Tax and Thailand’s Competitiveness

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Agenda

1. Tax incentives to attract foreign direct investment
2. Tax cuts to promote investment
3. Tax deductions to promote long-term and retirement savings

1. Tax incentives to attract foreign direct investment (FDI)

- The paper is in dept and is a good analysis.
- Overview of corporate (CIT) and personal (PIT) income tax and VAT, which are currently at a low rate. They should be considered together, especially VAT, since it relates to all persons as they are consumers.
- Tax incentives is a factor to attract FDI, but is not a major one. There are other non-tax issues, such as labour, economic, etc. to be considered as well.
- Tax incentive policy needs to be aligned with the statutory CIT rate. Previously, when the CIT rate was 30%, the tax incentives were granted in general based on the location of the businesses. The gap between the 30% and 0% CIT rate was quite high. However, since the CIT rate has been reduced significantly to 20%, it seems that tax incentives would now only be granted for specific purposes and apply to the maximum period of tax exemption, which is 8 years. The gap between the 20% and 0% CIT rate is not quite so high. This means that a change in the tax rate would impact the tax incentive policy.

1. Tax incentives to attract foreign direct investment (FDI)

- Bilateral Effective Average Tax Rate (EATR) in this research should be a good measurement because the benefit derived from all tax incentives will be eliminated by the tax rate in the home country.

Finding 1: High-tech firms are substantially less responsive to taxes than low-tech firms

- The result of this finding is not surprising. This issue relates to the investment, which incurs a cost. For the first few years of an investment, most corporate investors would incur losses due to the high investment cost. This results in them not being able to take advantage of the tax incentives since there would be no profit to be exempted from tax. However, the entities can use their losses carried forward.

2. Tax cuts to promote investment

- Corporate income tax (CIT) rate was reduced from 30% to 23% and then to 20%. This rate is not too low compared with neighbouring countries, but it makes Thailand an interesting location for investment.
- From the paper, foreign companies seem to be less sensitive to the statutory tax rate compared with domestic companies because they are generally managed through international holding structures.

  We disagree because this will become more and more difficult given the BEPS development.

2. Tax cuts to promote investment

- There is now a gap between the maximum PIT rate of 35% compared with the effective CIT rate of 28%. This may mean that the government wants individual taxpayers to be in the CIT tax system. To promote this, the transfer of assets of individuals to juristic entities during a specified period has also been granted tax exemption. Furthermore, the incentive of no tax audits of certain past years would be granted to qualified juristic entities so as to encourage them to prepare accounting records and financial statements according to the actual status of the business (one accounting record and financial statements).

	Corporate income tax (CIT) rate	Maximum personal income tax (PIT) rate
Former rate	30%	37%
Dividend	10%	
Effective tax rate	**37%**	**37%**
Current rate	20%	35%
Dividend	10%	
Effective tax rate	**28%**	**35%**

3. Tax deductions to promote long-term and retirement savings

- Tax deduction for LTF contributions is a good policy since it encourages savings by individual taxpayers. From the paper, the LTF contribution is considered as a price subsidy, which is fair.
- However, the reduction of each tax bracket of the personal progressive tax schedule is not related to the investment in LTF. This is because individuals who invest in LTF must have savings to invest. This results in middle level income and high level income persons contributing different amounts to LTF due to their relative savings.
- The Sustainability Equity Fund (new fund proposed to replace LTF) would not be so good if a minimum contribution (ceiling) rate is set, such as 30% of income. This would result in high level income persons being able to invest more than middle level income persons. Therefore, the tax deduction for the proposed new fund should be the actual amount paid, but not exceeding a certain amount, which is the same principle that applies to insurance premiums.

Thank you

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