

THAILAND PUBLIC REVENUE
AND SPENDING ASSESSMENT

PROMOTING AN INCLUSIVE AND SUSTAINABLE FUTURE

JUNE 2023

Raising Revenue

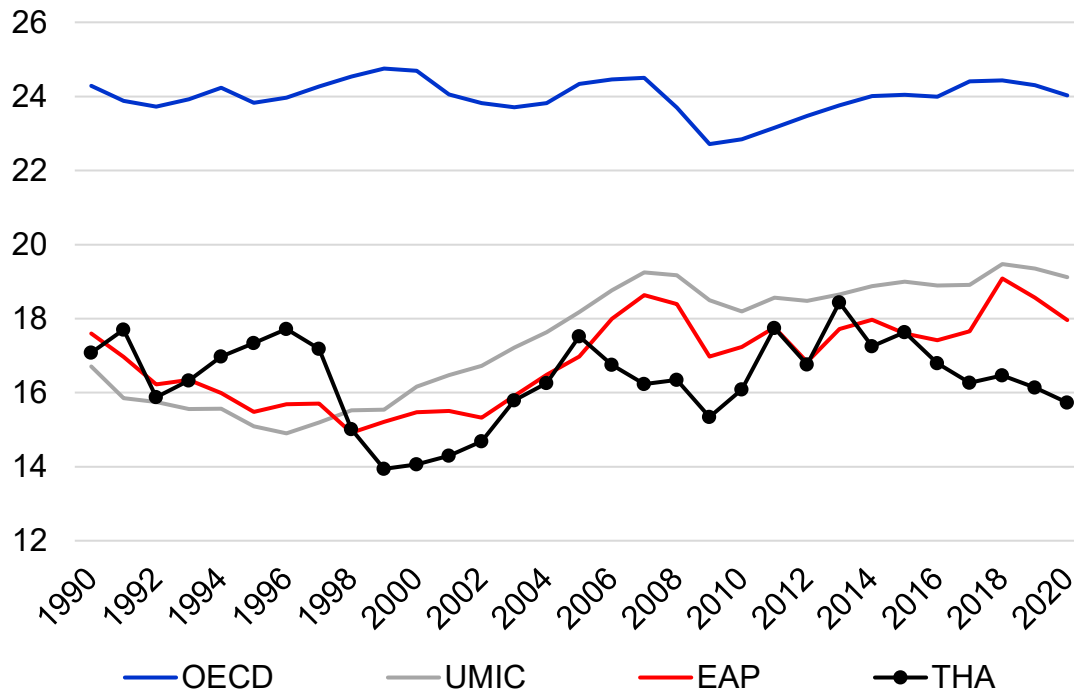
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Economist
29 May 2023



Thailand has a sizeable **structural 'tax gap'** – the difference between actual and potential tax collection

