. Verifying their incomes and enforcing compliance is more difficult as self-employed professionals can easily switch to cash and can take advantage of the various loopholes in the tax system to reduce their taxable income, such as retaining earnings in the firm, transfers to assisting spouses, and classification of personal income as capital income (World Bank, 2022<sup>24</sup>). Providing positive inducements to compliance through facilitation, trust building, rewarding, or adopting “nudging” techniques<sup>25</sup> may help to improve compliance among the self-employed workers.

## Corporate Income Tax

**95. CIT is efficient and the tax rate is competitive, but collections have declined in recent years.** CIT revenue reached 4.2 percent of GDP in 2018, at the top 20th percentile among the upper-middle income peers (Figure 2-35), despite a relatively competitive tax rate of 20 percent. This combination caused Thailand’s CIT productivity to be higher than EAP and UMIC comparator countries. The Thai government lowered the corporate income tax rate from 30 percent to 23 percent in 2012 and to 20 percent in 2013. Though the rate remains above the internationally agreed minimum corporate tax rate of 15 percent, it is competitive compared with regional peers. It is likely that the high level of CIT productivity is due to good compliance as its corporate tax base does not significantly differ from other EAP countries. However, CIT to GDP declined from 5.1 percent on average in 2008-2013 to only 4.4 percent on average from 2014 to 2019.

**Figure 2-35: CIT has been constantly high in Thailand**

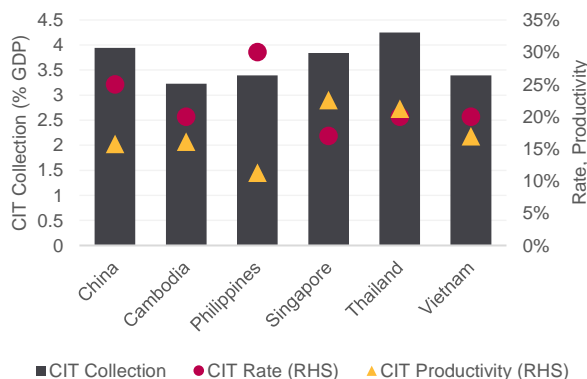
CIT to GDP in UMICs, %



Source: WB analysis, data from ICTD and WDI.

**Figure 2-36: CIT Collection, Rate, Productivity in EAP**

Collection in % of GDP (LHS); Rate and Productivity in % (RHS); 2018 or latest available



Source: WB analysis, ICTD 2020, and KPMG 2020.

**96. Thailand maintains high CIT collections due to its high CIT productivity.** Thailand lowered its CIT rate from 30 percent to 20 percent between 2006 and 2013, but CIT revenues have remained high. In 2018 CIT collections reach 4.2 percent of GDP, yielding a CIT productivity of 21 percent which was much higher than the other countries’ average of 17 percent.

<sup>24</sup> <https://openknowledge.worldbank.org/bitstream/handle/10986/36946/9781464817557.pdf>

<sup>25</sup> Government can deploy information interventions, such as sending a message, to push or nudge an individual toward the desired outcome. In one of the best-known examples, the United Kingdom’s tax administration mailed letters to over 200,000 taxpayers to influence the occurrence and timing of their income tax payments by reminding them of penalties for late payments (World Bank, 2022)

**Table 2-4: Development of standard CIT rates and reduced rates in Thailand**

Taxpayer	Tax Base	2011	2012 <sup>26</sup>	2013	2015	2017	2019
<b>General</b>		<b>30%</b>	<b>23%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>
Listed Company on The Stock Exchange of Thailand (SET)	Net Profit 0-THB 300 million	25%	23%	20%	20%	20%	20%
	over THB 300 million	30%					
Listed Company on Market for Alternative Investment (MAI)	0-THB 20 million	20%	20%	20%	20%	20%	20%
	over THB 20 million	30%					
SMEs	Net Profit 150,000 - 300,000	15%	23%	0%	0%	0%	0%
	300,000 - THB 1 million			15%	10%	15%	15%
	THB 1 million - THB 3 million	20%		20%	10%	20%	20%
	over THB 3 million	30%					
<b>CIT revenue, % of GDP</b>		<b>5.6%</b>	<b>5.6%</b>	<b>5.2%</b>	<b>4.6%</b>	<b>4.1%</b>	<b>4.4%</b>

Note: Since 2011, SMEs must have registered capital not over 5 million baht and have revenue not over 30 million baht.

Source: Sudsawasd and Siriprapanukul (2017), Fiscal Policy Office

### 97. Despite relatively high CIT productivity, cross-country analysis suggests scope for further improvement.

Thailand's tax rules allow for a wide array of incentives. Thailand, Malaysia, and Singapore were the only EAP countries to offer tax incentives across each of the commonly identified types (Figure 2-37). Furthermore, the 13-year tax holiday period for special strategic areas was the longest identified in the sample. Further analytics would be required to quantify the net impact of these incentives. Overly generous and poorly designed tax incentives can potentially result in lost revenue, distort competition, and reduce equity.