Tax revenue is lower than peers and declining

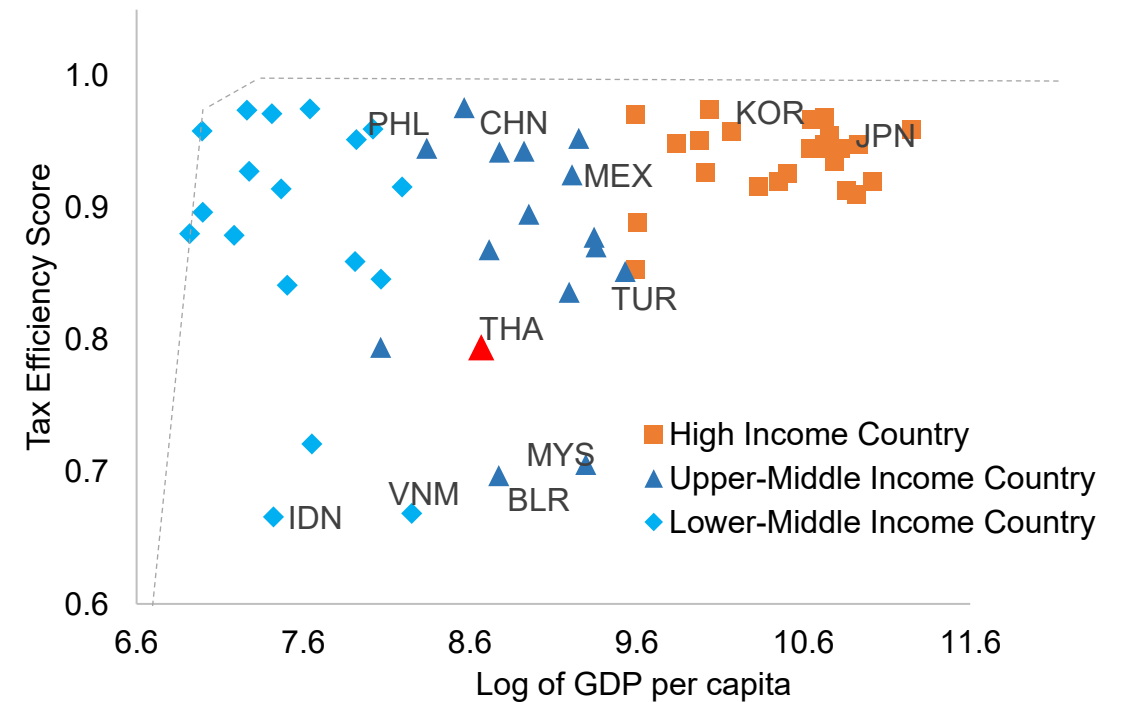
Tax Revenue in % of GDP



Source: WB analysis, data from ICTD 2021.

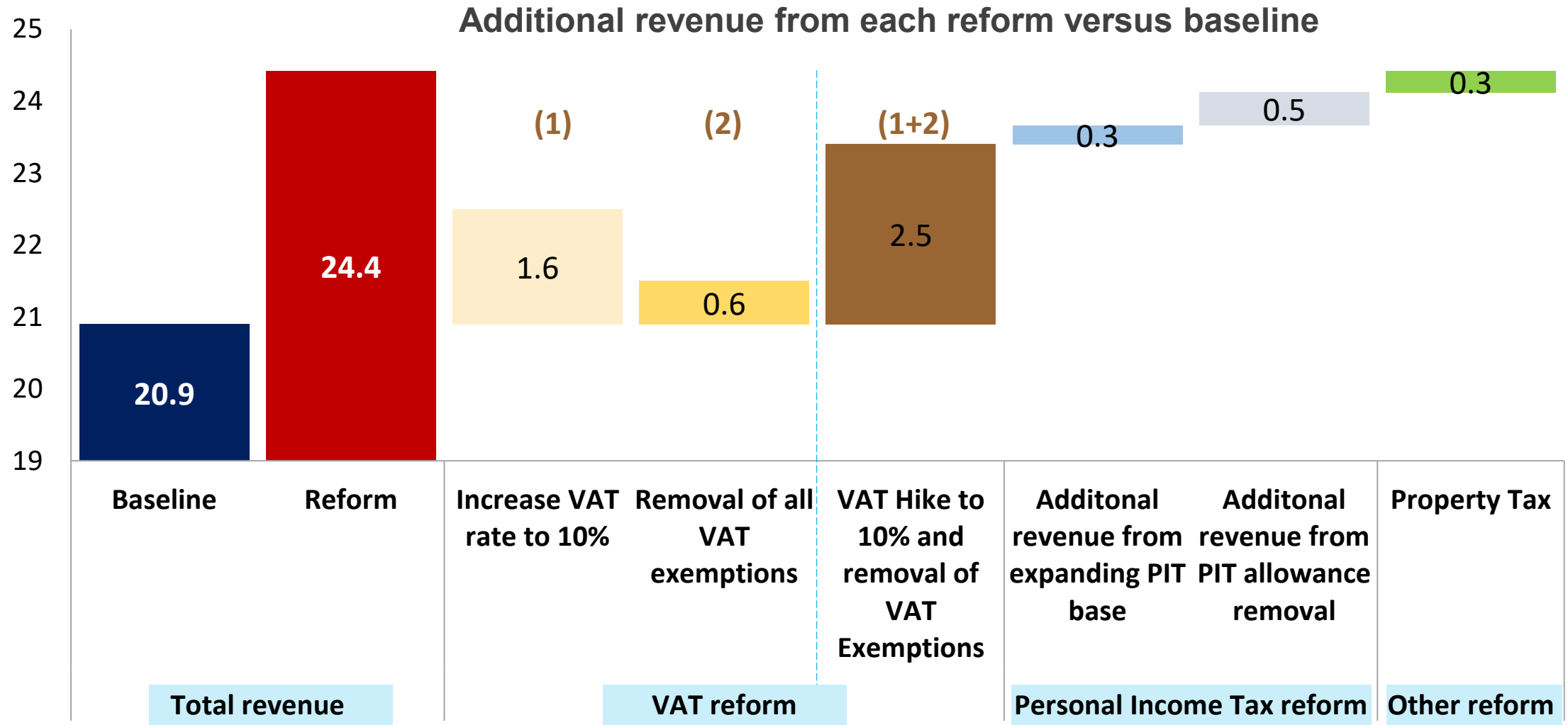
Thailand tax efficiency score is low, with an estimated structural tax gap of 5.6 percent of GDP

Tax efficiency score (0-1)



Source: WB analysis, data from ICTD and WDI

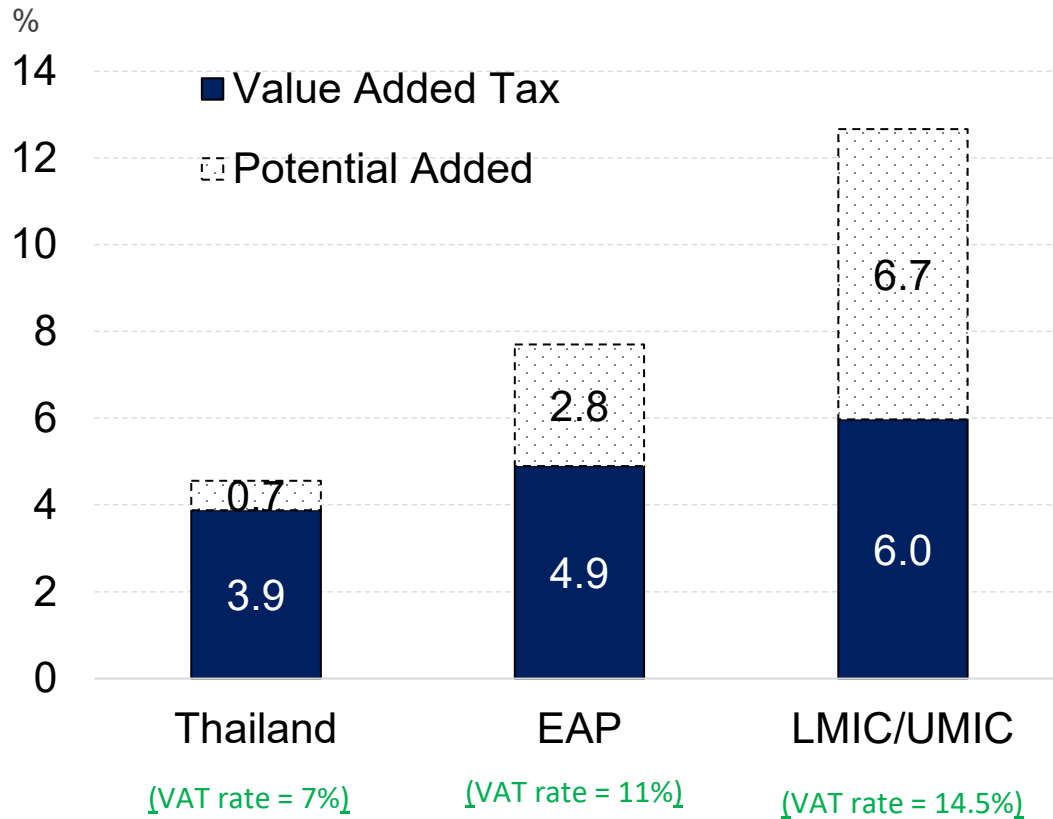
With **revenue reforms**, Thailand's revenue collection could increase to the level of UMIC and structural peers, and be more progressive