**Figure 2-37: Tax Incentives in EAP**

Grouped by tax incentive type

	Tax holiday/ Tax exemption	Reduced Tax rate	Investment allowance/ Tax credit	R&D incentives	Super- deduction	SEZ/Free Zones/EPZ/Free port	Discretion	Incentives in Investment Code	Maximum Tax Holiday period
Cambodia	x	x	x			x	x	x	9 years
China	x	x	x	x	x	x	x		2 years
Hong Kong			x	x		x			
Indonesia	x		x			x	x	x	10 years
Japan			x	x		x		x	5 years
Laos	x	x		x		x	x	x	10 years
Malaysia	x	x	x	x	x	x	x	x	10 years
Myanmar	x	x	x	x		x	x	x	5 years
Philippines	x	x		x		x		x	6 years
Singapore	x	x	x	x	x	x	x	x	<Offered but negotiated>
<b>Thailand</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>11-15 years</b>
Vietnam	x	x		x		x	x	x	4 years

Source: WB analysis, KPMG 2020 and PwC 2020.

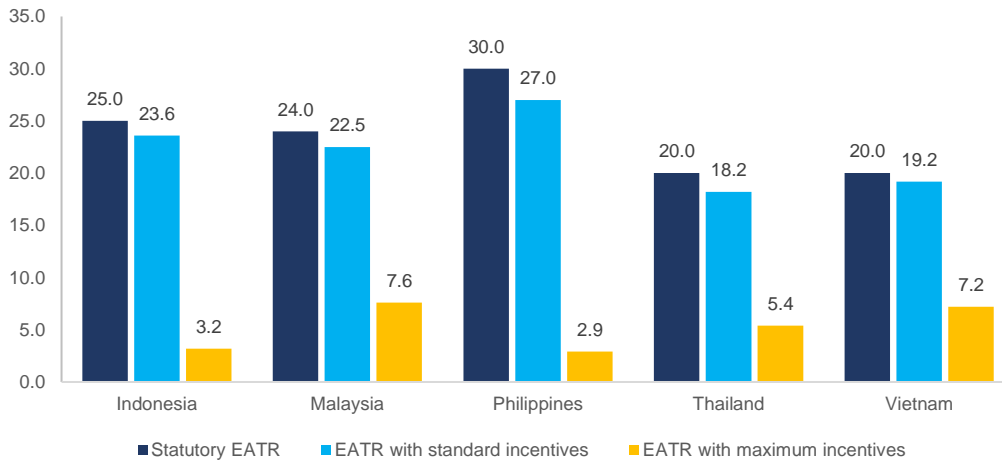
**98. Thailand's effective average tax rate (EATR<sup>27</sup>) was close to the average rate of the ASEAN-5.** In 2021, Thailand's EATR was estimated to reach 5.4 percent, significantly lower than the statutory CIT rate of 20 percent. The estimation of EATR takes into consideration the standard incentives, such as depreciation and the maximum tax incentives provided to firms. The EATR in Thailand was lower than those of Malaysia and Vietnam due to the long tax holiday period.

<sup>26</sup> The government lowered corporate tax rate from 30 percent to 23 percent in 2012, then to 20 percent in 2013 in an effort to help private companies deal with higher labor costs from increases in minimum wages of about 40 percent implemented on April 2, 2012. The rate has been kept at 20 percent since.

<sup>27</sup> EATR calculation is based on the theoretical model developed by Devereux and Griffith (1999, 2003) and reflects the average tax contribution a firm makes on an investment project earning above-zero economic profits, which also taken into consideration the effect of maximum tax incentives, such as depreciation deductions and maximum tax holiday. It is defined as the difference in the NPV of pre-tax and post-tax economic profits relative to the NPV of pre-tax income net of real economic depreciation, maximum deductions and tax holiday period.

**Figure 2-38: Effective average tax rate (EATR) across ASEAN 5**

in %, 2021



Source: Muthitacharoen (2021)

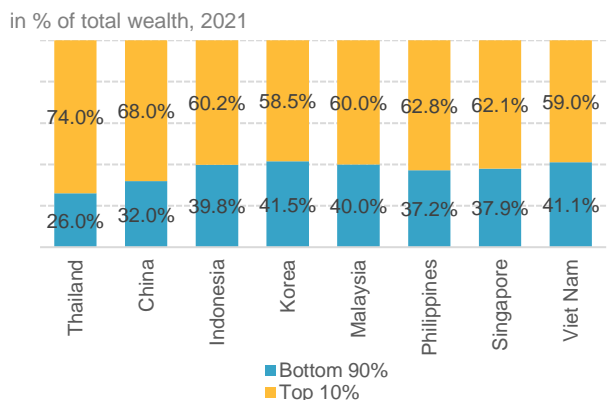
**99. Thailand has made progress on international tax reforms, but tax evasion and avoidance remain substantial, lowering income tax revenue.** Tax evasion and avoidance from multinational corporations and high-net-worth individuals result in revenue losses for the government and undermine fairness and equity in the tax system. In recent years, Thailand signed “The Convention” on Tax Matters in 2020 thereby removing itself from the “grey-list” of the EU tax avoidance and harmful tax practices. Further needed reforms include expanding access to beneficial ownership information for the competent authority; strengthening tax avoidance rules; renegotiating tax treaties based on a new tax treaty model to better balance trade-offs between attracting investment and protecting against base erosion and profit shifting risks; and increasing the tax administration’s capacity on international tax issues. Moreover, as the Global Minimum Tax<sup>28</sup> (GMT) may affect investment competitiveness, improvements to the broader business environment will be important for Thailand in continuing to attract foreign direct investment.

## 2.7 Taxes on wealth

**100. Thailand’s wealth is very concentrated, with the top 10 percent owning about three times as much as the bottom 90 percent (Figure 2-39).** For comparison, the country’s wealth is more concentrated than the average of the regional peers, where the top 10 percent own 61.5 percent. In addition, the highest income group held about half of the total asset holdings, including both fixed and financial assets (Figure 2-40). Slowing consumption growth also exacerbates inequality. Consumption growth of the bottom 40 percent was higher than the national average between 2006 and 2015 (Figure 2-41). However, this trend reversed between 2015 and 2018.