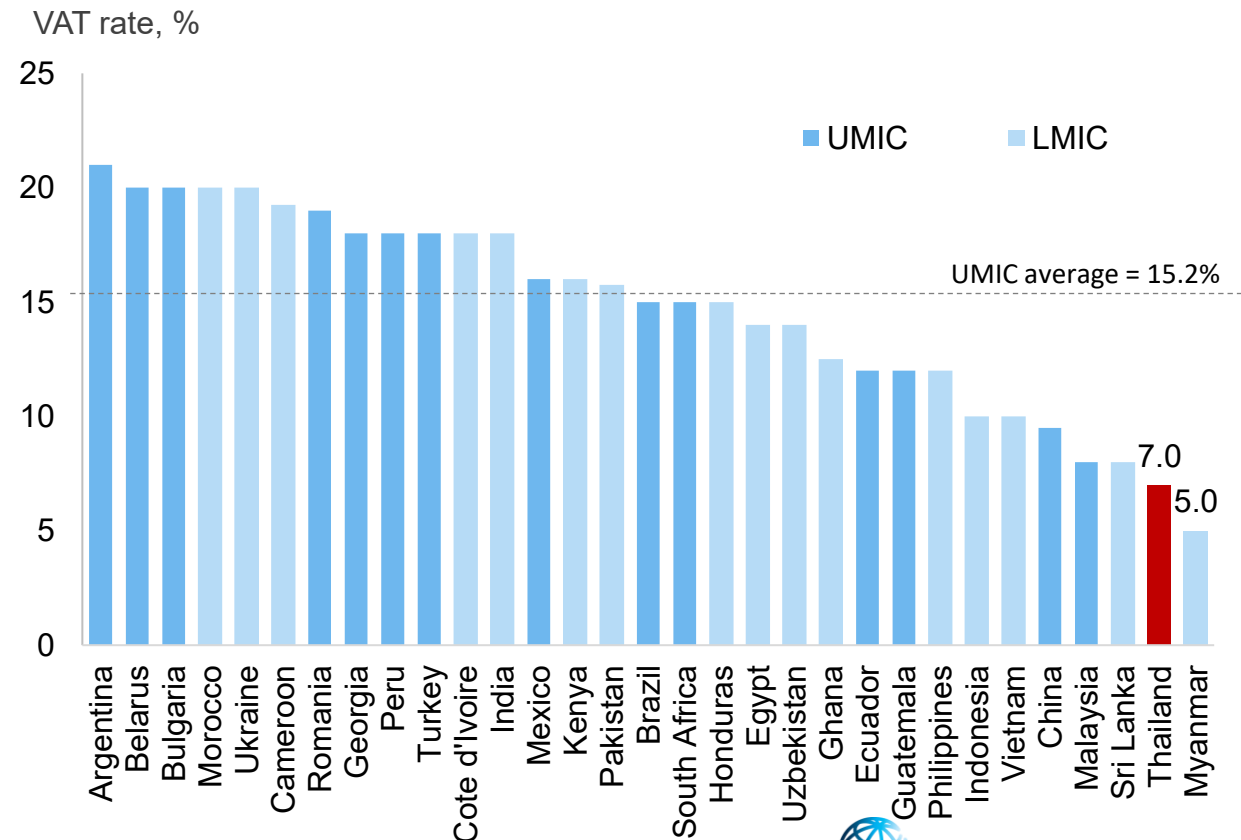
VAT collection is low despite a relatively efficient VAT system

- Reasons for low VAT potential are: (1) Low VAT rate of 7 percent and (2) Low tax base reflecting low consumption and widespread informality
- VAT reform will have impact on the poor, but the impact could be more than offset by additional targeted cash transfers, at a significantly smaller cost than the additional gain in VAT revenues.