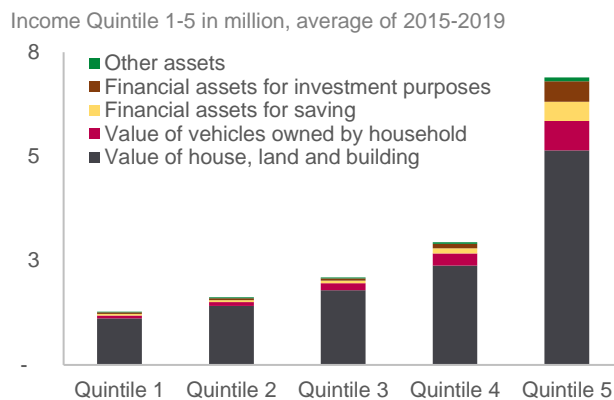
<sup>28</sup> Framework on BEPS reached an agreement in October 2021 to address the tax challenges of digitalization (Pillar One) and aggressive tax competition (Pillar Two). The Pillar Two - Global Minimum Tax- is designed to ensure that large MNEs with annual revenues greater than EUR 750 million pay a minimum tax of 15%. The purpose is to address the ongoing concerns about tax avoidance by MNEs and the so-called “race to the bottom” on corporate tax rates. The primary rule to achieve implementation is the Income Inclusion Rule (IIR). Under this rule the country in which the parent company of a MNE is taxable will impose a Top-up Tax on the profits of any foreign subsidiaries that have an effective tax rate of less than 15%.  
<https://openknowledge.worldbank.org/bitstream/handle/10986/38099/P169976034c92506a0a1190bc5e3a05e3ed.pdf?sequence=1&isAllowed=y>

**Figure 2-39: Wealth concentration in the bottom 90 percent vs. top 10 percent**



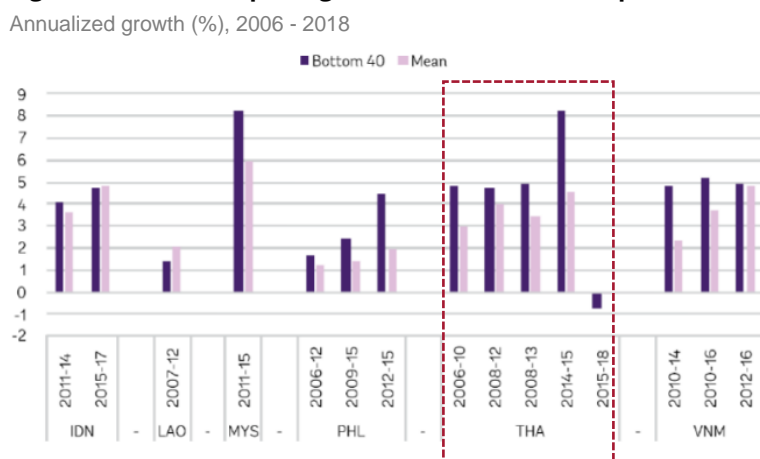
Source: WB analysis, data from World Inequality Database 2021.

**Figure 2-40: Assets holding by households**



Source: WB analysis, data from SES.

**Figure 2-41: Consumption growth of the bottom 40 percent vs. country mean**

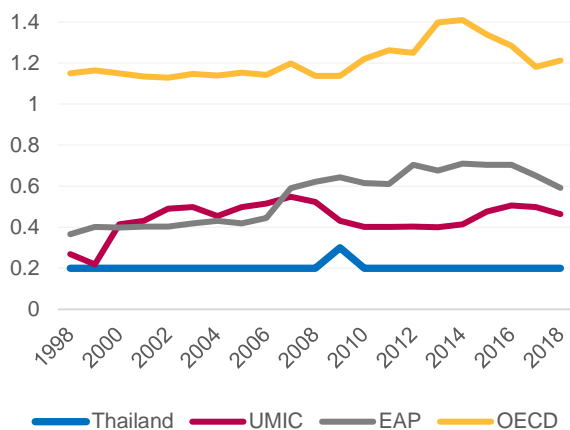


Source: WB analysis, data from Global Database of Shared Prosperity 2021.

**101. Property tax is a progressive, low distortion and growth-friendly tax tool, but the gap between Thailand’s collection of property tax and the UMIC average remains large at 0.3 percent of GDP.** Property taxes are a highly efficient, progressive, and under-utilized instrument in Thailand that is well-suited for subnational revenue generation. The property tax (recurrent taxes on immovable property) is less distortive than other tax types, such as income tax, and can provide a stable source of revenue (Johansson, Å., et al., 2008). However, Thailand falls below the region’s benchmark with collections amounting to 0.2 percent of GDP (Figure 2-42), while it was 0.5 percent on average for UMICs. In terms of subnational taxation, Thailand raises about 2 percent of GDP compared to EAP’s average of 2.8 percent and UMIC average of 2.3 percent (Figure 2-43). Increasing property taxation could boost the own-source revenues of local governments and strengthen the “fiscal social contract” at the subnational level. This can be partly achieved by strengthening property taxation, including through raising rates and ensuring regular, systematic cadastral updates and simplified valuation approaches.

**Figure 2-42: Property Taxes, Thailand**

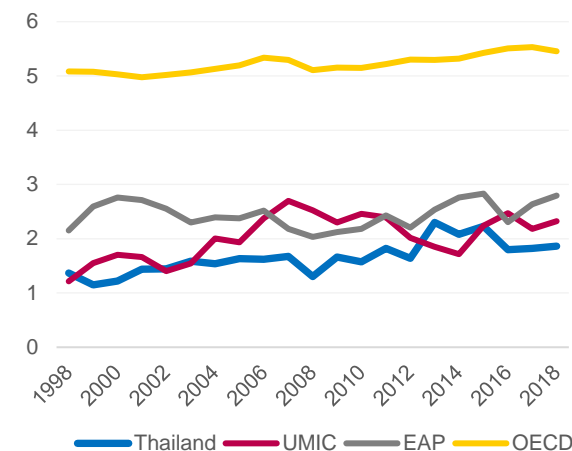
in % of GDP, 1998 – 2018



Source: WB analysis, data from ICTD 2020.

**Figure 2-43: Subnational Taxes, Thailand**

in % of GDP, 1998 – 2018

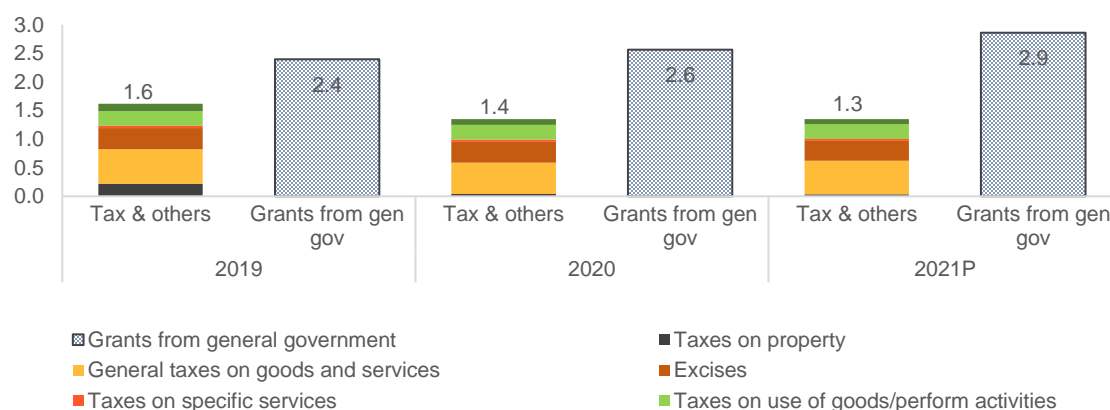


Source: WB analysis, data from ICTD 2020.

**102. Thailand has taken steps to increase property tax with the new Land and Building Tax Act,<sup>29</sup> however, the amount due was reduced by 90 percent for 2020 and 2021 due to the COVID-19 pandemic.<sup>30</sup>** The discount on property tax resulted in a loss to local government tax collections of around 0.2-0.3 ppts of GDP in 2020-21 (Figure 2-44). However, the loss to the local government revenue was compensated by an increased allocation from the general government. The local government tax collection should return to the pre-pandemic level on the resumption of full property assessment in 2022. The Land and Building Tax came into effect on 1 January 2020 with an assessment based on the property's appraised value. The value is calculated based on the sum of standard land and building prices set by the Treasury Department. The recurrent local property tax is levied with a progressive tax rate, depending on the usage and type of property, with some degree of local autonomy in the rate-setting (Figure 2-45). This new tax law replaced the former property taxes (Buildings and Land Tax (1932) and the Land Development Tax (1965)) which assessed properties based on an income-based method. The tax is administered and collected by local authorities, and the collected tax goes directly to the local budget.

**Figure 2-44: Local government revenue**

Percent of GDP



Source: Fiscal policy office; WB analysis

<sup>29</sup> The new Land and Building Tax Act B.E. 2562, which was introduced March 2019 and entered into effect January 1, 2020 (“Thailand’s New Land and Building Tax Act.” ASEAN Briefing, 2020).

<sup>30</sup> Via The Royal Decree to reduce taxes for certain types of land and buildings, BE 2563.

**Figure 2-45: Property tax rate and exemptions**

2022

Purpose of use of land and buildings	Maximum tax rate	2022-2023	Tax exemptions
Commercial	1.20%	0.3-0.7%	None
Vacant or unused*	1.20%	0.3-0.7%	None
Residential use	0.30%	0.02-0.1%	1) Land and buildings owned by individuals for residential use, whose names are on the household registration documents and are worth up to 50 million baht; 2) Buildings owned by individuals for residential use, whose names are on household registration documents and are worth up to 10 million baht
Agricultural use	0.15%	0.01-0.1%	Agricultural land worth up to 50 million baht

Note: \*If a property remains vacant for more than three consecutive years, the rate will be increased by 0.3 percent every three years until it reaches a cap of 3 percent.