Thailand collects 85 percent of its VAT potential...



...but its potential is relatively low due to the low VAT rate

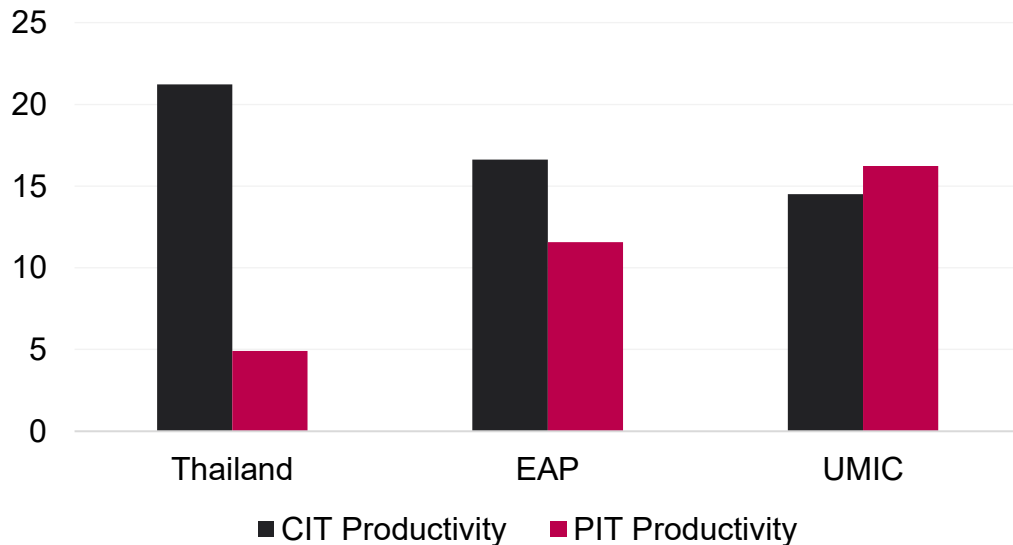


Income tax collections are below potential, due to low personal income tax productivity

- Despite a high top marginal tax rate of 35 percent, Thailand's personal income tax collection is relatively low, due to much lower effective personal income rate, with low rates of filing and tax payment, causing:
 - ✓ **Vertical inequality:** Many types of tax allowances were found to be heavily concentrated among high-income taxpayers, such as retirement mutual fund contributions (RMF), the Super Savings Funds (SSF), life insurance, and provident fund.
 - ✓ **Horizontal inequality:** The deductible rate for self-employed is significantly larger than for salary workers

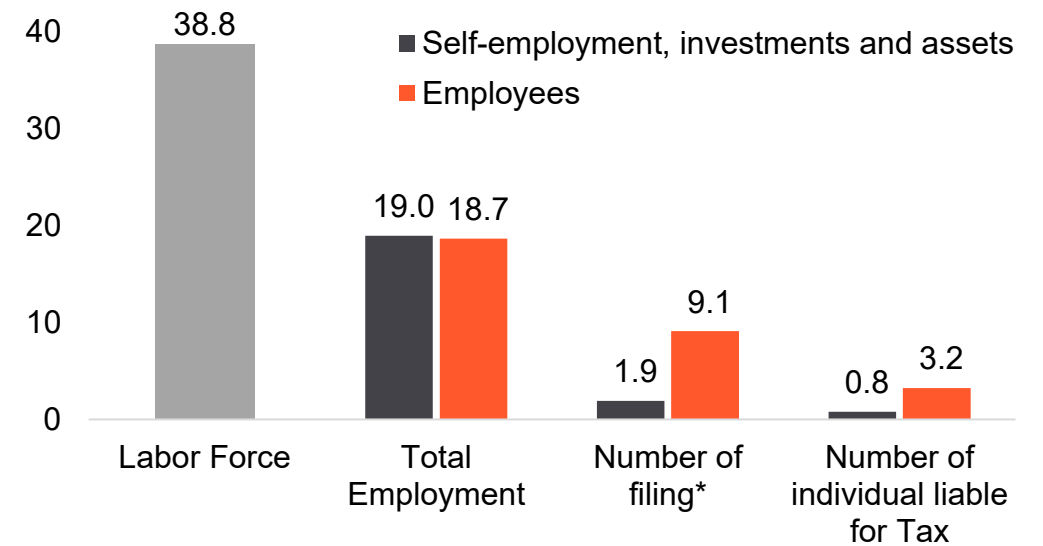
Productivity of corporate income tax is high, but personal income tax productivity is low