Source: WB analysis

**103. There is also scope to improve the administration of the property taxation process, including discovery and valuation.** Identification and registration of land and buildings in a jurisdiction are the critical first steps to effective property taxation. Yet Thailand’s local government still faces challenges in completing the cadastral survey, as surveys rely mainly on a manual approach, and there is a lack of capacity to identify all properties for their tax purpose (such as commercial, residential, agricultural use, or vacant). Thailand can expand the potential property tax base by adopting technology to improve the land mapping survey, drawing from geographic information systems (GIS), satellite, or drone imagery. In addition, levying taxes should be based on property values that reflect the market value and its use. The new Land and Building Tax offers a more efficient approach to tax, given its higher rates and more up-to-date appraised land values (Jangratsameekan and Phijaisanit, 2018). But given that the land values used for tax calculations are still based on values appraised by the government, which do not reflect current market values, further reforms have the potential to improve the tax base, collections, and progressivity. Many countries in the region rely on market-based values of the property to define the property assessment level, for example, China, Hong Kong, Indonesia, the Philippines, and Singapore. However, adopting market-base values for property taxation may encounter revaluation challenges as the values will be updated periodically – e.g. on an annual basis (Hong Kong, China; and Singapore) or every 3 years (Indonesia, the Philippines) – which could cause significant value shifts at the individual property level, and significant tax increases (ADB<sup>31</sup>, 2022).

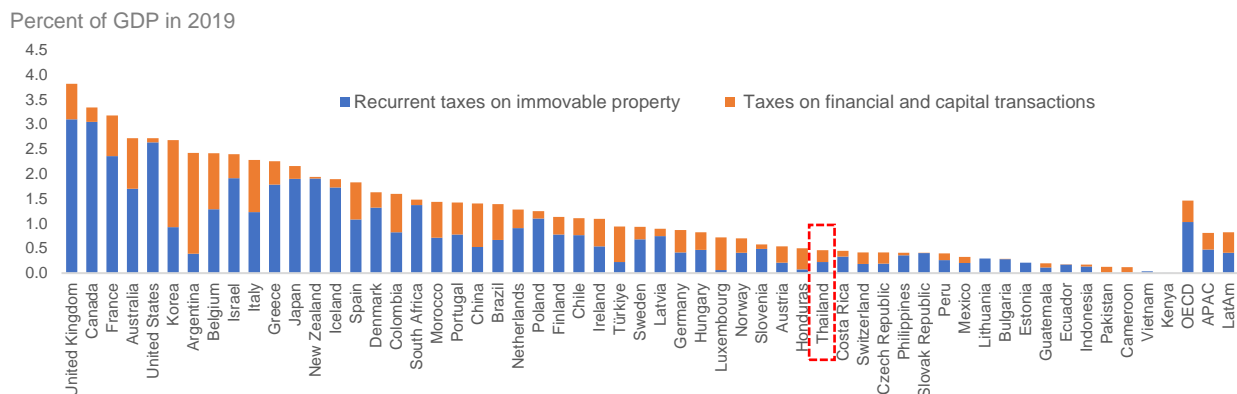
**104. Apart from recurrent taxes on immovable property, Thailand also imposes tax on property transactions which can create large distortions.** According to the data from OECD, Thailand collects tax from financial and capital transactions, at 0.24 percent of GDP, which largely consists of the property transaction tax. For each property transaction, the transaction tax is charged through three channels: (1) a fixed transfer fee of 2 percent of the appraised value, (2) a business tax of 3.3 percent, classifies as “Taxes on goods and services, for the transaction of property sold within 5 years of ownership, or a stamp duty of 0.5 percent of the appraisal value for properties sold beyond 5 years of ownership, and (3) a progressive income tax or a maximum withholding tax of 20 percent, based on appraisal value after deducting its ownership period and depreciation. Though taxes on property transactions have the benefit of shifting investment out of housing into higher-return activities and preventing excessive speculative activities in the housing market, they have the disadvantage of discouraging housing transactions and thus the reallocation of housing to its most productive use, thus reducing growth, for example, by discouraging individuals from moving to areas where labor is in greater demand (OECD, 2010<sup>32</sup>).

<sup>31</sup> <https://www.adb.org/sites/default/files/institutional-document/782851/ado2022bn-property-taxation-developing-asia.pdf>

<sup>32</sup> OECD (2010), *Tax Policy Reform and Economic Growth*, OECD Tax Policy Studies, No. 20, OECD Publishing, Paris, <https://doi.org/10.1787/9789264091085-en>.



**Figure 2-46: Taxes on immovable property and financial and capital transactions**



Source: WB analysis, data from OECD

**105. Thailand could potentially expand its taxes on wealth by raising the inheritance tax rate and imposing capital gains taxes on individual investors.** Thailand’s Inheritance Tax Act has been effective since 1 February 2016, and levies a 5 percent tax rate on Lineal descendants and ascendants, while other heirs face a 10 percent tax rate. The tax is applicable to inheritance received with a value exceeding 100 million baht, and only the portion exceeding this value is liable for tax. However, the tax rate remains low compared to international benchmarks, such as South Korea’s 50 percent, Taiwan and Vietnam’s 10 percent, and the Philippines<sup>33</sup> 6 percent. This suggests that there is scope for increasing tax revenue while reducing inequality by raising the tax rate or tax threshold. Thailand also imposes a capital gains tax on corporate investors and withholding tax on dividend incomes of 10 percent. However, individual investors are currently exempt from the capital gains tax.

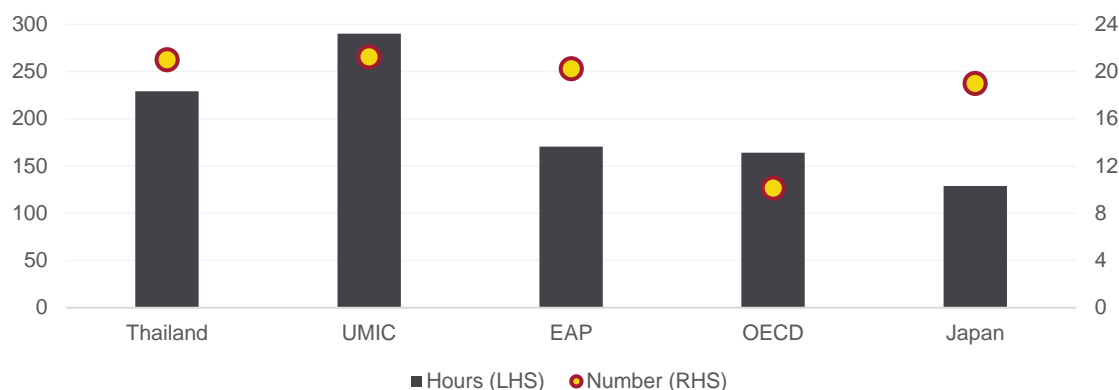
## 2.8 Revenue administration

**106. Thailand’s revenue administration falls short of regional and aspirational peers in terms of time and number of payments required to comply with tax laws.** Thailand requires 21 payments per year (Figure 2-47), much higher than the OECD average of just over 10 payments. While Thai companies spend less time filing their taxes than companies in the average UMIC, they spend much more time per year than the EAP and OECD averages.

<sup>33</sup> In 2017, estate tax in the Philippines is lowered from 20 percent to a single rate of six percent for net estate with standard deduction of PHP 5 million as well as exemption for the first PHP 10 million for the family home.

**Figure 2-47: Time and payments to comply with tax laws**

Time (hours per year, LHS) and payments (number per year, RHS), 2020

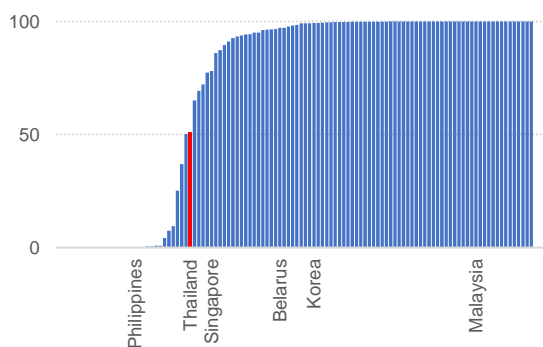


Source: WB analysis, data from WB Doing Business 2021.

**107. Thailand has much ground to gain in the digitalization of its revenue administration.** While the e-filing for personal income tax returns improved to as high as 82.1 percent in 2019, just over half of Thailand’s CIT and VAT returns were e-filed in 2019, with 51 percent and 58 percent respectively. Most UMIC countries had much larger e-filing shares than Thailand for both types. It was in the bottom third of countries for 2019 CIT returns that were e-filed (Figure 2-48), and in the bottom quartile of countries for 2019 VAT returns e-filed (Figure 2-49). While e-filing services require upfront ICT investment, the long-term benefits outweigh the costs. The body of available literature highlights that e-filing eases the burden of paying taxes, reduces taxpayer errors, improves voluntary compliance, and limits the risk of fraud and corruption.<sup>34</sup> Beyond e-filing, the combination of technology and good data can help facilitate automated compliance risk management and enable strengthened auditing. Other benefits include improving taxpayer services when taxpayers engage in the manner that is easiest for them and enhanced effectiveness of tax compliance activities such as through the automated exchange of information.<sup>35</sup>

**Figure 2-48: CIT returns e-filed**

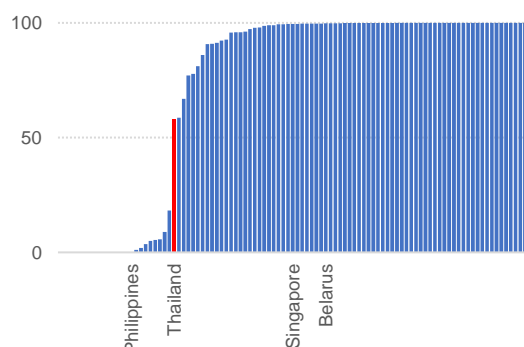
in % of total returns filed, 2019, UMIC/LMIC



Source: WB analysis, data from ISORA 2022.

**Figure 2-49: VAT returns e-filed**

in % of total returns filed, 2019, UMIC/LMIC



Source: WB analysis, data from ISORA 2022.

**108. The government has taken steps to improve compliance by announcing the e-payment law to improve the tracking of financial transactions of businesses, especially among the e-commerce players.** Starting from March 2020, financial institutions, state financial institutions, and electronic money service providers are required to report to the Revenue Department by the end of March every year details of all accounts. These include specific transactions of persons who make, in the aggregate, (i) at least 3,000 annual electronic deposits/transfers, or (ii) at least 400 annual deposits/transfers where the total value of all transactions is at least THB 2 million.

<sup>34</sup> See, for instance, “Why tax administrations are embracing digital transformation,” WBG (2021) and “Digitalization of Tax Administrations and the necessary simplification of tax systems,” CIAT (2020).

<sup>35</sup> See, for instance, OECD, “Tax and digitalisation” (2018).

**109. Thailand has not yet taken advantage of behavioral insights that may offer a cheap way to boost compliance.** Other EAP countries such as Australia, China, Indonesia, Japan, Malaysia, and Singapore have used behavioral insights to increase taxpayer compliance.<sup>36</sup> In Singapore, a behavioral nudge included in tax arrears letters increased payments by between 1.7 and 6.4 percentage points within 44 days of the redesigned letters. In Indonesia, incorporating nudges in SMEs' calendars saw more SMEs pay taxes, and witnessed SMEs paying more in taxes compared to the control group.