Productivity, %, 2018



Only 10 percent of those employed pay personal income tax

Million persons, 2019



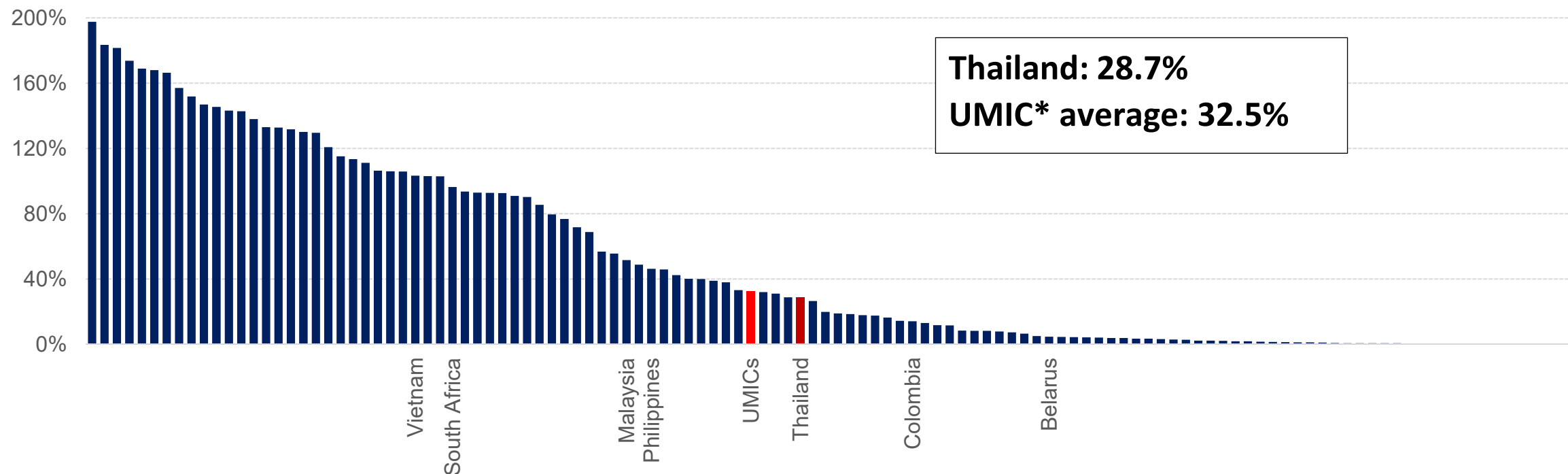
Source: WB analysis, data from ICTD 2020, WB Doing Business 2020, and KPMG 2020.
 Note:* Tax productivity is the ratio between tax collection to GDP and the standard statutory rate

Source: WB analysis, data ILO, Revenue Department

Personal income tax revenues in Thailand are in the bottom 20th of upper-middle income countries, due to narrow base, tax evasion and avoidance