## 2.9 Conclusion and recommendations

**110. Thailand remains considerably below the tax efficiency frontier for its level of income.** Though Thailand has undergone several reforms in the past, by making income tax rates more competitive and by introducing new forms of taxation, such as a tax on sugar, digital service tax, and property tax, the impact on tax collection has been marginal. Thailand has a sizeable structural 'tax gap' – the difference between tax collection capacity, based on the performance of peers at a similar income level, and actual tax revenue – estimated at around 5.6 percent of GDP. At current levels, revenues will be inadequate to meet future spending needs while maintaining fiscal sustainability. Moreover, the tax system on its own does relatively little to promote equity. More progressive taxes such as personal income tax and wealth taxes provide a relatively small share of the overall tax take, with low levels of compliance and high rates of informality raising the potential for horizontal inequities.

**111. This report proposes progressive tax reforms that taken together could increase revenues by 3.5 percentage points of GDP.** These reforms would narrow the estimated tax gap and provide the revenue needed to fund elevated spending needs. They include reforms to: (a) adjust the VAT rate and exemptions; (b) broaden the personal income tax base and streamline allowances; and (c) expand property tax collection. On the administration side, expanding e-filing and e-payment and introducing behavioral initiatives can lower the burden of tax filing and help improve voluntary compliance. This estimate excludes the impact of additional revenues from carbon pricing in the manufacturing sector, which over the longer term would be broadly offset by the cost of other climate mitigation measures proposed in this report (see Chapter 7).

**112. By implementing these reforms at a gradual pace over the next eight years, revenue collection could increase to 24.3 percent of GDP by 2030, compared with 20.9 percent in the baseline scenario** (Table 2-5). Among the reforms proposed, several could be implemented relatively quickly from a technical perspective, including increasing the VAT rate, streamlining VAT exemptions, and rationalizing personal income tax allowances. Others – such as broadening the personal income tax base, and increasing property tax collections – are likely to take longer, to the extent that they require changes to slower-moving variables such as compliance and informality rates, or improvements in administrative capacity. In this report, we allow for a gradual implementation of revenue reforms, given the economic benefits of a relatively gradual medium term consolidation (see Chapter 1), and acknowledging that some of the revenue measures proposed will require more time than others that are more 'stroke of the pen' in nature. Nevertheless, as Thailand has a comparatively sound fiscal position currently, even such a gradual increase in revenues over the next eight years would create the required fiscal space for additional spending now.

**Table 2-5: Recommended revenue reforms\***

Reform options	Detail	Estimated impact (% of GDP)
<b>Total revenue increase</b>	<b>Achievable by 2030 with staggered implementation of reforms</b>	<b>3.5</b>
<b>VAT:</b>		
• VAT rate increase	VAT hike from 7% to 10%	1.6
• VAT exemption reform	Removal of all VAT exemptions	0.6
• VAT rate increase with no exemptions	Increase VAT rate to 10%, while also remove all VAT exemptions	2.4
<b>Personal Income Tax:</b>		

<sup>36</sup> See Behavioral Insights Team (2019) and WBG Indonesia Behavioral Insights Report (2020).

Reform options	Detail	Estimated impact (% of GDP)
• Expansion of personal income tax base	Expanding tax base to UMIC average of 32.5% of labor force by addressing the low compliance issue among the self-employed and business owners, as well as those workers in the informal sector	0.26
• Streamlining personal income tax allowances	Removal of the overall allowances, deductions, and special allowances (keeping the exemption for incomes of less than or equal to THB 150,000 and personal/dependents allowances)	0.46
<b>Tax on property</b>	Improve collection by ensuring regular, systematic updates of the appraisal value. Property valuation approaches should also be simplified and indexed to the market value	0.3

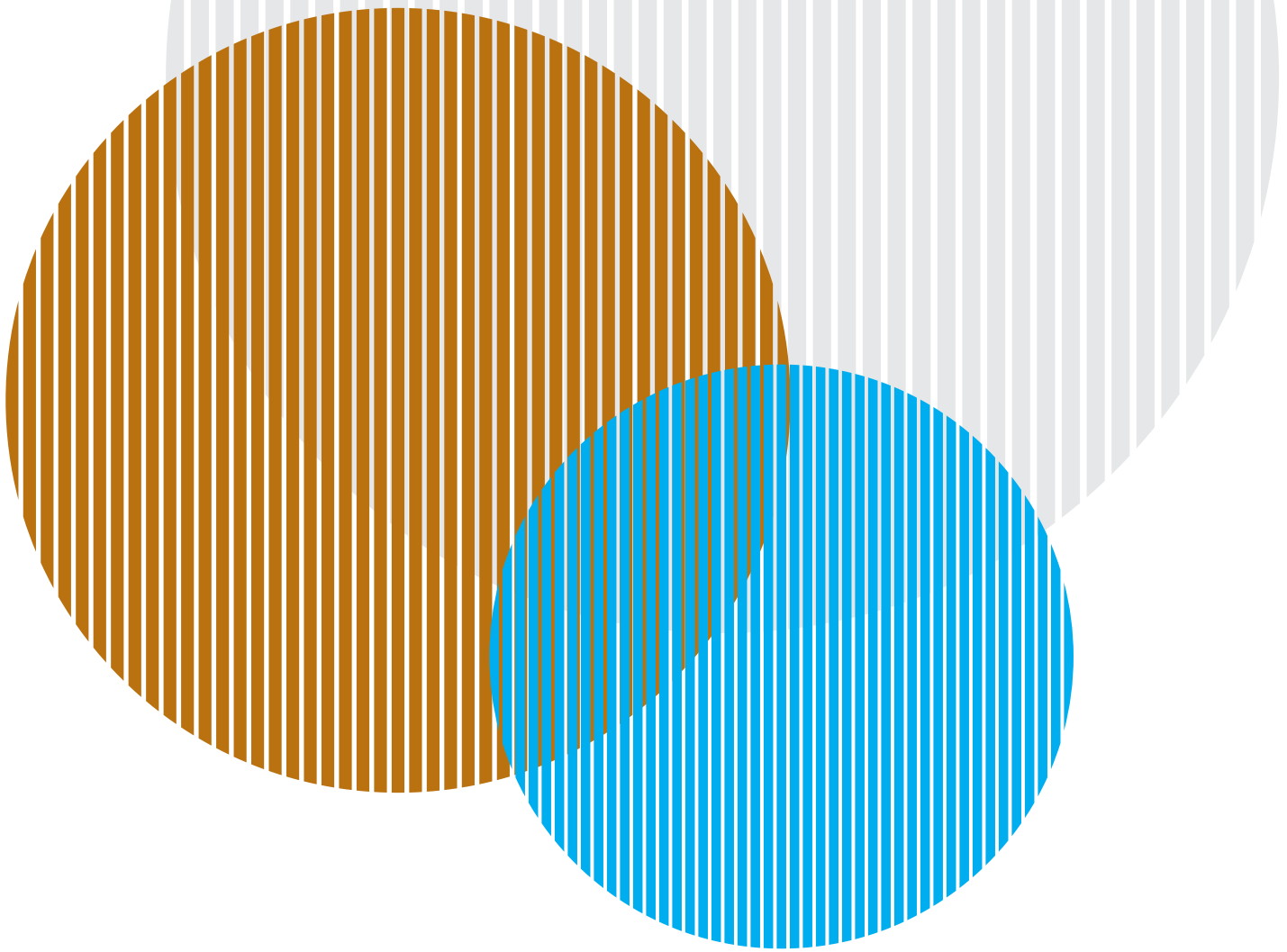
Note: \*Excludes revenues from carbon pricing which are analyzed in Chapter 7.

**113. VAT reforms, including raising the VAT rate and removing exemptions, will substantially increase tax revenue.** Thailand misses out on higher VAT collection due to a comparatively low rate and small tax base. Raising VAT rate from 7 percent to 10 percent is estimated to raise revenue at a maximum by about 1.6 percent of GDP. The low VAT base is another driver of low tax potential, largely attributable to the prevalence of exemptions, relatively low level of consumption, and high rates of informality. Exempted products and services are estimated to account for around 19 percent of GDP; removing these exemptions could result in additional tax revenue of around 0.6 percent of GDP. Taken on their own, these reforms would adversely impact the poor, but providing compensation via the targeted social protection measures proposed in this report (see Chapters 6 and 8) would more than offset the impacts on poverty at a cost well below the additional VAT revenue raised. There is also potential for other reforms to broaden the VAT base. Targeted incentives for SMEs could encourage informal firms to register in the VAT system. Extending the VAT to capture e-commerce and digital services more effectively could also raise revenue in a fast-growing sector, while also making local service operators more competitive in the domestic market.

**114. Thailand has potential to raise personal income tax revenue by 0.7 percent of GDP, while also achieving a fairer tax system.** The personal income tax base is narrow due to the large number of exemptions and deductions, the prevalence of informality, as well as a large compliance gap. Only 4 million people (10 percent of the labor force) paid tax in 2019, most of whom were salary workers. Expanding the tax base could be achieved by addressing the low number of self-declarations or under-reporting of income among the self-employed and business owners, as well as those workers in the informal sector. The expansion of the PIT base (i.e. number of tax filings) from 28.5 percent of the labor force to the UMICs average of 32.5 percent would increase revenue by an estimated 0.3 percent of GDP. The removal of some generous deductions and allowances could also improve the efficiency of the personal income tax and make the system more equitable. Our analysis shows that some tax allowances, such as tax incentives for long-term savings, are heavily concentrated among high-income taxpayers. Streamlining these personal income tax deductions and allowances, while maintaining the standard exemption of THB 150,000 and allowances for personal spending and spending for dependents, could increase revenues by 0.46 percent of GDP.

**115. Additional efforts to collect tax on wealth could help achieve a more equitable tax system, and raise revenue while minimizing distortionary impacts.** The expansion of property taxation, if appropriately implemented, could provide additional funds for local governments. Closing the property tax gap between Thailand and the UMIC average could see an increase in government revenue by 0.3 percent of GDP, which would accrue to local governments. Collections can be improved by ensuring regular and systematic updates of the appraisal value. Property valuation approaches should also be simplified and indexed to the market value.

**116. Other tax policies, such as expansion of excise tax, inheritance tax, and capital gains tax, also warrant further analysis.** There is room for some excises to be increased further, which would reduce harmful behaviors and could raise additional revenue. The cost of a package of cigarettes remains cheaper than international comparisons and costlier in terms of health effects. The third phase of the SSB tax has been delayed due to COVID-19, though its rapid implementation would yield health benefits sooner. Implementing reforms to inheritance tax and capital gains tax could also raise additional revenue and enhance the equity of the tax system.



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