Personal income tax base is narrow

Tax filings, % of total labor force, 2019

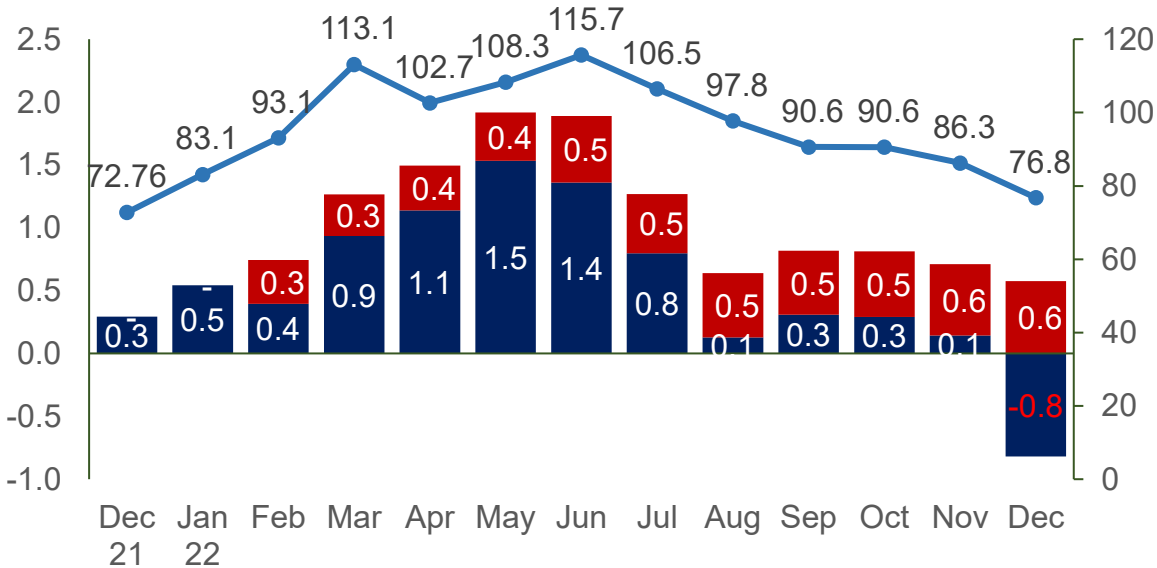


Source: WB analysis, data from ISORA

The **excise tax cut on diesel**, if not reversed, could lead to substantial revenue forgone, reduce tax progressivity, and undermine climate progress

Cost of domestic diesel oil subsidy and global oil price

Left: % of annual GDP, Right: USD/BBL



■ Subsidy (% of GDP) ■ Excise (% of GDP) ● Dubai oil price, USD/bbl, RHS

- ✓ The excise tax cut was estimated to have incurred a fiscal cost of 0.4 percent of GDP (February to December 2022).
- ✓ The fiscal cost rises to 1 percent of GDP when the cost of subsidies (funded by the Oil Fund) are included
- ✓ The PREA analysis indicates that that targeted cash transfers could have a much greater impact on poverty reduction at a much lower cost

Note: *based on average energy consumption in the past 6 months, Excise tax cut from THB 5.99 per liter to 3.20 in February and further down to 1.34 in May
 Source: WB analysis, data from Ministry of Energy, Oil Fuel Fund Office (OFFO), Haver Analytics

Summary and policy priorities

- An **increase in revenue** is necessary to meet these spending needs without jeopardizing fiscal sustainability. With significant efforts on tax reform, revenue collection could rise by 3.5 percentage points of GDP.
- In particular, Thailand should:
 - 1) Raise the VAT rate to 10 percent and remove exemptions. Negative impacts on the poor can be offset by **strengthening social protection programs** and providing well-targeted assistance;
 - 2) Broaden the **personal income tax base** and reduce **deductions and allowances**, while considering tax administration reform to improve ease of tax filing;
 - 3) Expand **property tax collection** and other types of taxes on wealth;
 - 4) Unwind the highly regressive excise tax cut on diesel and return the excise tax to THB 5.99 per liter.

Thank you
